South Africa (ZA) – Return of Funds for Reinvestment

There are events where the investor’s cash distribution (dividend/income) can be reinvested by either receiving additional securities (or the value per unit increases - ETFs). The reinvestment could be at the election of the investor or it could be a term of the instrument for distributions to be automatically reinvested, i.e. the event could be CHOS or MAND.

The current process is for the CSD to pay gross to CSD Participants who will deduct tax, i.e. at the default rate, reduced rate or exempt, and return the net dividend to CSD for reinvestment. The return of funds to the CSD is a manual process and the market is looking to automate it. The market is reluctant to develop a proprietary message and therefore is looking to utilize an existing message type to trigger the return of funds. The message we were looking at was the MT565 however the market is cautious to not misuse SWIFT message types. The use of the MT565 may be an option on an elective event however it may not be all that appropriate for a mandatory event.

We would therefore very much appreciate being guided whether other markets experienced the same challenge and if they resolved it, could they share their solution.