

A2X TRADING RULES

Extract of Proposed Amendments

Summary of Amendments

SECTION 1: DEFINITIONS AND INTERPRETATION

Interpretations and Definitions

- 1.1 ...
- 1.2 ...
- 1.3 ...
- 1.4 ...
- 1.5 In the rules - ...

DEFINITION:	MEANING:
<u>capital exposure requirement</u>	<u>Securities or funds provided for the assurance of settlement</u>
<u>deal management</u>	<u>The managing of an executed transaction which includes allocations for agency transactions and status updates through the settlement cycle</u>
<u>failing member</u>	<u>The member who introduced the failing transaction which is subject to a rolling of settlement or failed trade as set out in rule 7</u>
[margin	Funds provided for the assurance of settlement.]
<u>non-failing member</u>	<u>The member of a client, or member who has been identified by the settlement committee as the counterparty to a rolling of settlement or failed trade as set out in rule 7.</u>
non-failing party	The client or member who has been identified by the settlement committee as the counterparty to a <u>rolling of settlement or failed trade</u> [in terms of the failed trade procedures set] <u>as</u> out in rule 7.

SECTION 2: MEMBERSHIP

General Eligibility for Membership Criteria

2.4 To be eligible to be authorised as, or remain a member, an entity must satisfy A2X that it:

2.4.1 ...

2.4.2 ...

2.4.3 ...

2.4.4 ...

2.4.5 is financially sound and complies with the financial resource, guarantee, capital exposure requirements and capital adequacy requirements which A2X believes are adequate to meet the business requirements and commitments and to withstand the risks to which the member's business is subject, the details of which are set out in the A2X directives;

2.4.6 ...

2.4.7 ...

2.4.7.1 ...

2.4.7.2 ...

2.4.7.3 ...

2.4.7.4 ...

2.4.7.5 suitably qualified settlement officer and alternate settlement officer with adequate ongoing knowledge of the Act, these rules and A2X directives and who complies with the fit and proper requirements as set by A2X and whose role is:

a. to be A2X's contact point in relation to any matters relating to settlement of equity securities; and

b. the responsibility for facilitating the clearing and settlement of all transactions in equity securities executed on A2X in accordance with the rules and A2X directives, including advising A2X of any issue that may impact on the settlement of any of the member's transaction in equity securities;

[2.4.8 it has created and maintains a nominee company as approved by the FSB in respect of the member's own principal positions;]

2.4. **[9]8** has entered into and signed such agreements as prescribed by A2X; and

2.4. **[10]9** any natural shareholder holding directly or indirectly ten percent of the issued shares of the member complies with the fit and proper requirements as set by A2X.

2.5 In addition to complying with the admission criteria, an applicant who wishes to provide trading services must:

2.5.1 ...

2.5.2 comply, and continue to comply with the deal management system requirements as set by A2X;

2.5. **[2]3** have and maintain adequate internal procedures and controls to prevent the submission of erroneous orders to the A2X trading facility;

2.5. **[3]4** have and maintain controls to ensure that any person who submits orders to the A2X trading facility through the member is:

2.5.3.1 ...

2.5.3.2 ...

2.6 ...

Continuing Obligations

2.7 ...

2.8 ...

2.9 ...

2.10 ...

2.11 ...

2.12 A member must ensure that if a vacancy arises in respect of the position of stockbroker, compliance officer, **[or]** settlement officer [,] or alternate settlement officer, the member must apply to A2X to condone the vacancy for a limited period on such terms and conditions as set by A2X.

2.13 ...

2.14 The principles and procedures of risk management must be designed to ensure that the records of the member are maintained in such a manner so as to allow for prompt disclosure of financial and business information that will enable the member to:

2.14.1 ...

2.14.2 ...

2.14.3 ...

2.14.4 monitor the capital of the member to ensure compliance with the capital exposure requirements and the capital adequacy requirements imposed in terms of the rules and A2X directives; and

2.14.5 ...

2.15 ...

Disclosure of Information

2.16 ...

Suspension and Termination of membership

2.17 ...

2.18 ...

2.19 ...

2.20 A2X may, in its absolute discretion, suspend or terminate the membership of a member or restrict its right to place orders with, or receive information from the trading facility, if it appears that the member:

2.20.1 ...

2.20.2 ...

2.20.3 ...

2.20.4 ...

2.20.5 ...

2.20.6 engages in or is suspected of engaging in any activity which has or is likely to **[effect]affect** the ability of A2X to operate a fair and orderly market.

SECTION 3 – CODE OF CONDUCT

General duties of a member:	3.1
Disclosure to clients:	3.2
Fees and commissions:	3.3 - 3.5
Client information:	3.6
Maintenance of client information:	3.7
Advertising:	3.8
Transaction confirmations:	3.9 – 3.11
Conflicts of interest:	3.12
Cold calling:	3.13
Allocation accounts:	3.14 – 3.17
Management of equity securities and cash:	3.18 – 3.20
Provision of advice:	3.21 – 3.22
Record keeping:	3.23
[Approvals:] Nominee Companies and financial services providers:	3.24
Obligation to report any matter which may pose a systemic risk to the financial markets:	3.25

Section 3: Code of Conduct

General Duties of a Member

3.1. ...

Disclosure to Client [of a members]

3.2 ...

Fees and Commissions

3.3 ...

3.4. ...

3.5 ...

Client Information

3.6 ...

Maintenance of Client Records

3.7 ...

Advertising

3.8 ...

Transaction Confirmations

3.9 ...

3.10 ...

3.11 ...

Conflicts of Interest

3.12 ...

Cold Calling

3.13 ...

Allocation Accounts

3.14 ...

3.15 ...

3.16 ...

3.17 ...

Management of equity securities and cash

3.18 Representatives of a member authorised to provide investment services must have the required qualifications and experience as prescribed by A2X **[in the directives]**.

3.19 ...

3.20 ...

Provision of Advice

3.21[0] Representatives of a member authorised to provide advice must have the required qualifications and experience as prescribed by A2X **[in the directives]**.

3.22[1] When providing advice to a client, other than a professional client, in respect of equity securities, a member authorised to provide investment services must take reasonable steps to obtain information regarding the client's financial situation, investment experience, particular needs and objectives in connection with the services required, to enable the member to provide the client with sound advice and thereafter conduct an analysis, based on the information obtained, for the purpose of advising the client.

3.23[2] The member must take reasonable steps to ensure that the client understands any advice that has been provided, as well as the nature and material terms and risks involved in the relevant transaction, so as to enable the client to make an informed decision.

Record Keeping

3.24[3] A member must retain each record required to be kept under the Act, the Companies Act and the rules. These records must be kept for at least the period required by the Act, the Companies Act and FICA and be capable of being produced for inspection by A2X on demand and in legible form.

3.25[4] No member may conduct business with a person whom the member believes or suspects requires approval:

- 3.25[4].1 as a nominee under section 76 of the Act; or
- 3.25[4].2 as a financial services provider to undertake management of securities in terms of any law, without having taken reasonable measures to ascertain that the necessary approvals have been obtained.

3.26[5] A member must immediately inform A2X of any matter which in the opinion of the member poses a systemic risk to the financial markets.

[Section 6 – Trading]

SECTION 6 TRADING FACILITY AND TRADING

SECTION 7: CLEARING AND SETTLEMENT

Principles of Clearing and settlement

7.1 ...

7.2 Transactions in equity securities will be settled:

7.2.1 ...

7.2.2 contract note by contract note;

7.2.3 between the ultimate buyer and the 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.

[7.2.2 on the basis that individual transaction confirmations per trade type and equity security are consolidated and offset into net amounts of securities and funds for settlement at a CSDP level; and

7.2.3 in the most cost efficient net batches on a delivery versus payment and receipt versus payment basis.]

7.3 ...

Role of the CSD

7.4 ...

7.5 ...

Appointment of a CSDP

7.6 ...

7.7 ...

Member settlement obligations in respect of principal transactions in equity securities

7.8 a member must take all the necessary steps to ensure that settlement of the member's transactions in equity securities takes place in accordance with these rules,

including:

7.8.1 ...

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

[7.8.2.1 providing an instruction to the CSDP to settle the said transaction as soon as practicable but no later than 18:00 on T+1; and]

[7.8.2.2] 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.

7.9 ...

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 ...

7.10.4 ...

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 **[18:00] 12:00** on T+1; and

7.10.5.2 ...

7.11 In the absence of an instruction from A2X, a client may not instruct its CSDP to revoke a commitment to settle the transaction in equity securities after 18:00 on T+1.

7.12 ...

Member settlement obligations in respect of a Client

7.13 ...

7.14 ...

7.15 ...

7.16 ...

Mitigation of losses by a Member

7.17 ...

7.18 ...

7.19 ...

Role of A2X in the Clearing and Settlement Process

7.20 ...

7.21 ...

7.22 ...

Actions to be taken by the Settlement Committee in respect of transactions in equity securities that are unlikely to settle

7.23

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

7.24 ...

7.25 Should A2X elect to proceed in terms of rule 7.24:

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 **[margin]** capital exposure requirement taken in respect of the rolled transaction will be retained pending settlement on the revised settlement date;

7.25.5 the settlement committee will **[instruct Strate to process a settlement in respect of the rolled transaction and the corresponding transaction/s for settlement]** 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 **[or corresponding 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 [must be re-transacted for] 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.

[7.26 In the event that the member advises the settlement committee that the rolled transaction or the corresponding transaction/s are subject to any corporate action taken by an issuer of equity securities which effects the rights attaching to the equity securities, the settlement committee will use its reasonable endeavours to ensure that the rights of the parties in relation to the corporate action are not prejudiced as a result of the revised settlement date.

7.27 In the event that the member advises the settlement committee that the rolled transaction or the corresponding transaction/s resulted in the member incurring expenses or the loss of income, including interest, the settlement committee will use its reasonable endeavours to ensure that the member is reimbursed for the expenses, loss of income and interest.

7.28 If the rolled transaction and the corresponding transaction/s do not settle on the revised settlement date, the transaction will be declared a failed trade in terms of rule 7.36 and the procedure set out in rules 7.37 and 7.38 will apply]

Management of the Settlement Risks

7.29 A2X will require the member to make payment of **[margin]** capital exposure requirements in respect of transactions in equity securities:

7.29.1 **[when the CSDP has failed to provide a commitment in respect of a client's transaction [by 19:00 on T+1] from trade date to 16h00 on T+2] T** for net principal transactions, unallocated transactions, partially allocated transactions and uncommitted settlement orders for non-controlled clients; and;

7.29.2 **[in respect of a member's purchase transactions, where the same day purchases and sales of the member in any particular equity security are not equal] 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 **[margin required]** 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 **[margin]** 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 the A2X.

7.31 The **[margin required]** 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 **[margin] capital exposure requirement** has been levied have been met to the satisfaction of A2X.

Interventions by the Settlement Committee to avoid a failed trade

7.32 ...

7.33 ...

7.34 ...

7.35 ...

Failed trade procedure

7.36 ...

7.37 If the settlement committee elects to proceed in terms of rule 7.36:

7.37.1 ...

7.37.2 the members responsible for the failed trade and the affected transactions, will be notified that the **[these]** transactions are subject to the failed trade process;

7.37.3 ...

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; and

7.38 The settlement committee will **[instruct Strate to process an equal but opposite settlement transaction, for the same quantity and price, in respect of the failed trade and the affected]** 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.

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 or the member of the affected transaction in the same position as they would have been if the transaction had not been declared a failed trade; or
- 7.40 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 **[must be re-transacted for]** 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. **[member of the client of the affected transaction to re-transact the original transaction on the trading facility for the member's account and allocate the transaction to its client at the price that the original transaction was executed]**.
- 7.41 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 7.39.1, provide the settlement committee with a written representation:
- 7.41.1 ...
- 7.41.2 ...
- 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 **[margin]** capital exposure requirement of the member who transacted the failed trade retained by A2X in respect of the failed trade. Any shortfall in the **[margin]** 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.
- 7.45 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 **[margin]** capital exposure requirement of the
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failing member retained by A2X in respect of the failed transaction. Any shortfall in the **[margin]** 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.

SECTION 8: DEFAULT PROCEDURES

Member Default

8.1 ...

8.2 ...

General Default Management

8.3 If a member is in default, A2X has the right to elect, at the expense of the defaulting member, to take one or more of the measures stated below. Unless otherwise specified, A2X has the right to take the following measures without consulting the defaulting member in advance:

[8.3.1 withhold settlement or delivery due to the defaulting member;]

8.3. **[2]1** ensure that all open transactions in equity securities between the defaulting member and other counterparties are settled, by taking such steps as may be necessary;

8.3. **[3]2** in the settlement of open transactions in equity securities, A2X will require clients of the defaulting member to meet their settlement obligations in respect of all open transactions executed on their behalf;

8.3. **[4]3** in achieving the settlement of open transactions in equity securities, A2X may buy in or sell out equity securities which cannot be either delivered or paid for by the defaulting member or its client; and

8.3. **[5]4** if **[the]** A2X is unable to procure the settlement of any open transactions in equity securities, the failed trade procedures set out in rule 7 will be applied.

SECTION 10: COMPLAINTS AND DISPUTES – MEMBER, CLIENTS AND A2X

Complaints

10.1 ...

10.2 ...

10.3 ...

10.4 ...

Unresolved Client Complaints

10.5 ...

10.6 ...

10.7 ...

Dispute Resolution

10.8 ...

10.9 ...

10.10 ...

10.11 ...

10.12 ...

10.13 ...

10.14 ...

10.15 ...

10.16 ...

10.17 ...

10.18 ...

Procedure for the lodging of complaints against A2X

10.19 ...

10.20 ...

10.21 ...

10.22 If the complaint relates to a breach of any provisions of the Act or the Rules, **[the Head of Legal and Regulation of A2X must refer]** the matter will be referred to the Regulatory committee for further investigation.

10.23 ...

10.24 All complaints received in terms of rule 10[1] must be resolved within 90 days of receipt of the complaint. If, despite the reasonable efforts of the Head of Legal and Regulation or the regulatory committee, the complaint is not resolved within 90 days, the Head of Legal and Regulation must report to the complainant, in writing, on the status of the complaint, and will continue to do so every 30 days until the complaint is resolved.

SECTION 11: GENERAL PROVISIONS

Limitation of Liabilities, Warranties and Indemnities

11.1 ...

11.2 ...

11.3 ...

11.4 ...

11.5 ...

Market Participant Committees

11.6 ...

11.7 ...

Insurance Policy

11.8 ...

11.9 ...

11.10 ...

11.11 **[The terms of the A2X policy are set out in the directive “F”.] Reserved**
