

# The Stock Exchange Corner

## Settlement of Trades

*by George Edwards*

Last week we looked at how investors may purchase or sell shares on the Stock Market. Today, we shall look at how these trades are settled.

### **Settlement of trades**

Prior to the opening of the Stock Exchange transactions in securities were exclusively “client side” between investors. Now that the Stock Exchange has begun its operations there will be settlement between investors, mediated through Brokers and registrars i.e. “market side” settlement.

### **Client side settlement**

Without a stock exchange, settlement of transactions is either between Brokers and investors or between investors themselves with the assistance of the company secretaries or registrars. The Broker or registrar typically acts for both buyers and sellers. They collect the stock certificate from the selling investor and pass it, along with a transfer form with details of both buyer and seller, to the company registrar for deletion of the seller’s holding from the shareholders list, for entry of the buyer’s holding on the list and for issuance of a new certificate to the buyer. Payment arrangements are at the discretion of the Broker or registrar. Typically, money would be collected from the buyer in advance and a stock certificate with a transfer form would be obtained from the seller either (a) after the Broker has matched a buyer’s order with the seller or (b) on delivery of the new stock certificate by the registrar.

### **Market side settlement**

Stock markets cannot rely on client side settlement alone because it’s too slow and investors who trade in a stock market would want to be able to sell stock that they would have bought without delay, without having to wait for certificates to be delivered.

In market side settlement the Brokers settle with one another on a settlement date determined by the market rules and in accordance with the principle of delivery versus payment (stock must only be delivered when money is received or visa versa). This is why fulfilment of settlement between Brokers would require only stock transfer forms and cash but not stock certificates which will follow a different path and need only be involved in fulfilment of client side settlement. When there is a central market the sequence of events is as follows: client gives order to broker with cash or stock; broker executes order with another broker in the market, brokers settle between themselves on settlement day, brokers settle with their clients thereafter.

In Guyana, current Stock Exchange rules demand that market-side settlement takes place within five (5) working days after the trade date, usually referred to as T+5. The transaction is complete when the buyer has received the new share certificate and the seller has received payment less the broker's fees.

In some countries, there are facilities for holding securities which enable share and bond transactions to be processed by book entry. These are called Central Depositories. These facilitate the change of ownership of securities electronically without the need for movement of the share or bond certificates. The brokers deposit the share and bond certificates with the Central Depository and on settlement day the Central Depository will electronically settle all purchases and sales of shares and bonds without physically moving the certificates. This arrangement allows settlement of trades to take place in a shorter period of time. The Depository will confirm how many shares are being held for an investor at his/her request.

In Jamaica, the Jamaica Central Securities Depository, which is a wholly owned subsidiary of the Jamaica Stock Exchange, facilitates settlement in three (3) working days after trade (T+3).

**Next week: An explanation of the Market Journal**

**N.B. – More information may be accessed on our website: [www.gasci.com](http://www.gasci.com)**