CORPORATE ACTIONS
TAKE-UP PROCESSING
and the Impact to CGT

October 2015

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1   INTRODUCTION

Since the introduction of Capital Gains Tax (CGT), BDA has not been enhanced to correctly process and report on Rights Take-up events for CGT purposes.

This document deals with the current processing in BDA for a Take-up and the new proposed processing to address the inaccurate reporting for CGT purposes. This document does not cover or explain the business reasons why a Rights Issue or Take-Up is done and focuses purely on the accounting entries in BDA and the CGT impact.

For the purpose of this document it is assumed that the user has already completed the Take-up or Lapse activities with-in the BDA Corporate Action System (B5ACICS). This document will therefore deal with the resultant transactions processed to a client's account in the sub ledger of BDA.

2   VERSION CONTROL

Version	Author	Date	Reason for changes
V0.1	Chris Grove	2 January 2014	Document Creation
V0.2	Barbara Teasdale	7 October 2015	Rebranded

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4 CORPORATE ACTIONS - TAKE-UP PROCESSING

4.1 Current Processing

When a Take-up is processed on Record Date (RD), it is important that the additional quantity and value of the amount paid for the shares taken up are processed to the client and/or proprietary accounts. BDA currently deals with the accounting entries to reflect a take-up with 2 separate BDA transactions as follows:

- An Opening ex Rights (DE) transaction records the opening of a new position in the sub ledger at zero value
- A Journal (J) transaction records the take-up money required to pay for the take-up.

Important to note is that there is no link between these two BDA transactions on a sub ledger account. End users are therefore not able to easily tie the 'DE' transaction back to the Journal transaction in order to match the quantity to the take-up amount.

When Capital Gains Tax (CGT) statements are produced, BDA does not reflect accurately on the processing of a Take-Up. The problem arises when a client who has taken up additional shares, dispose of the asset. When assets are disposed, it has to be reported for CGT purposes. Due to the additional holding being created at zero value (as explained earlier in this document), it does not allow end users to accurately calculate any potential gain or losses from the original Take-Up and when the assets are disposed. This is further complicated if there are other acquisitions or disposals of the same asset.

Current batch timeline for BDA transactions:

1) 'DE' transactions are created during EOD batch on RD age dated to the Issue date??
2) Journal transactions are created during EOD batch on RD age dated to the Pay Date??

4.2 Proposed Processing

In order to ensure correct CGT reporting can be achieved a number of different scenario's need to be considered:

- Scenario 1 - Client takes up additional NPL's.
- Scenario 2 – Client sells NPL shares and the sale of NPL's settles before LDT of the Take-Up event.
- Scenario 3 – Client sells NPL shares and the sale of NPL's settles after LDT of the Take-Up event.
- Scenario 4 – Client has no NPL allocation, however buys NPL's in the market and takes up these NPL's purchased. This purchase transaction settles prior to LDT of the Take-Up event.
- Scenario 5 – Client has no NPL allocation, however buys NPL's in the market and takes up these NPL's purchased. This purchase transaction settles after LDT of the Take-Up event.
- Scenario 6 – Client has original allocated NPL shares and purchases more NPL's in the market which settles before LDT of the Take-Up event.
- Scenario 7 – Client has original allocated NPL shares and purchases more NPL's in the market which settles before LDT of the Take-Up event.

In considering a solution to account and process a Take-Up events for each of the above scenario's, it is important to ensure the proposed solution will result in the correct updating of the holding and cost associated with each transaction. This is critical to enable correct CGT reporting on gain or losses.

- **Scenario 1 - Client takes up additional NPL's.**

  When the additional holding is created to the sub ledger account, the value of the Take-up amount must be incorporated into the transaction as the deal amount that reflects the Take-Up.

  It is recommended that when a 'DE' transaction is created from a Take-up event, the 'DE' transaction is created with the value of the Take-up amount. The value is calculated based on the take-up price and quantity of the additional shares been taken up.

  By incorporating the value on the 'DE' transaction, the journal transaction becomes redundant.
  The use of the Designation code can remain as is currently used for a Rights Take-Up.

- **Scenario 2 – Client sells NPL shares and the sale of NPL's settles before LDT of the Take-Up event.**

  In this scenario no processing will be required as the client sold the NPL's and will not have any holdings on the account on RD of the Take-Up event.

  For CGT purposes, the original allocation of the NPL at zero value must be reported with the sale of the NPL and amount sold.

- **Scenario 3 – Client sells NPL shares and the sale of NPL's settles after LDT of the Take-Up event.**

  In this scenario, no processing will be required as the client have sold the NPL's and will not have any holdings on RD of the Take-Up event.

  Same as 2 above

- **Scenario 4 - Client has no NPL allocation, however buys NPL's in the market and takes up these NPL's purchased. This purchase transaction settles prior to LDT of the Take-Up event.**

  In this scenario, it is important to keep in mind that the client paid for the NPL's purchased in the market and that there is a cost associated to the purchase transaction. One then also needs to keep in mind the amount paid as part of the take-up for the additional shares purchased. The Frozen file will reflect the holding of NPL's purchased.

  For purpose of an example, client purchased 200 ABCN @ R1.00 a share with total settlement amount of R215.00. The R215.00 includes any charges and/or commissions charged. The take up price = R1.50 per share.

The client will also pay R300.00 to take up the 200 NPL's purchased.

As the purchase of the NPL will settle as part of the settlement cycle, the client will automatically be debited with the settlement amount of the purchase. When the Take-Up event is processed on RD, the new holding will be created in ABC shares. A 'DE' transaction will be created for 200 ABC shares with a deal amount = R300.00. (R300.00 is calculated as 200 shares at R1.50).

For CGT purposes, the 200 shares in fact cost R215.00 + R300.00 take up amount = R515.00. If the client disposes of this asset, then CGT must be calculated against the cost of R515.00 for these 200 shares.
The complexity here is that the R215.00 cost will be reflected on ABCN shares where-as the take-up cost of R300.00 will be reflected on ABC shares. ABCN will have different ISIN and Alpha code to ABC. For CGT purpose, gain or losses are calculated for assets with the same instrument code i.e. same ISIN or Alpha code.

On the Broker Header Maintenance Screen (BRHDR), the NPL alpha code and resultant Alpha code is displayed.

A solution needs to be investigated where for CGT reporting purposes only, the cost when purchasing NPL's, is added to the resultant holding created from the TU processing i.e. the purchase amount on the NPL must be added to the cost of the 'DE' transaction created.
When a purchase is transacted on an NPL in the market, the new purchase is updated onto the Frozen file.

As a possible solution, if the purchase transaction can be 'flagged', it would make it easier to identify when CGT statements are created.

- **Scenario 5 – Client has no NPL allocation, however buys NPL's in the market and takes up these NPL's purchased. This purchase transaction settles after LDT of the Take-Up event.**

  Same as 4 above

- **Scenario 6 – Client has original NPL's allocated and purchases more NPL's in the market which settles before LDT of the Take-Up event.**

  For the purpose of an example, client has 1000 ABCN as allocated. Client then purchased another 200 ABCN in market @ R1.00 per share i.e. total purchase price = R215.00 including various charges and/or commissions.
  Take-up price for ABCN = R1.50 per share.

  The processing will be a combination of scenario 1 and scenario 4. Scenario 1 will apply to the 1000 ABCN NPL's and scenario 4 to the additional 200 NPL's purchased.

- **Scenario 7 – Client has original NPL's allocated and purchases more NPL's in the market which settles before LDT of the Take-Up event.**

  Same as 6 above

4.3 Impacts to Consider

It has been required although very seldom, that the take-up amount be released before the holding is created. With the current method of processing, this can be achieved as two separate transactions are used to create the holding vs. the take up amount. If however the take up processing is changed as proposed in this document to only create 1 transaction, it will not be possible to release the take up amount earlier than when the holding is created.

4.4 JSET and Settlements

Currently, when the Journal is created for the take-up amount, the sub ledger account Cash balance is debited. If any controlled clients have funds at JSET, the journal transaction to debit the clients cash balance results in funds being swept back from JSET to the member's current bank account.

As the Journal transactions will not be created anymore, when the 'DE' transaction is created during EOD batch on RD, the 'DE' transaction needs to be automatically settled.

Client accounts – The 'DE' transaction must be settled with-out any Freeing of the purchase required. This settlement will then still result in the client Cash balance been debited and funds been swept back from JSET to the member's current bank account for the value of the deal amount.

Although this transaction is created during EOD batch on RD, the 'DE' transaction that must automatically be settled will be age dated to RD +1. The funds that will be swept back will therefore be value dated for RD +1. The timing of this sweep must ensure the member is not out of pocket.

Proprietary accounts – Proprietary accounts do not settle in BDA and the additional shares taken up, will be reflect as Float scrip.

When the 'DE' transactions are created as 'DE' Purchases to Client and/or Proprietary accounts in the sub-ledger, a 'DE' Sale will be created to account 40162 with the value of the members total Take-up. This value will effectively balance back to the amount the member paid to the issuer for the Take-Up.

This 'DE' Sale transaction must also be automatically settled and reflected as Float.

5 T+3 SETTLEMENT

5.1 Securities and Funds Availability (SFA) for T+3 phase 2.

When a Take-up has been updated on the frozen file, the value of the take-up must be included in any SFA calculations from that point onwards. Similarly, if a user has elected to take-up, however changes the take-up prior to the actual processing on RD EOD batch, new SFA calculations will need to be submitted to ECS to ensure correct risk management and margining is calculated.

Any updates made to the frozen files in a T+5 settlement cycle during an on-line day, will only be updated in SFA calculations during batch.

Note: An investigation is needed into what ECS will do if, on T+3 a calculation is done based on what has been updated by a user and then the user, on T+4 or even early on T+5, changes the take-up resulting in a different deal amount for the DE transaction to be settled.

5.2 Reports

Need to investigate if 'DE' transactions must be included in PAUDSW as a deal Settlement as is currently done for all deals that settle.

'DE' transactions must not be included the reports generated to CSDP's for Funding purposes.

5.3 Dissemination

No impact is considered as 'DE' transactions are already included as part of the BDA dissemination file. End users will need to be informed that the 'DE' transaction will now include the Take-up value and will be reflected as the deal amount.

This may have an impact on end users and how they have developed their own internal systems.

6 GLOSSARY

Terms	Description
CGT	Capital Gains Tax
BDA	Broker Deal Accounting System
CSDP	Central Securities Depository Participant
RD	Record Date
EOD	End of Day
SFA	Securities and Funds Availability calculation
JSET	JSE Trustees
JSE	Johannesburg Stock Exchange (JSE Limited)
NPL	Nil Paid Letter (Allocation of rights to a shareholder)
LDT	Last Day to Trade

Note: BDA Function codes and Transaction codes are not covered in the Glossary.

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