

Non-controlled Clients Settlement

November 2018

V2.00 Final

► A2X MARKETS

6A Sandown Valley Crescent, Sandown, 2196. PO Box 781763, Sandton, Johannesburg 2196
Reg. No. 2014/147138/07 **Directors:** K Brady*, N Matyolo, A Mendelowitz, SA Melnick, BN Radebe (* Executive)
www.a2x.co.za



Introduction

This document sets out the settlement obligations of clients who enter into transactions in A2X listed equity securities that settle electronically through Strate. The requirement for A2X equity members to make their clients aware of their settlement obligations is laid out in Section 7 of A2Xs Rules.

The A2X deems it necessary for members to make their clients aware of their settlement obligations in the interests of all participants.

This document has one broad section, being the settlement obligations of *non-controlled clients*.

- a *non-controlled 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.

Readers' queries with regard to the content of this document should be addressed to Brett Kotze at the A2X e-mailed brett.kotze@a2x.co.za.

This document is also available on the A2X website, and can be downloaded from the addresses <http://www.a2x.co.za>.



SETTLEMENT OBLIGATIONS OF NON-CONTROLLED CLIENTS

Settlement Obligation 1 Settlement principles for transactions in equity 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

Section 7 Principles of clearing and settlement

7.2 Transactions in equity securities will be settled:

- 7.2.1 on a rolling contractual basis according to which buyers and sellers of equity securities agree to settle 3 days after the day of trade;*
- 7.2.2 contract note by contract note;*
- 7.2.3 between the ultimate buyer and ultimate seller; and*
- 7.2.4 on a net basis per member, per trade type and per security, whereby individual contract notes are consolidated and offset into net amounts of securities and funds for settlement.*

And

7.3 The overriding settlement assurance principles are that:

- 7.3.1 the client is responsible for the settlement of the client's transactions in equity securities;*
- 7.3.2 if the client does not meet its settlement obligations, the member assumes the client's obligations and becomes responsible to settle the transaction;*
- 7.3.3 a member may take reasonable action to mitigate its risk arising out of the client's breach of its settlement obligations; and*
- 7.3.4 the member is responsible for settlement of its principal transactions.*



Settlement Obligation 2 Appointment of a CSDP

A non-controlled 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 uncertificated securities account name of the client;
- 2.4 the uncertificated securities 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 funds bank account name of the client;
- 2.7 the funds bank account number of the client; and

Applicable Rules

Section 7 Appointment of a CSDP

7.6

7.7 *All clients must appoint and enter into an agreement with a CSDP as well as open the required accounts with a CSDP to facilitate the clearing and settlement of transactions in equity securities conducted by members for clients. The following accounts are required:*

7.7.1 *custody account; and*

7.7.2 *funds settlement account.*

Section 7 Client Settlement Obligations

7.10 *A client must take all the necessary steps to ensure that settlement of the client's transactions in equity securities takes place in accordance with these rules, including:*

7.10.1 *prior to instructing a member to execute a transaction in equity securities, provide its member with evidence of the appointment of a CSDP as well as the required details of the client's accounts, including the names and account numbers of the custody account and funds settlement account of the client with the CSDP;*



Settlement Obligation 3 General pre-trade settlement requirements

A non-controlled client may not place an order to sell equity securities unless:

- 3.1 the securities to be sold are in the custody of the non-controlled client's CSDP in uncertificated form; or
- 3.2 another transaction has been entered into by the client for the equivalent number of equity securities to be available for settlement on T+3 or before; or
- 3.2 the client has made arrangements to borrow the equivalent number of equity securities and the equivalent securities will be available for settlement to take place on T+3; or
- 3.3 a corporate action provides for an equivalent amount of equity securities being available for settlement on settlement date; or
- 3.5 The equity securities are being moved between registers and the securities will be available on the South African register for settlement.

Applicable Rules

Section 7 Client Settlement Obligations

7.10 A client must take all the necessary steps to ensure that settlement of the client's transactions in equity securities takes place in accordance with these rules, including:

7.10.1

7.10.2 make arrangements to ensure that equity securities or cash required for a transaction in equity securities are available for settlement in terms of these rules;

Applicable Penalty

- *R1 000 per contract note*



Settlement Obligation 4 General settlement provisions

- 4.1 A non-controlled 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 A non-controlled client must by no later than 12h00 on T+1 instruct its CSDP to settle the transaction.
- 4.3 A non-controlled 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. If the client does not notify the member of any corrections to be made to the transaction, the transaction will be deemed to be correct.
- 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. The details of the correction will be advised by the member to the non-controlled client immediately.
- 4.5 The non-controlled 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.
- 4.6 Where the CSDP of the non-controlled client does not commit to the transaction by end of day on T, a capital exposure requirement calculation will be applied by A2X and where a capital exposure requirement is called the member may call for the capital exposure requirement from the non-controlled client. If the transaction is subject to Rolling of Settlement and the Failed Trade procedures, the capital exposure requirement will be held until the future settlement date of the Rolling of Settlement or when the Failed Trade is resolved.



Applicable Rules

Section 7 Member settlement obligations in respect of a client

- 7.14 Once a transaction in equity securities has been executed, the member must:
- 7.14.1 allocate the transaction to the relevant client account;
 - 7.14.2 provide the client with a transaction confirmation by 20:00 on the T;
 - 7.14.3 ensure that despite any actions taken in terms of these rules, any corrections made must be communicated to and accepted by the client as soon as possible and within such time as to allow the CSDP to commit to the transaction by no later than 12:00 on T+2.

Section 7 Client settlement obligations

- 7.10 A client must take all the necessary steps to ensure that settlement of the client's transactions in equity securities takes place in accordance with these rules, including:
- 7.10.1
 - 7.10.2
 - 7.10.3 confirm acceptance of the transaction in equity securities by 12:00 on T+1, failing which the transaction will be deemed to have been accepted by the client;
 - 7.10.4 where a correction to an allocation of a transaction in equity securities is required, provide the member with the new allocation as well as the confirmation of the new allocation by no later than 18:00 on T+1;
 - 7.10.5 take steps to ensure that its CSDP settles the transaction in equity securities, including:
 - 7.10.5.1 providing an instruction to the CSDP to settle the said transaction as soon as practicable but no later than 12:00 on T+1; and
 - 7.10.5.2 secure the commitment of the CSDP to settle the transaction as early as possible in the settlement cycle but by no later than 12:00 on T+2.

Section 7 Management of the settlement risks

- 7.29 A2X will require the member to make payment of capital exposure requirement in respect of transactions in equity securities:
- 7.29.1 T for net principal transactions, unallocated transactions, partially allocated transactions and uncommitted settlement orders for non-controlled clients; and
 - 7.29.2 T+1 for net principal transactions and uncommitted settlement orders for non-controlled clients; and
 - 7.29.3 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
 - 7.29.4 T+3 for any transactions that have undergone rolling of settlement or failed trade procedures in terms of the rules.
- 7.30 Any capital exposure requirement to be paid as a result of a client not complying with its settlement obligations may be recovered from the



client but must be repaid to the client on the same business day as the capital exposure requirement has been repaid to the member by A2X. Any capital exposure requirement which a client has funded will be held by the A2X as collateral posted by the client and will only be used by the A2X to meet the obligations of such client arising from unsettled transactions on that client's account. The member must refund the client forthwith upon the repayment of the capital exposure requirement to the member by A2X.

7.31 *The capital exposure requirement amount to be paid in terms of rule 7.29 will be:*

7.31.1 *in such amount and payable at such times as are set out in the A2X directives; and*

7.31.2 *will be retained by A2X until such time as all obligations in respect of the transaction for which the capital exposure requirement has been levied have been met to the satisfaction of A2X.*

Settlement Obligation 5 CSDP commit

By no later than 12h00 on T+2, a non-controlled client must ensure that its CSDP has committed to settle the transaction on behalf of the client.

Applicable Rule

Section 7 Client Settlement Obligations

7.10.5 *take steps to ensure that its CSDP settles the transaction in equity securities, including:*

7.10.5.1 *providing an instruction to the CSDP to settle the said transaction as soon as practicable but no later than 12:00 on T+1; and*

7.10.5.2 *secure the commitment of the CSDP to settle the transaction as early as possible in the settlement cycle but by no later than 12:00 on T+2.*



Settlement Obligation 6 Non-commit by CSDP

- 6.1 Where the CSDP of a non-controlled client fails by 12h00 on T+2 to commit 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 A2X Settlement Committee 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 charges imposed by the member in respect of any of the aforementioned transactions.
- 6.2 A member shall have the right but not the obligation to allow a non-controlled client to honour his obligations until 15h00 on T+2 after which the obligation to settle reverts to the member at 16h00 on T+2.
- 6.3 Where the non-controlled client has not complied with its obligation to ensure settlement and neither the member nor the A2X Settlement Committee is able to effect settlement, the A2X Settlement Committee shall as at 10h00 on T+3 declare the transaction to be a failed trade.
- 6.4 Notwithstanding 6.2 and 6.3 above, the notification at any stage by a non-controlled client to a member of its inability to procure settlement may result in the declaration of a failed trade by 09h00 on the following business day.



Applicable Rules

Section 7 Client Settlement Obligations

7.10.5 *take steps to ensure that its CSDP settles the transaction in equity securities, including:*

7.10.5.1 *providing an instruction to the CSDP to settle the said transaction as soon as practicable but no later than 12:00 on T+1; and*

7.10.5.2 *secure the commitment of the CSDP to settle the transaction as early as possible in the settlement cycle but by no later than 12:00 on T+2.*

Section 7 Member settlement obligations in respect of a client

7.15 *If no commitment to settle is obtained from the CSDP of the client or it becomes evident that the client is not able to settle the transaction in equity securities, the member will, by no later than 16:00 on T+2, assume responsibility for the settlement of the transaction of the client. In this case, the member must ensure that the CSDP of the member commits to settle the transaction by 18:00 on T+2 and must ensure settlement on settlement date by all the means available to the member;*

7.16 *A member must immediately notify A2X of any issue that may impact on the settlement of a transaction in equity securities or if the member is unable to arrange settlement.*

Section 7 Actions to be taken by the settlement committee in respect of transactions in equity securities that are unlikely to settle

7.23 *If it appears to the settlement committee that the settlement of a transaction in equity securities is unlikely to take place on settlement date, the settlement committee may:*

7.23.1 *roll the date for the settlement of the transaction in terms of rule 7.24 to a revised settlement date and follow the procedures set out in rule 7.25;*

7.23.2 *declare the transaction to be a failed trade in terms of rule 7.36 and follow the procedure set out in rule 7.37 and 7.38; and*

7.23.3 *levy such fees, penalties and interest, as prescribed in the A2X directives, on the member that is in breach of its settlement obligations. The fees, penalties and interest may be recovered by the member from the client where the client is in breach of its settlement obligations.*

Section 7 Process for the revision of a settlement date for a transaction in equity securities

7.24 *If at any time during the settlement cycle it is evident to the settlement committee that due to the temporary unavailability of equity securities or funds, the settlement of a transaction will not take place on the settlement date but that the equity securities or funds are likely to become available for settlement within 3 days or such other period as the settlement committee may determine, the settlement committee may elect to roll the settlement date for that transaction (the "rolled transaction") and allocate a revised settlement date.*

Section 7 Failed trade procedure



7.36 If at any time during the settlement cycle it becomes evident to the settlement committee that the settlement of a transaction in equity securities will not take place, the settlement committee may declare the transaction a failed trade.

Settlement Obligation 7 Failed trade principles and procedures

- 7.1 Where the non-controlled client fails to meet their obligations and the member assumes the obligations to settle the transaction 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 A2X Settlement Committee 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-controlled client has not complied with its obligation to put the member in a position to effect settlement and neither the member nor the A2X Settlement Committee is able to effect settlement, the A2X Settlement Committee shall as at 10h00 on T+3 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-controlled 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 A2X Settlement Committee is able to ensure that settlement will take place on settlement day by doing a securities lending & borrowing.



Applicable Rules

Section 7 Mitigation of losses by a Member

- 7.17 *Subject to any agreement with or notification to the defaulting client and to any intervention by A2X, the member may, to mitigate its loss:*
 - 7.17.1 *in respect of a sale, purchase the equivalent equity securities that were sold by the defaulting client; or*
 - 7.17.2 *in respect of a purchase, sell the equivalent equity securities that were purchased by the defaulting client.*
- 7.18 *If a member proceeds according to rule 7.17.1 or 7.17.2, the timing of, and the price at which, these purchases or sales are executed should take into account:*
 - 7.18.1 *when the breach by the client was, or reasonably should have been identified by the member;*
 - 7.18.2 *any agreement with or notification to the client with regard to the timing of such transactions; and*
 - 7.18.3 *relevant market conditions.*
- 7.19 *Any losses, costs or interest incurred by the member as a consequence of the actions taken in 7.17 may be claimed from the client. Losses may include any difference between the selling and purchase consideration or purchase and selling consideration, as the case may be.*



Settlement Obligation 8 Borrowing equity securities or cash and member buy-in

If a non-controlled 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 A2X Settlement Committee.

If the A2X Settlement Committee is able to lend the necessary funds or equity securities to the member 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

Section 7 Interventions by the settlement committee to avoid a failed trade

- 7.32 If at any time during the settlement cycle it appears that a transaction in equity securities will not settle, the settlement committee will intervene and endeavour to facilitate settlement.*
- 7.33 An intervention by the settlement committee or its duly appointed agent to facilitate the member meeting its settlement obligations may take the form of the:*
 - 7.33.1 borrowing of equity securities, as an agent on behalf of the member as undisclosed principal; or*
 - 7.33.2 lending of funds to the member.*
- 7.34 In the event that the settlement committee takes action in terms of 7.33.1 or 7.33.2, the borrowing or lending as the case may be, will be on the terms and conditions as set out in the A2X directives.*



Settlement Obligation 9 Borrowing costs - Securities

Where the CSDP of a non-controlled client has not committed timeously to settle a sale of securities, and the member borrows securities from the A2X Settlement Committee to effect settlement, the non-controlled 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 A2X Settlement Committee. These costs include the costs related to manufactured dividends.

Applicable Rules

Interventions by the settlement committee to avoid a failed trade

7.32

7.33

7.33.1

7.33.2

7.34

7.35 *The client on whose behalf the member executed the transaction in equity securities who was unable to comply with the settlement obligations will be responsible for all costs and penalties incurred in the borrowing of the equity securities and penalties incurred by the member in lending funds, as the case may be.*

Applicable Fee and Penalty

- *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*
- *R1 000 administration fee plus the greater of R1 000 or 5% p.a. above the lending rate obtained by the A2X Settlement Committee on the initial value of the loaned equity securities over the loan period*



Settlement Obligation 10 Borrowing costs - Cash

Where a member borrows funds from the A2X Settlement Committee to effect settlement on behalf of a non-controlled client who has not made payment of the required funds timeously, the non-controlled client is responsible for any costs incurred by the member and any penalties imposed on the member by the A2X Settlement Committee in this regard.

Applicable Rules

Interventions by the settlement committee to avoid a failed trade

7.32

7.33

7.33.1

7.33.2

7.34

- 7.35 *The client on whose behalf the member executed the transaction in equity securities who was unable to comply with the settlement obligations will be responsible for all costs and penalties incurred in the borrowing of the equity securities and penalties incurred by the member in lending funds, as the case may be.*

Applicable fees and interest

- *R1 000 administration fee plus an interest charge of 5% per annum above the prime overdraft rate at FirstRand Bank Ltd.*



Settlement Obligation 11 Failed Trade or Rolling of Settlement - Failing Party

- 11.1 Where a non-controlled client does not meet his settlement obligations timeously and neither the member nor the A2X Settlement Committee are able to borrow the necessary funds or equity securities to ensure that settlement of the transaction takes place, the transaction of the failing non-controlled client may be rolled or failed in accordance with instructions provided by the A2X Settlement Committee to the member.
- 11.2. A failing non-controlled client, in the case of a rolled or failed trade, will in addition to any fees and penalties, be responsible for any compensation that is paid to the non-failing party.



Applicable Rules

Section 7 Member settlement obligations in respect of a client

- 7.15 *If no commitment to settle is obtained from the CSDP of the client or it becomes evident that the client is not able to settle the transaction in equity securities, the member will, by no later than 16:00 on T+2, assume responsibility for the settlement of the transaction of the client. In this case, the member must ensure that the CSDP of the member commits to settle the transaction by 18:00 on T+2 and must ensure settlement on settlement date by all the means available to the member;*
- 7.16 *A member must immediately notify A2X of any issue that may impact on the settlement of a transaction in equity securities or if the member is unable to arrange settlement.*

Section 7 Actions to be taken by the settlement committee in respect of transactions in equity securities that are unlikely to settle

- 7.23 *If it appears to the settlement committee that the settlement of a transaction in equity securities is unlikely to take place on settlement date, the settlement committee may:*
- 7.23.1 *roll the date for the settlement of the transaction in terms of rule 7.24 to a revised settlement date and follow the procedures set out in rule 7.25;*
- 7.23.2 *declare the transaction to be a failed trade in terms of rule 7.36 and follow the procedure set out in rule 7.37 and 7.38; and*
- 7.23.3 *levy such fees, penalties and interest, as prescribed in the A2X directives, on the member that is in breach of its settlement obligations. The fees, penalties and interest may be recovered by the member from the client where the client is in breach of its settlement obligations.*

Section 7 Process for the revision of a settlement date for a transaction in equity securities

- 7.24 *If at any time during the settlement cycle it is evident to the settlement committee that due to the temporary unavailability of equity securities or funds, the settlement of a transaction will not take place on the settlement date but that the equity securities or funds are likely to become available for settlement within 3 days or such other period as the settlement committee may determine, the settlement committee may elect to roll the settlement date for that transaction (the “rolled transaction”) and allocate a revised settlement date.*

Section 7 Failed trade procedure

- 7.36 *If at any time during the settlement cycle it becomes evident to the settlement committee that the settlement of a transaction in equity securities will not take place, the settlement committee may declare the transaction a failed trade.*

Applicable fees and penalties

- *R500 per occurrence where the member of the client cannot procure settlement by 16h00 on T+2 and the transactions goes into Compulsory Reverse Substitution; and*



- *R500 per occurrence where a member has assumed the obligations of a non-controlled or controlled client to settle a transaction and is unable at 18h00 to procure a commitment of its CSDP to settle the transaction.*

Applicable fees and penalties

Rolling Of Settlement

- *R5 000 administration fee in respect of each rolling of settlement; and*
- *R1 000 per rolling of settlement plus the brokerage with a minimum fine of 0.15% of the value of the trade, not exceeding R50 000.*

Failed Trade

- *R5 000 administration fee in respect of each failed trade; and*
- *R1 000 per failed trade plus double the brokerage with a minimum fine of 0.3% of the value of the trade, not exceeding R100 000.*

Any compensation, costs, losses (including loss of income) and corporate action entitlements payable to the non-failing party in respect of the trade being failed, shall be for the account of the failing client.



Settlement Obligation 12 Rolling of Settlement– Non-failing Party

- 12.1 A client may be instructed by the A2X, 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.
- 12.2 The failed transaction may only be rolled twice which should not be more than 6 business days from the original settlement date.
- 12.3 Any capital exposure requirement that was calculated at EOD T and collected on T+1 from the failing member will be held by the A2X until the future rolled settlement has settled.
- 12.4 If the transaction is rolled in accordance with 12.1, then the client will be entitled to claim for any corporate action entitlement or losses incurred.



Applicable Rule

Section 7 Process for the revision of a settlement date for a transaction in equity securities

- 7.24 *If at any time during the settlement cycle it is evident to the settlement committee that due to the temporary unavailability of equity securities or funds, the settlement of a transaction will not take place on the settlement date but that the equity securities or funds are likely to become available for settlement within 3 days or such other period as the settlement committee may determine, the settlement committee may elect to roll the settlement date for that transaction (the “rolled transaction”) and allocate a revised settlement date.*
- 7.25 *Should A2X elect to proceed in terms of rule 7.24:*
- 7.25.1 *in accordance with the principles of clearing and settlement of equity securities set out in rules 7.1 to 7.3, a transaction or transactions which in the opinion of the settlement committee best correlate with the rolled transaction, will be identified by the settlement committee as the transaction or transactions to be matched with the rolled transaction (the “corresponding transaction/s”), the settlement of which will take place on the revised settlement date;*
- 7.25.2 *the members responsible for the rolled transaction and the corresponding transaction/s will be notified that these transactions will now settle on the revised settlement date and any capital exposure requirement taken in respect of the rolled transaction will be retained pending settlement on the revised settlement date;*
- 7.25.3 *an instruction will be provided by the settlement committee to the CSDP/s designated for the corresponding transaction/s to withdraw their commitment/s to settle;*
- 7.25.4 *if the corresponding transaction/s was concluded for a client, an instruction will be provided to the member of the corresponding transaction/s to transfer the transaction/s to the member’s principal account;*
- 7.25.5 *the settlement committee will book an opposite settlement transaction through Strate between the failing member and the non-failing member for the same quantity and at the same price as the non-failing party’s original transaction/s; and*
- 7.25.6 *If the rolled transaction/s were concluded for a client, an instruction will be provided to the member by the settlement committee to re-book the said transaction/s to the client for settlement on the revised settlement date to place the client in the same position as the client would have been if the transaction had not been declared a rolled transaction. The transaction/s will be processed for settlement in terms of the rules.*
- 7.26 *The member of the affected transaction must within 2 days of complying with the settlement committee’s instruction to proceed in terms of 7.25.1, provide the settlement committee with a written representation:*



7.26.1 *detailing any loss suffered as a result of the rolling of settlement, including interest as well as the resultant impact of any corporate actions; and*

7.26.2 *setting out any factors which the member believes should be taken into account by the settlement committee when determining the financial loss.*

7.27 *After considering the representation made in terms of 7.26 and any other relevant factors, the settlement committee will reimburse the member or the member of the client of the affected transaction for any financial loss that the committee decides has been suffered by that member in complying with the settlement committee's instruction in terms of 7.25.1. The reimbursement will be funded from the capital exposure requirement of the member who transacted the transaction for which settlement was rolled retained by A2X in respect of the failed trade. Any shortfall in the capital exposure requirement will be for the account of that member and payable on the same business day as the written demand is received from A2X.*



Settlement Obligation 13 Closing out a trade and compensate – Non-failing Party

- 13.1 If there is a failed trade which will result in a transaction not settling, a non-controlled client must, if instructed by the A2X via their member, fail the transaction.
- 13.2 Subsequent to the failing of the transaction, the A2X will decide if the non-controlled client, via their member should re-transact or if the transaction should be settled by compensation.
- 13.3 If the transaction is failed, and re-transacted or settled via compensation, in accordance with 13.2, then the non-controlled client will be entitled to claim for any corporate action entitlement or losses incurred



Applicable Rule

Section 7 Failed trade procedure

- 7.36 *If at any time during the settlement cycle it becomes evident to the settlement committee that the settlement of a transaction in equity securities will not take place, the settlement committee may declare the transaction a failed trade.*
- 7.37 *If the settlement committee elects to proceed in terms of rule 7.36:*
- 7.37.1 *as per the principles of clearing and settlement of equity securities set out in rules 7.1 to 7.3, a transaction or transactions which in the opinion of the settlement committee best correlate with the failed trade will be identified by the settlement committee as the transaction or transactions to be matched with the failed trade (“the affected transactions”) will be part of the failed trade process;*
- 7.37.2 *the members responsible for the failed trade and the affected transactions, will be notified that the transactions are subject to the failed trade process;*
- 7.37.3 *an instruction will be provided by the settlement committee to the CSDP/s of the affected transaction/s to withdraw the commitment/s to settle;*
- 7.37.4 *if the affected transaction/s were concluded for a client, an instruction will be provided to the member of that client to transfer the said transaction/s to the member’s principal account;*
- 7.38 *The settlement committee will book an opposite settlement transaction through Strate between the failing member and the non-failing member for the same quantity and at the same price as the non-failing party’s original transaction/s.*

Section 7 Consequences of a transaction in equity securities being declared as a failed trade

- 7.39 *Where a failed trade has been declared, the settlement committee will consider the implications of the failed trade and having taken into consideration all relevant factors, make a ruling on and notify the parties to the failed trade whether:*
- 7.39.1 *another transaction in equity securities should be concluded to place the clients of the affected transaction in the same position as they would have been if the transaction had not been declared a failed trade; or*
- 7.39.2 *the transaction should be cancelled and the client of the affected transaction should receive monetary compensation for financial prejudice suffered; and*
- 7.39.3 *any other action needs to be taken.*
- 7.40 *Should the settlement committee elect to proceed in terms of 7.39.1, 7.40.1 it will instruct the non-failing member to re-transact the trade in the market for its own account within a period specified by the settlement committee and, where the non-failing party is a client, the Settlement Committee will instruct the non-failing member to re-book the said transaction/s to the client for the original quantity and price for settlement on the revised settlement date to place the client in the*



same position as the client would have been if the transaction had not been declared a failed transaction. The transaction/s will be processed for settlement in terms of the rules.

- 7.41 The member of the affected transaction must within 2 days of complying with the settlement committee's instruction to proceed in terms of 7.39.1, provide the settlement committee with a written representation:
 - 7.41.1 detailing any profit or loss suffered as a result of the failed trade, including interest, and the action taken in terms of 7.39.1 as well as the resultant impact of any corporate actions; and*
 - 7.41.2 setting out any factors which the member believes should be taken into account by the settlement committee when determining the financial loss.**
- 7.42 After considering the representation made in terms of 7.41 and any other relevant factors, the settlement committee will reimburse the member of the client of the affected transaction for any financial loss that the committee decides has been suffered by that member in complying with the settlement committee's instruction in terms of 7.39.1. The reimbursement will be funded from the capital exposure requirement of the member who transacted the failed trade retained by A2X in respect of the failed trade. Any shortfall in the capital exposure requirement will be for the account of that member and payable on the same business day as the written demand is received from A2X.*
- 7.43 Any financial gain resulting from the member complying with the settlement committee's instruction in terms of 7.39.1, will be dealt with in the manner determined by the settlement committee.*
- 7.44 Should the settlement committee elect to proceed in terms of 7.39.2, the member of the client of the affected transaction must within 2 days of complying with the settlement committee's instruction to proceed in terms of 7.39.2, provide the settlement committee with written representation:
 - 7.44.1 detailing any profit or loss suffered as a result of the failed trade, including interest, and the resultant impact of any corporate actions; and*
 - 7.44.2 setting out any factors which the member believes should be taken into account by the settlement committee when determining the financial loss.**
- 7.45 After considering the representation made in terms of 7.44 and any other relevant factors, the settlement committee will reimburse the non-failing member for any financial loss the committee decides has been suffered by that member. The reimbursement will be funded from the capital exposure requirement of the failing member retained by A2X in respect of the failed transaction. Any shortfall in the capital exposure requirement will be for the account of the failing member and payable on the same business day as the written demand is received from A2X.*

APPLICABLE DEFINITIONS

“A2X”

A2X 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;

“business day” or “day”

any day except a Saturday, Sunday, public holiday or any other day on which the A2X is closed;

“capital exposure requirement”

securities or funds provided by the member to cover their exposures to A2X

“client”

a non-controlled client

“contract note”

in respect of trades executed on the A2X equities trading system by a member on any particular day –

- (a) on behalf of a client, a confirmation from the member to the client in respect of such trades; and
- (b) on behalf of a member’s proprietary account, the aggregate trades executed on such account;

“contractual settlement”

the market convention whereby the parties to a transaction in equity securities have a contractual obligation to cause such transaction to be settled on the settlement date;

“corporate action”

an action taken by an issuer or any other entity or third party, which affects the registered owner and the beneficial owner of equity securities in terms of an entitlement;

“CSDP”

a central securities depository participant that has been accepted by a central securities depository as a participant in that central securities depository;

“custody account”

an equity securities account with a CSDP which reflects the uncertificated equity securities balances of a proprietary account of a member or a non-controlled client and through which settlement of transactions in equity securities is effected;

> A2X MARKETS

6A Sandown Valley Crescent, Sandown, 2196. PO Box 781763, Sandton, Johannesburg 2196
Reg. No. 2014/147138/07 **Directors:** K Brady*, N Matyolo, A Mendelowitz, SA Melnick, BN Radebe (* Executive)
www.a2x.co.za



“equity securities”	those A2X listed securities traded on the A2X equities trading system;
“exchange”	a person who constitutes, maintains and provides an infrastructure – (a) for bringing together buyers and sellers of securities; (b) for matching the orders for securities of multiple buyers and sellers; and (c) whereby a matched order for securities constitutes a transaction;
“failed trade”	a transaction in equity securities which the A2X Settlement Committee deems to be a failed trade on the basis that neither the client, the member nor the A2X Settlement Committee is able to ensure that such transaction will settle on the settlement date or any revised settlement date;
“member”	an equities member, which is a category of authorised user admitted to membership of the A2X under these rules;
“non-controlled client”	a client or an account holder on whose behalf a client is acting, who has appointed his own CSDP to settle transactions in equity securities on his behalf;
“Rolling of settlement”	the process initiated by the A2X Settlement Committee in terms of which the settlement date of a transaction in equity securities is rolled to a later date;
“securities”	has the same meaning as that contained in section 1 of the Act;
“settle”	to discharge the obligations arising from a transaction in listed securities;
“Settlement Committee”	the person or persons appointed by the A2X to manage the settlement of transactions in equity securities effected through the A2X equities trading system in terms of the rules and directives;
“settlement commitment”	an electronic undertaking by a CSDP to settle a transaction in equity securities;
“settlement date”	in respect of a transaction in equity securities, the date on which the transaction is due to be settled;



“settling party”	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;
“Strate”	Strate Limited, a public company licensed as a central securities depository in terms of the Act;
“trade date”	in respect of a transaction in equity securities, the date reflected as such on the contract note or an electronic confirmation thereof;
“T+1”	the first business day after the trade date;
“T+2”	the second business day after the trade date;
“T+3”	the third business day after the trade date;
“transaction”	contract of purchase and sale of securities.
“uncommitted settlement”	settlement obligation for which a CSDP has not provided a settlement undertaking;