

Directive of Strate (Pty) Ltd

Special Gazette No M1-2019

Strate Directive SE.4

Electronic Trade Reporting, Matching,
Clearing, Commitment and Settlement –
Money Market Securities

strate

To provide the procedure that needs to be adhered to for electronic reporting, matching, clearing, commitment and Settlement of transactions in Money Market Securities¹

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¹ Amended with effect from 3 June 2019

1. INTRODUCTION²

The Money Market (“MM”) environment is an informal market with no exchange or automated trading systems. This resulted in transactions being executed telephonically between traders. Transactions are normally, but not exclusively, executed on a T+0 Settlement cycle on a gross principal-to-principal basis. To facilitate the electronic Clearing and Settlement of primary issues and transactions in the MM environment, electronic functionality is required to match transaction details and, where necessary, bi-laterally allocate underlying allocations to bulk transactions. Consequently, an Electronic Trade Matching Engine (as defined below) has been developed for this purpose.

2. INTERPRETATION AND DEFINITIONS³

2.1 In this Strate Directive, any interpretation, word, or expression to which a meaning has been assigned in the Strate Rules bears the meaning so assigned to it.

‘Account Transfer’ means a free of payment transfer, resulting in no change in beneficial ownership, between a Client’s Central Securities Accounts, either at a single Participant or between Participants;

‘BAN’ means a unique bilateral allocation number assigned by the ETME for Settlement purposes to allocations underlying a bulk transaction;

‘Business Partner’ means an entity which is not a Participant and which interfaces with Strate to perform an essential market function in the issue, investment and Settlement of MM Securities. Business Partners in the MM environment include MM Issuers, Issuer Agents, traders and Settlement Banks;

‘Capital Event’ means an action taken by an MM Issuer or Issuer Agent which affects the holding or entitlement of the Securities Holders;

‘Collateral Account’ means a Central Securities Account, or a balance in a Central Securities Account, in which a Client places Securities available for the purpose of a Collateral Agreement;

‘Collateral Account Transfer’ means an Account Transfer from a Client’s Central Securities Account to the Client’s Collateral Account, and vice versa;

‘Collateral Agreement’ means an agreement between a Collateral Provider and a Collateral Taker, in terms of which a Collateral Provider grants or transfers an interest in Securities to a Collateral Taker, whether by means of a pledge, cession *in securitatem debiti* (cession to secure a debt) or an out-and-out cession (outright transfer), in order to secure the performance of relevant obligations;

‘Collateral Provider’ means a person who grants or transfers an interest in Securities to a Collateral Taker under a Collateral Agreement;

‘Collateral Return Transaction’ means a transaction where Securities are returned by the Collateral Taker to the Collateral Provider under a Collateral Agreement, but for the purposes of this Strate Directive, “Collateral Return Transaction” does not include a pledge release transaction;

² Section amended with effect from 3 June 2019

³ Section amended with effect from 3 June 2019

‘Collateral Taker’ means a person to whom an interest in Securities is granted or transferred by a Collateral Provider under a Collateral Agreement;

‘Collateral Transaction’ means a transaction granting or transferring an interest in Securities to a Collateral Taker by a Collateral Provider under a Collateral Agreement, but for the purposes of this Strate Directive, “Collateral Transaction” does not include a pledge transaction;

‘Coupon Payment’ means a Capital Event which involves payment of interest by an MM Issuer or Issuer Agent to the Securities Holders;

‘End of Day’ or ‘EOD’ means the time as stipulated in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*;

‘Fixed Buy Back’ means a Sell and Buy Back where the repurchase Settlement Date of the second leg is agreed when the transaction is executed;

‘Full Participant’ means a Participant, excluding a Corporate Participant;

‘Issuer Agent’ means an entity that is appointed by an Issuer to act as an agent of, or on behalf of the Issuer in the performance of the Issuer’s role and functions in terms of the Strate Rules and Strate Directives. The Issuer may perform the roles assigned to the Issuer Agent in terms of this Strate Directive;

‘ISIN Register’ means the register in the Strate System in which all Securities issued, and all the details thereof, are recorded in accordance with Strate Directive SB.3 – *Registers and Accounts Administration – Bond and Money Market Securities*;

‘ITR’ means an internal trade reference number generated by a trader’s proprietary trading or back office system;

‘Maturity’ or ‘Maturity Payment’ means a Capital Event which involves the repayment of capital by an MM Issuer or Issuer Agent to the Securities Holders;

‘MFA’ means Master File Administration comprising the ISIN Registers maintained in accordance with Strate Directive SB.3 – *Registers and Accounts Administration – Bond Securities and Money Market Securities*;

‘MM’ means money market;

‘On-us’ means settlement through accounting entries within a Settlement Bank acting for both the seller and purchaser of an MM Security, or acting for an MM Issuer making Coupon and Maturity Payments, and a Participant with a Client qualifying to receive Coupon and Maturity Payments from the MM Issuer;

‘Open Buy Back’ means a Sell and Buy Back where the trading parties agree not to fix the repurchase Settlement Date of the second leg when the transaction is executed, but such date is agreed between the parties to the transaction at any time up to Reconciliation Date of the underlying MM Security;

‘Payment Date’ means the day on which Capital Events are paid;

‘Portfolio Movement’ means a free of payment transfer, resulting in no change in beneficial ownership, of a Client’s Securities portfolio when such Client changes service providers;

‘Reconciliation Date’ means the EOD on the day before Payment Date of a Capital Event;

‘Securities Lending Transaction’ or ‘Securities Lending and Borrowing Transaction’ means an arrangement in terms of which a person (lender) lends Securities to another person (borrower) subject to the borrower agreeing to return the loaned Securities within an agreed time period. Once the loaned Securities have Settled, ownership of the Securities is transferred to the borrower. The borrower has the right to sell or on-lend the Securities during the life of the loan. In return, the borrower agrees to compensate the lender for any Capital Event distributions in respect of the Securities which that lender would have been entitled to receive during the period of the loan had the arrangement not been entered into;

‘Securities Lending and Borrowing Return Transaction’ means the return of Securities which had been loaned in terms of a Securities Lending and Borrowing Transaction;

‘Sell and Buy Back’ means a repurchase agreement or carry transaction whereby the intention of the seller is to sell the MM Securities to the purchaser conditional to the purchaser returning the same MM Securities, or, if agreed to by the parties, MM Securities with the same or similar characteristics;

‘SAMOS RTL’ means the SAMOS Real Time Line payment stream;

‘Settlement Date’ or ‘S’ means the day on which that particular MM Security is settled through Strate;

‘Settlement Bank’ means a bank which is a settlement system participant in SAMOS and is responsible for funding the SAMOS RTL for the settlement of transactions, Coupon and Maturity Payments. The Settlement Bank also confirms On-us settlement of transactions, Coupon and Maturity Payments;

‘Strate Operations’ means the operations division of Strate responsible for communication between Participants, Business Partners and Strate relating to settlement operations;

‘T’ means Trade Date, the day on which a particular transaction was entered into;

‘T+n’ means Trade Date plus n Business Days, ‘n’ being the number of Business Days stipulated in the Strate Directive; and

‘UTRN’ means a unique trade reference number assigned by the ETME to matched transactions.

2.2 Settlement and Transaction Types⁴

2.2.1 Transactions may be executed on a T+0 or T+n basis.

2.2.2 The electronic Money Market allows for the following “Settlement” types only:

- 2.2.2.1 DVP – Deliver Versus Payment;
- 2.2.2.2 RVP – Receive Versus Payment;
- 2.2.2.3 DFP – Deliver Free of Payment;
- 2.2.2.4 RFP – Receive Free of Payment;
- 2.2.2.5 DPL – Deliver Pledge;
- 2.2.2.6 RPL – Receive Pledge;
- 2.2.2.7 DRL – Deliver Release Pledge; and
- 2.2.2.8 RRL – Receive Release Pledge.

2.2.3 The following transaction types as per the allocated Client types are allowed:

##	Transaction Type	Clients Type
2.2.3.1	Account Transfers	Client type 30
2.2.3.2	Portfolio Movements	Client type 31
2.2.3.3	Sell and Buy Back	Client types 60 and 61
2.2.3.4	Replacement of the second leg to a Sell and Buy Back transaction	Client type 61

(Pending amendment: Following approval by the Regulatory and Supervisory Committee, the following transaction types and client types will be implemented with effect from the date to be determined by Strate via a Special Gazette).

2.2.3.5	Collateral	Client type 50
2.2.3.6	Collateral Return	Client type 50
2.2.3.7	Securities Lending and Borrowing	Client type 50
2.2.3.8	Securities Lending and Borrowing Return	Client type 50

2.3 All transactions resulting in a change in beneficial ownership, a pledge, release pledge, Account Transfers or Portfolio Movements are referred to as “transactions”.

(Pending amendment: Following approval by the Regulatory and Supervisory Committee, paragraph 2.3 will be amended as follows with effect from the date to be determined by Strate via a Special Gazette).

2.3 All transactions resulting in a change in beneficial ownership, Securities Lending and Borrowing, Securities Lending and Borrowing Return, Collateral, Collateral Return, pledge, release pledge, Account Transfers or Portfolio Movements are referred to as “transactions”.

⁴ Section amended with effect from 3 June 2019

3. TRANSACTION REPORTING⁵

- 3.1 All transactions must be reported to the ETME for matching, clearing and Settlement.
- 3.2 Transactions for same day Settlement must be reported to the ETME in terms of the timeframes detailed in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*.
- 3.3 The ETME only accepts transactions from Business Partners registered with a “trader” role.
- 3.4 Corporate Participants must report transactions “pre-committed”.
- 3.5 A Participant with a trader role, may report its Clients’ transactions to the ETME “pre-committed”.
- 3.6 Account Transfers, Portfolio Movements, pledge and release pledge transactions are only reported to the ETME by the Participants of the parties to these transactions. Such Participants must have a trader role.

(Pending amendment: Following approval by the Regulatory and Supervisory Committee, paragraph 3.6 will be amended as follows with effect from the date to be determined by Strate via a Special Gazette).

3.6 Account Transfers, Portfolio Movements, Securities Lending and Borrowing, Securities Lending and Borrowing Return, Collateral, Collateral Return, pledge and release pledge transactions are only reported to the ETME by the Participants of the parties to these transactions. Such Participants must have a trader role.

- 3.7 Transaction details reported must include the bulk nominal value and consideration traded and each transaction leg must include at least one underlying allocation to the bulk nominal value and consideration traded.
- 3.8 The bulk nominal value and any underlying allocations to the bulk must comply with the minimum tradable denomination determined by the MM Issuer or Issuer Agent.
- 3.9 Sell and Buy Back transactions must be reported to the ETME, including details of the repurchase amount and Settlement Date, second leg and transaction type.
- 3.10 The repurchase Settlement Date of the second leg of a Sell and Buy Back cannot be later than the Reconciliation Date of the underlying MM Security.
- 3.11 Sell and Buy Back transactions can only have one underlying allocation to the bulk nominal value traded and consideration.
- 3.12 Only a single MM Security may be used in the execution of a Sell and Buy Back transaction.
- 3.13 Sell and Buy Back transactions requiring multiple MM Securities must be reported as separate Sell and Buy Backs for each underlying MM Security.

⁵ Section amended with effect from 3 June 2019

3.14 The following transaction information must be reported to the ETME:

Trade Information
(a) ISIN
(b) Settlement type
(c) Transaction type (where applicable)
(d) Settlement Date (S)
(e) Repurchase date (Sell and Buy Backs only)
(f) Nominal value of the bulk executed transaction
(g) Consideration of the bulk executed transaction
(h) Repurchase consideration (Sell and Buy Backs only)
(i) Trader's Business Partner identification number
(j) Counterparty trader's Business Partner identification number
(k) Internal trade reference number ("ITR")
(l) Central Securities Account for each underlying allocation to the bulk.
(m) Nominal value and consideration amount for each underlying allocation to the bulk

3.15 The ITR reported by the trader is not used for bulk matching purposes but is used for:

3.15.1 cancellation or replacement by a trader of a transaction reported before matching by the ETME;

3.15.2 inclusion in the status intimation sent to the trader to notify it of invalid transaction information rejected by the ETME;

3.15.3 inclusion in the status intimation information sent back to the trader by the ETME when transaction information has matched or when a transaction has "timed-out" and been failed at the EOD procedures in the Strate System;

3.15.4 matching, by the trader, of information reported from the ETME to the correct transaction in the trader's back office.

3.16 Once matched in the ETME, transaction details cannot be modified or cancelled, except for the second leg to a Sell and Buy Back.

3.17 The transaction details of the second leg of a matched Sell and Buy Back may be cancelled prior to the Settlement Date of the second leg by both counterparties to the Sell and Buy Back reporting the cancellation to the ETME. If one party fails to report the cancellation to the ETME, the transaction status will revert to "matched" at EOD.

3.18 The MM Securities to be used in the new second leg must be reported to the ETME for matching by both trading parties and must include the transaction type and the "original" ITR reported by each trading party in the initial Sell and Buy Back reported to the ETME, and a "new" ITR for the second leg.

3.19 Multiple MM Securities may be used to replace the cancelled second leg of the Sell and Buy Back and must be reported individually to the ETME for matching with the transaction type and the "original" ITR reported by each trading party in the initial Sell and Buy Back and a "new" ITR for each of the replacement legs used.

3.20 The responsibility for the booking of a replacement second leg of the Sell and Buy Back resides with the counterparties to the transaction. If the replacement second leg of the Sell and Buy Back is reported incorrectly, the party reporting the transaction must cancel the reported leg and re-submit the transaction with a different ITR, linked to the original ITR.

3.21 Account Transfers and Portfolio Movements must be reported as “free of payment” transactions.

(Pending amendment: Following approval by the Regulatory and Supervisory Committee, paragraph 3.21 will be amended as follows with effect from the date to be determined by Strate via a Special Gazette).

3.21 Account Transfers, Portfolio Movements, Securities Lending and Borrowings, Securities Lending and Borrowing Returns, Collaterals and Collateral Returns must be reported as “free of payment” transactions.

3.22 The following additional transaction information is optional and not required for matching purposes. Where provided, it will be validated against the ISIN Register, for all transactions except Account Transfers, Portfolio Movements, pledges and release pledges.

Field Name	MM Category 1	MM Category 2	MM Category 3
Next Coupon Payment Date		✓	
Coupon Source and Spread			✓
Next Reset Date			✓
Current Coupon Rate		✓	✓
Maturity Date	✓	✓	✓

(Pending amendment: Following approval by the Regulatory and Supervisory Committee, paragraph 3.22 will be amended as follows with effect from the date to be determined by Strate via a Special Gazette).

3.22 The following additional transaction information is optional and not required for matching purposes. Where provided, it will be validated against the ISIN Register, for all transactions except Account Transfers, Portfolio Movements, Securities Lending and Borrowings, Securities Lending and Borrowing Returns, Collaterals, Collateral Returns, pledges and release pledges.

3.23 If the above validation is not successful, then a status intimation, including the trader’s ITR, is sent to the Business Partner which reported the transaction.

4. TRANSACTION MATCHING AND BI-LATERAL ALLOCATION⁶

- 4.1 Invalid transaction information submitted for matching and bi-lateral allocation is rejected by the ETME, and a status intimation, including the trader's ITR, is sent to the Business Partner which reported the transaction.
- 4.2 The ETME performs a validation of the transaction information reported in accordance with 3.14 above and internal logic algorithms.
- 4.3 The ETME validates that the bulk and allocated nominal values reported are in the minimum tradable denominations determined by the MM Issuer or Issuer Agent.
- 4.4 The ETME validates that the nominal value and consideration of the bulk transaction reported by the trader are equal to the aggregate underlying nominal value and consideration of the allocations that constitute the bulk.
- 4.5 Only the information submitted in 3.14 (a) to (k) is used as matching criteria for the purposes of matching transaction details in the ETME. The ITR is used as a reference between the trader's proprietary system and the ETME.
- 4.6 All the matching criteria noted in paragraph 3.14 (a) to (k) submitted by the counterparties to the transaction must match to constitute a "matched" bulk transaction for bi-lateral allocation and Settlement purposes.
- 4.7 The bulk nominal value must match with zero tolerance. The bulk consideration traded must match within tolerances of R50 (Fifty Rand).
- 4.8 Matched transactions are assigned a unique UTRN by the ETME.
- 4.9 All "four" matched legs of the Sell and Buy Back are linked by the same UTRN.
- 4.10 The UTRN and ITR are communicated to the transaction reporting party in the matched status intimation.
- 4.11 Allocations underlying the bulk nominal value and consideration traded are bi-laterally allocated by the ETME using an algorithm and assigned a unique BAN for Settlement purposes.
- 4.12 Transactions reported which remain "unmatched" within the time frame detailed in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities* fail at EOD on Settlement Date.
- 4.13 Traders must monitor the matched status of their own orders.

⁶ Section amended with effect from 3 June 2019

5. CLEARING, COMMITMENT AND SETTLEMENT⁷

- 5.1 All bi-lateral allocations underlying a matched bulk transaction are Settled as a stand-alone transaction.
- 5.2 Settlement allegements are only sent to Full Participants on Settlement Date, regardless of whether the Full Participant has reported its Clients' transactions pre-committed.
- 5.3 Where a Full Participant does not process commitments to any allegement sent by the Strate System, the relevant transaction Settlement fails at EOD, and the Strate System sends a status intimation to the Participant.
- 5.4 Where the allegement in 5.3 above pertains to the first leg of a Sell and Buy Back, the second leg of the Sell and Buy Back simultaneously fails with the first leg.
 - 5.5.1 Full Participants may withdraw commitments made to allegements from the Strate System, provided that the cut-off time stipulated in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities* has not elapsed and commitment from the counterparty's Full Participant has not already been received by the Strate System.
 - 5.5.2 Full Participants cannot withdraw commitments where the counterparty to the transaction is a Corporate Participant.
 - 5.5.3 A Corporate Participant cannot withdraw commitments as it reports transactions "pre-committed".
- 5.6 The seller's MM Securities are reserved in its Central Securities Account:
 - 5.6.1 once the commitment from its Full Participant and that of the purchaser's Full Participant are received by the Strate System;
 - 5.6.2 once matched when the seller's transaction is reported pre-committed to the ETME by a Corporate Participant, in its role as trader;
 - 5.6.3 once committed to by its Full Participant where the counterparty is a Corporate Participant.
- 5.7 Once MM Securities have been reserved in the seller's Central Securities Account, the Strate System sends a payment advice to the purchaser's Participant, and the Participant must instruct the purchaser's Settlement Bank to fund the applicable SAMOS accounts.
- 5.8 Settlement Banks must process the cash legs of the transactions through the SAMOS RTL or as On-us settlement. Where settlement is through the SAMOS RTL, the paying Settlement Bank must send a payment advice to the receiving Settlement Bank.
- 5.9 MM Securities move from the seller's reserved balance in its' Central Securities Account to the purchaser's free balance in its' Central Securities Account immediately upon receipt by the Strate System of cash settlement confirmations from SAMOS or a Settlement Bank, in the case of On-us settlement.
- 5.10 All "against payment" and "free of payment" Settlement processes must comply with the timeframes detailed in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*.

⁷ Section amended with effect from 3 June 2019

- 5.11 Where Settlement does not take place due to either insufficient MM Securities in the seller's free balance in its' Central Securities Account, or insufficient funds, the bi-laterally allocated transaction fails EOD and the Strate System sends status intimations to the relevant Participants.
- 5.12 Should counterparty Participants agree to cancel a bilaterally allocated transaction before EOD, due to the circumstances detailed in 5.11 above, both Participants to the transaction must notify Strate Operations, in writing, detailing the UTRN and BAN/(s) underlying allocation to the bulk which must be cancelled. Strate Operations cancels the transaction in the Strate System, and status intimation is sent to the relevant Participants.
- 5.13 Where the repurchase date of the second leg of an Open Buy Back remains open on Reconciliation Date, the second leg is automatically failed and cancelled by the Strate System at the end of the trade reporting window on the Reconciliation Date of the underlying MM Security, and a status intimation is sent to the relevant Participant or Business Partner which reported the transaction.