

What is it Settlement?

When you buy or sell shares on the market through your broker you contract to exchange the legal ownership of those financial products for money. This exchange is called settlement. In today's market, standard settlement occurs three business days after a trade takes place. This is called T+3 (trade date plus 3 business days). The proposed change to T+2 will impact the settlement process as demonstrated in the following diagram:

Example of a Security Settlement Cycle (Share)



Once a trade is executed, your broker or agent will then proceed to make preparations for settlement of the trade. If you have sold shares, your broker will transfer the shares out of your name in preparation for settlement. On the morning of settlement your broker will deliver the shares to the JSE for market settlement. If you have bought shares, your broker will make preparations to fund the purchase on the settlement day. All settlements are done through the Depository Unit operated by Jamaica Central Securities Depository, a subsidiary of the Jamaica Stock Exchange.

What is changing?

The settlement period for shares traded in Jamaica will be shortened by one day. Settlement of your trade will occur two business days after the day a trade takes place. This settlement period is called T+2 (trade date plus 2 business days). The change to T+2 settlement is proposed to take place for trades conducted on or after Thursday, 11th December 2017, with the date to be confirmed by JSE. This change will affect all financial products traded on a securities market in Jamaica, including shares.

Why the change?

Faster settlement means quicker access to your money after selling your shares and earlier delivery after purchasing shares. It is also in keeping with international best practices.

Who will this affect?

1. Licensed Security Dealers, who buy and sell shares on behalf of the client.
2. Investors, who buy and sell shares.
3. Banks, Credit Unions and other Financial Institutions that use shares to secure loans.
4. Cooperate Secretary, Registrars and Transfer Agents that keep record of securities.

How will this change impact corporate actions such as dividends?

Due to the shortening of the settlement period to 2 business days, The period between two important dates for corporate actions the Ex Date and the Record Date, will also be reduced. When the settlement period becomes T+2, the Ex period for corporate actions will be reduced from 3 business days to 2 business days (inclusive of the Ex Date and the Record Date). Using dividends as an example, this means that if you buy shares before the ex date you will receive the dividend. If you buy shares on or after the ex date you will not receive the dividend.

Your arrangements with your Broker

T+2 means one day less for both parties of the trade, to provide either shares or cash to settle the trade. Some tips to help make things as smooth as possible:

- Have an established relationship with a Broker.
- Ensure that your share holdings are in your JSE Depository account.
- Keep your share details handy.
- Ask your Broker to send contract notes electronically - confirmations by mail should be avoided
- Fund your share purchases efficiently - your broker may get in touch with you to set out the range of funding arrangements they will support under T+2. For example, the use of cheques for payment may no longer be viable, as the length of time required to clear the funds may exceed the settlement period. Your Broker may suggest the use of Electronic Funds Transfer (EFT) or Direct Debit or a Cash Management Account. Your Broker may also require an earlier deadline for the funds to be paid. It is important for you to work with your Broker to agree on the best funding arrangements that will ensure settlement occurs on time and therefore reduce any potential failed settlement costs.

Sample process for a share purchase on the day before the ex-date compared to the corporate action timeline

