South African Reserve Bank

**Remarks by Mr. Daniel Mminele**

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**At the Launch of the T+3 Equity Market Settlement Cycle**

**Johannesburg, 4 August 2016**

Good morning ladies and gentlemen.

Thank you to the Johannesburg Stock Exchange (JSE) for inviting the South African Reserve Bank (SARB) to be part of this significant occasion to mark the launch of the T+3 settlement cycle for the equity market in South Africa. Thank you for the opportunity to make some brief remarks this morning. Allow me to start by congratulating the JSE and the T+3 Project Team, under the guidance of the JSE, on a smooth and successful implementation on the go-live date on 11th July, which represented the culmination of close collaboration over an extended period between numerous stakeholders, and including with the National Treasury, the Financial Services Board, and the SARB. This is indeed a major milestone, as many of us gathered here today know how much work has gone into this project.

The move to this settlement cycle is a welcome development that contributes towards our continuous efforts to improve the efficiency of, and reduce the risk in, our financial market systems and infrastructures. Not only does T+3 in the equity market align this market segment with the implementation in the bond market, which happened some time ago, it also aligns the South African market to international best practice. Beyond just creating these efficiencies and synchronising our markets with the rest of the world, an important element of this particular initiative is that its benefits are shared by many of us as stakeholders in this project, be it as companies listed on the exchange, brokers, investors and indeed as regulators.

The project team at the JSE has done well in highlighting some of the benefits[1], and if I can remind everyone present here today, these include:

- Aligning operational practices of the local equity market to global standards;
- Improving the credibility and operational efficiency of the local market;
- Protecting the financial markets through systemic risk mitigation that will follow from reduced credit and liquidity risk; and
- Through increased credibility, assisting in making South Africa a more attractive investment destination to international investors.

These are only a few of the direct and indirect benefits of a shorter settlement cycle, and for South Africa it comes at a time when the JSE is becoming a home to an increasing number of dual-listed companies. According to JSE statistics, the share of companies with dual listings increased from 14 per cent of all companies listed on the JSE in January 2006 to about 24 per cent in July 2016. As such, harmonising settlement cycles across regions will help with better cash flow and treasury management, and thus facilitate better and more efficient allocation of capital.

**Reducing systemic risk and contributing to broader financial system stability**

In addition to its primary mandate of price stability, the SARB is also responsible for protecting and enhancing financial stability. We consider financial stability to exist when we have a financial system that is resilient to systemic shocks, facilitates efficient financial intermediation and mitigates the macroeconomic costs of disruption in such a way that confidence in the system is maintained. The focus on financial stability is in line with the global trends where the regulatory community, in reaction to the global financial crisis, has been dedicating more effort and resources to

[1] Johannesburg Stock Exchange T+3 Project Overview and Frequently Asked Questions, August 2016.

reducing risk, achieving greater transparency and accountability, and improving efficiency in order to establish a safer market environment.

A shorter-settlement cycle will foster a reduction of settlement risk and counterparty exposure by reducing the time period between trade execution and settlement. The faster delivery of cash and stock to the seller and buyer, respectively, allows for a reduction in the risk of financial loss, especially during times of financial stress. The level of interconnectedness or network structure of the various agents of our financial systems, within and across borders, speaks directly to the potential risks that may arise from poor or outdated risk management practices. However, if risk is reduced and continuous risk reduction strategies are being pursued, such as will be the case with the shorter settlement period in the equity market, then systemic financial crises are less likely to occur.

***Increased market credibility and operational efficiency improving the attractiveness of South Africa to international investors***

Other benefits that this initiative promises to unlock relate to the improvement of the credibility and operational efficiency of the local market. These benefits should help boost South Africa's status in the global competitiveness rankings of the World Economic Forum (WEF). The competitiveness rankings are informed by a number of pillars which are organised into three main stages of development, factor-driven, efficiency-driven and innovation-driven. Each stage focusses on different market structure issues, i.e. basic requirements, efficiency enhancers and innovation and sophistication factors. Financial market development, for which South Africa is ranked an impressive 12th out of 140 countries, falls under the second stage of development.[2] This initiative, together with various other initiatives that are currently under way in our markets, will help improve the process of more efficient and safer intermediation of capital, enhance our competitiveness and contribute to the attractiveness of our markets for foreign investments. As a country that runs both budget and current account deficits, that are being predominantly financed by short

[2] The Global Competitiveness Report 2015-2016, World Economic Forum

term foreign capital flows, this becomes rather crucial. The sophistication and depth of our capital markets also play an important role when the country's credit ratings are being assessed.

**Contributing to South Africa's delivery on its G20 commitments**

Before I conclude, let me briefly touch on how this initiative also helps South Africa to meet its G20 commitments. South Africa as a member of the G20 was invited to join the Bank for International Settlements (BIS) Committee on Payment and Market Infrastructures (CPMI), and it is also a member of International Organization of Securities Commissions (IOSCO). As a member of the BIS CPMI, the SARB contributed to the development of the Principles for Financial Market Infrastructures (PFMIs). The PFMIs update, harmonise and strengthen the international risk management and associated standards applicable to systemically important payment systems (PSs), central securities depositories (CSDs), securities settlement systems (SSSs), central counterparties (CCPs) and trade repositories (TRs).These principles were published in 2012 and G20 member countries were expected to adopt them and also apply them in their jurisdictions. South Africa embraced these principles and issued a position paper to drive their application by identified FMIs in the payment system. Once the Financial Sector Regulation Bill has been enacted, followed by other consequential legislative amendments, we will be able to fully adopt the PFMI. It is, however, also encouraging to note that with assessments of compliance on South Africa as a jurisdiction by the BIS CPMI/IOSCO, we have been scored quite favourable overall when it comes to the expected outcomes. Furthermore, we have requested our recognised payment FMIs (including STRATE) to conduct self-assessments, which were reviewed by our National Payment System Department prior to engagement with the FMIs on appropriate action going forward.

In conclusion, let me reiterate that as the SARB, we are pleased with the industry's collaboration and commitment to align the equity market to international standards, and allow me to once again convey my appreciation to all stakeholders that had to play a constructive role since the inception of the project in 2013 right up to ensuring smooth execution in connection with the recent launch.  As previously stated, the shorter settlement cycle will reduce systemic risk and release funds earlier into the market, thereby increasing liquidity for local and international investors which will translate to growth in our capital markets and also enhance public confidence.

With these words, I would like to thank you all very much.