Equity Corporate Action Payments via Central Bank

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Corporate Action Payments Settling in Central Bank Funds

Strate, in its role as CSD for the South African securities markets, performs a critical role in overseeing the distribution of funds in respect of corporate events for the equities, bonds and money market environments. This involves the efficient processing of multiple events throughout the year. Statistically, in the equities environment alone, this equates to approximately 160 events with an average cumulative value of more than R20 billion a month.

In terms of the current processing model, the funds due in respect of a particular event are paid, by the relevant Issuer, into a Strate trust account used exclusively for this purpose. Once confirmation has been received from Strate's banker that the necessary funds have been received and cleared, Strate authorises its banker to distribute the funds to the various CSD Participants for onward same day value to all the underlying shareholders. This process has worked successfully for a number of years but, in the interests of further risk mitigation, this process has now been revised.

The new solution requires that each payment advice to be processed via central bank funds must have a unique identifier that matches with the payments made by the Issuer's Settling Bank.

On the payment date Strate will create a payment instruction to an Issuer's Settling Bank to fund a designated account at the Central Bank with sufficient funds to meet the Issuer's obligation. Once settlement has taken place, these funds will then be distributed directly to the various CSD Participants for onward transmission to their underlying clients.
It is the Issuer's obligation to ensure that there are sufficient funds in their bank account by 09h00 on payment date.

Should the Issuer's bank account fail to be funded by 14h30 on payment date the corporate action payment instruction will be formally cancelled. The payment date for the corporate action event will then be "rolled over" to the next business day or for a date announced by the Issuer. Very little change is required by Issuers although it is important to note that the onus will be on each Issuer to ensure that sufficient funds are available in their bank account prior to payment date, to allow their banker to make the payment timeously.

The Issuer is requested to provide their Banker with a debit authority in respect of Equity Corporate Action event payments. Strate will be responsible for obtaining mandates from Issuers for their bankers to accept and act on instructions received from Strate.

It is therefore imperative for all Issuers to advise Strate of the following details:

- Bank Name
- Account Name
- Account Number

The above requested details can be e-mailed to gregoryn@strate.co.za or nitad@strate.co.za The deadline date to provide the above information is 30th August 2014.

The implementation timeline for the new the Equities Corporate Actions payments model is as follows:

- Scripted Market Testing from 15th January 2015 – 14th February 2015
- Implementation Weekend 20th February 2015
- Live in Production 23rd February 2015

Detailed requirements and electronic (SWIFT) message flows are depicted below.

Equities – Settlement of Corporate Actions
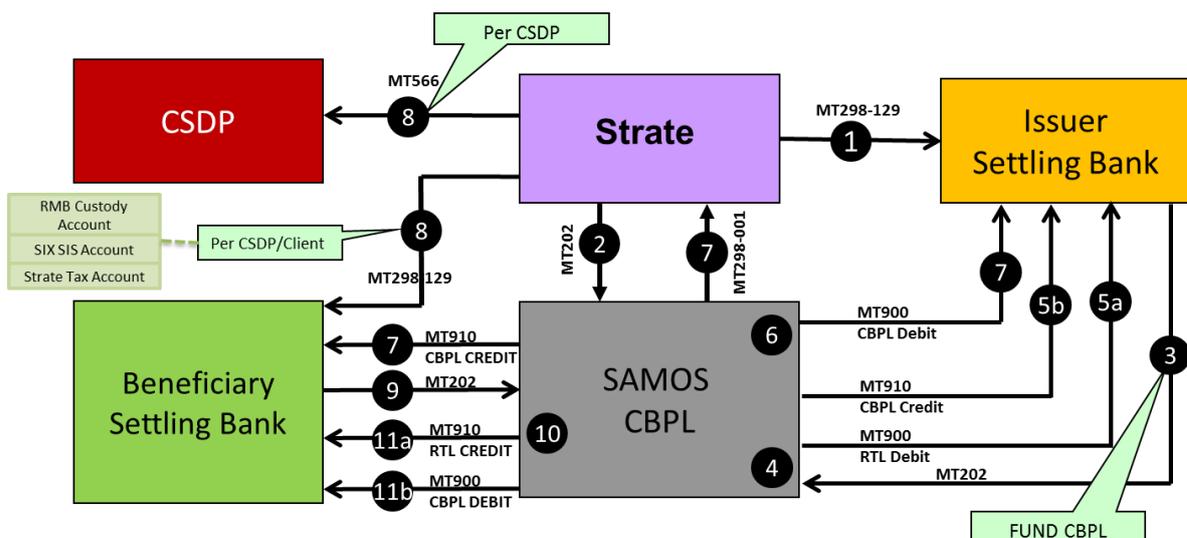
CA ID to be used in tag 21 (Related Reference) for all the messages

1. Payment Advice (MT298-129) message per Event is sent to the Issuer's Settling Bank. This message will contain the Issuer's Account to be Debited, SAMOS Continuous Batch Processing Line (CBPL) Agreement No. and SAMOS CBPL Account No.
2. Strate to create a SAMOS CBPL batch per Event and generate Payment Instruction (MT202) message to SAMOS.
3. Issuer's Settling Bank to fund SAMOS CBPL as per the Event details using MT202 message.

4. SAMOS transfers cash from Issuer's Settling Bank's Real-Time Line (RTL) account to relevant CBPL account.

5. a) SAMOS to notify Issuer's Settling Bank using MT900 for RTL Debit.
   b) SAMOS to notify Issuer's Settling Bank using MT900 for RTL Debit.

6. SAMOS transfers cash from Issuer's Settling Bank to Beneficiary Settling Bank(s).

7. SAMOS to notify Strate using MT298-001 message, Issuer's Settling Bank using MT900 CBPL Debit message and Beneficiary Settling Banks using MT910 CBPL Credit message.

8. Strate to notify CSD Participant that the Corporate Actions funding has been completed successfully using MT566 message.
   Strate to notify Beneficiary Settling Bank per CSD Participant/client (tax client/s) with the details of the CSD Participant/Client Account to be credited using MT298-129 message.

9. Beneficiary Settling Bank to generate MT202 to SAMOS to debit CBPL and Credit RTL account.

10. SAMOS to transfer cash from CBPL account to RTL account.

11. a) SAMOS to notify Beneficiary Settling Bank using MT900 for CBPL Debit.
    b) SAMOS to notify Beneficiary Settling Bank using MT910 for RTL Credit.

- MT298-129 to Issuer's Settling Bank (Total Corporate Action amount to be paid)

No.	Tag	Description	Value
1.	20	Unique Transaction Reference	
2.	12	Sub-message Type	129
3.	77E		
4.	21	Corporate Action ID	YYYYnCAEnnnnnn 20131CAE100001
5.	32A	Value Date, Currency and Amount	130508ZAR500000000,
6.	52D	Account no. to be Debited (Issuer's Account and Name)	/34x (Account No.) /35x (Account Name)
7.	58D	Account no. to be Credited (SAMOS CBPL Account No.)	/34x
8.	72	/REC/5!x /CPL/4!n /CRDTDBDT/1!c	/REC/STCPL /CPL/5010 (CBPL Agreement No. TBD) /CRDTDBDT/D

- MT202 to SAMOS CBPL

| No.	Tag	Description	Value
1.	20	Unique Transaction Reference	
2.	21	Related Reference (Corporate Action ID)	YYYYnCAEnnnnnn 20131CAE100001
3.	32A	Settlement Date, Currency and Amount	130508ZAR150000000,
4.	52A	Paying Bank Details	/34x (Payee Bank's CBPL Account No.) 8!X (Payee BIC)
5.	56A	Originator BIC	8!X (STRAZAJJ)
6.	57A	Beneficiary Bank Details	/34x (Beneficiary Bank CBPL Account No.) 8!X (Beneficiary BIC)
7.	58A	Beneficiary Bank Details	/34x (Beneficiary Bank CBPL Account No.) 8!X (Beneficiary BIC)
8.	72	Sender to Receiver Information	/REC/SPLNN /CPL/5010 (CBPL Agreement No. TBD) /CBS/100001 (Batch No.) /CNQ/8 (Total no. of Sis) /CNS/1 (SI No.) /CNA/500000000, (Batch Value)

- MT298-001 to Strate (CBPL Batch Confirmation)

No.	Tag	Description	Value
1.	20	Transaction Reference	
2.	12	Sub-message Type	001
3.	77E		/REC/SPLNN /MRT12/4208 /GCD171/20130508 /RRF21/20131CAE100001 /DCD102/STRAZAJJ /SCD31C/20130508 /DCD102/20130508 /PTM31G/083050

- MT298-129 to Beneficiary Settling Bank (Corporate Action amount paid)

No.	Tag	Description	Value
1.	20	Unique Transaction Reference	
2.	12	Sub-message Type	129
3.	77E		
4.	21	Corporate Action ID	YYYYnCAEnnnnnn 20131CAE100001
5.	32A	Value Date, Currency and Amount	130508ZAR500000000,
6.	52D	Account no. to be Debited (SAMOS CBPL Account No.)	/34x
7.	58D	Account No. to be Credited (CSDP Account No. and Name)	/34x (Account No.) 35x (Account Name)
8.	72	/REC/5!x /CPL/4!n /CRDTDBDT/1!c	/REC/STCPL /CPL/5010 (TBD) /CRDTDBDT/C

Settling Bank Exception Handling

Settlement of Events – Settling Bank Exception Handling Scenario 1 – Rejection Message
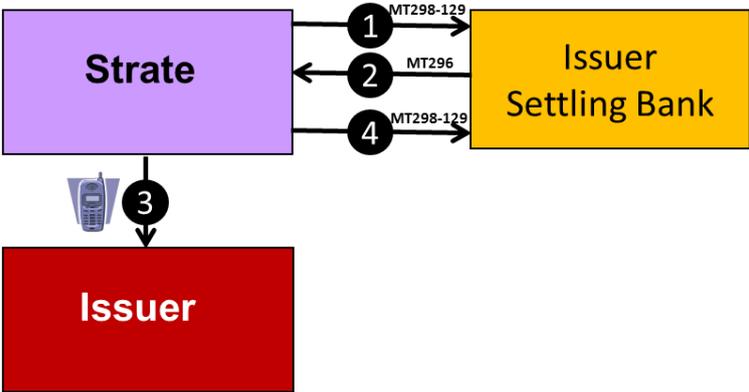
1. Strate to generate MT298-129 (Payment Advice) to the Issuer Settling Bank at 10h00.
2. If the Issuer does not have requisite available balance, then Issuer Settling Bank will send an MT296 rejection notification to Strate with the appropriate error code.
3. Strate Corporate Actions Desk to follow up with the Issuer on the availability of funds. Issuer to confirm the availability of funds via email.
4. Strate to re-generate MT298-129 (Payment Advice) to the Issuer Settling Bank.
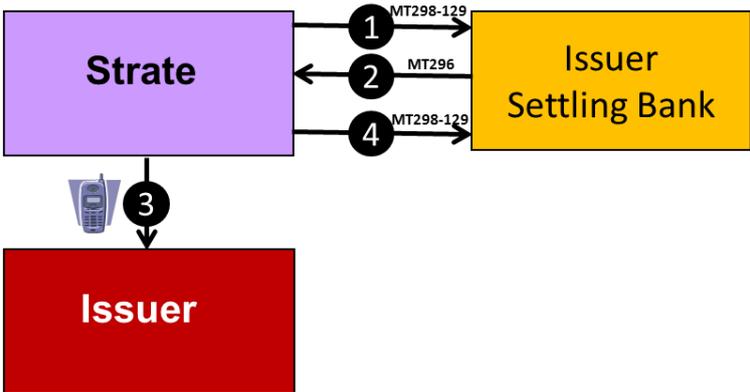
- MT296 Issuer's Settling Bank to Strate

No.	Tag	Description	Value
1.	20	Banks Reference	4!n6n
2.	21	Related Reference	YYYYnCAEnnnnnn 20131CAE100001
3.	76	Error Reason	3*50x Line 1 – /MREF/16x (field 20 of the original MT298-128 message) Line 2 – /REJT/4!x (Error Code to) Line 3 – Other Reasons (If Line 2 Error Code is NARR, then this line is Mandatory)

- MT296 Issuer's Settling Bank to Strate (Contd.) – Error Codes

No.	Error Code	Description
1.	AC05	Account number specified is not a valid account at the Account With Institution.
2.	AM04	Amount of funds available to cover specified transaction/message amount is insufficient.
3.	DT01	Invalid date (e.g. wrong settlement date).
4.	NARR	Narrative: The error has no equivalent error code
5.	TM01	Associated transaction/message was received after agreed processing cut-off time.

Settlement of Events – Settling Bank Exception Handling Scenario 2 – Manual Follow-up

1. Strate to generate MT298-129 (Payment Advice) to the Issuer Settling Bank at 10h00.
2. If the Issuer does not have requisite available balance, then Issuer Settling Bank will send a rejection notification (MT296) to Strate.
3. Strate Corporate Actions Desk to follow up with the Issuer on the availability of funds. Issuer to confirm the availability of funds via email.
4. Strate to re-generate MT298-129 (Payment Advice) to the Issuer Settling Bank.

Settlement of Events – SAMOS Exception Handling
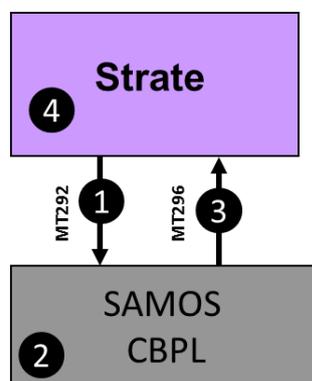
1. Strate to generate SAMOS CBPL Batch cancellation using MT292 message at 14h30.
2. SAMOS to accept the CBPL Batch Cancellation.
3. SAMOS to notify Strate on the acceptance of the CBPL Batch Cancellation using MT296 message.
4. Strate to roll over the Payment Date of the CA event and notify the CSD Participants accordingly.

- MT292 From Strate to SAMOS (To be generated at 14h30)

No.	Tag	Description	Value
1.	20	Transaction Reference	16x
2.	21	Related Reference	YYYYnCAEnnnnnn YYYYnCABnnnnnn
3.	11S	MT and Date of Original Message	202 130508
4.	79	Narrative	/MRT/?? /OCD/STRAZAJJ /GCD/20130508 /SCD/20130508 /CPL/5008 or 5009 /CBS/500001

- MT296 to Strate and Issuer's Settling Bank

No.	Tag	Description	Value
1.	20	SAMOS CPL Agreement No and SAMOS CBPL Batch Sequence No.	4!n6n
2.	21	Related Reference	YYYYnCAEnnnnnn YYYYnCABnnnnnn
3.	76	Discard Reason	6*50x
4.	77A	/MRT12/5213 /SCD31C/20130508 /PDT31G/20130508 /PTM31G/143005 /DCD102/STRAZAJJ /OCD56A/STRAZAJJ	
5.	11R	Preceding SWIFT message Type Originator Date	292 20130508
6.	79	Preceding Message Routing Code	4X

Operational Timelines

- Issuer to Fund Account by 09h00.
- Strate to start processing at 10h00:
  - Payment Advice (MT298-129) message per Event sent to the Issuer's Settling Bank; and
  - SAMOS CBPL batch per Event and generate Payment Instruction (MT202) message to SAMOS.
- Strate to generate SAMOS CBPL Batch cancellation using MT292 message at 14h30.