South Africa continues path of post-trade modernisation

It has now been two years since South Africa transitioned to a T+3 settlement cycle, but more is planned to modernise its post-trade infrastructure.

By Charles Gubert *(This article first appeared in Global Custodian magazine www.globalcustodian.com)*

The reformist agenda being adopted across South Africa's post-trade market infrastructures is likely to continue over the next 12 to 18 months as the country looks to further reinforce its attractiveness among SSA (Sub-Saharan Africa) focused institutional investors.

Despite the political and economic volatility that has been stirring over the last few years, South Africa has made a number of positive changes to its post-trade environment. Beginning in 2016, South Africa shortened its equity trade settlement time cycle from T+5 to T+3 in a move spearheaded by the Johannesburg Stock Exchange (JSE) alongside the South African Reserve Bank, National Treasury and the Financial Services Board.

The project – first initiated back in 2013 – was designed to help the market comply with globally accepted best practices recommended by the International Organisation of Securities Commissions (IOSCO). The South African market is, however, looking to enhance settlement efficiencies for international investors even further.

Chris van Staden, regional head for securities services for Africa and the Middle East at Standard Chartered, said at the Network Forum Meeting in Cape Town there were discussions happening about compressing the trade settlement cycle from T+3 to T+2, something which would help reduce settlement and counterparty risk for beneficial owners with exposure to the local market. It would also bring South Africa in step with the US and EU, both of which have implemented T+2.

In addition to equity settlement changes, the market has instigated reforms to its bond settlement processes. In September 2017, Strate's Debt Instrument Solution (DIS) project saw the country's central securities depository (CSD) replace its legacy UNEXCor system with a new BaNCS platform for bond settlement.

Nonetheless, this upgrade was not without its challenges. "The DIS did face some teething issues initially, mainly because of the back-to-back linkages, but these are being resolved and we are already seeing higher trading volumes as a result, partly off the back of the wave of confidence which investors have in South Africa today," commented van Staden.

Another market reform initiative will likely be the shepherding in of an independent central counterparty clearing house (CCP) for equities, which are presently booked through the JSE. However, the CCP establishment in Africa more broadly is still a moot topic. Despite calls from investors to set-up the infrastructure, local market participants remain bearish.

"There is debate in the market as to whether the country pushes through with its enactment of T+2 or builds a CCP for equities first," added van Staden. "Trading volumes on the continent are still quite thin. If there is insufficient liquidity in the market, then a CCP is probably not necessitated."