

Directive of Strate Proprietary Limited

Special Gazette No S12-2016

Strate Directive SA.2

Requirements for Financial Soundness





To cater for the requirements of financial soundness which a Participant must meet and maintain, to be accepted as, or to remain, a Participant

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1. INTERPRETATIONS AND DEFINITIONS¹

In this Strate Directive, any interpretation, word or expression to which a meaning has been assigned in the Strate Rules bears the meaning so assigned to it.²

‘Full Participant’ means a Participant who opens and maintains Securities Accounts on behalf of Clients;

‘Banks Act’ means the Banks Act, No 94 of 1990;

‘Bank’ means a public company registered in terms of the Banks Act;

‘Corporate Participant’ means a Participant who opens and maintains Securities Accounts only for Securities owned by it;

‘Branch’ means a foreign institution authorised to conduct the business of a Bank in the Republic in terms of the Banks Act;

‘Non-Bank’ means a person that has not been registered as a Bank (or Branch) in terms of the Banks Act; and

‘STRATE Supervision’ means the supervision division of Strate headed by the Head of Supervision and set up by the Controlling Body in terms of the Strate Rules.

¹ Amended with effect from 14 July 2014

² CSD’ changed to ‘Strate’ and ‘Rules’ and ‘Directives’ changed to ‘Strate Rules’ and ‘Strate Directives’ throughout the document with effect from 1 December 2016



2. FINANCIAL SOUNDNESS REQUIREMENTS

To be eligible to be accepted as, or to remain, a Participant, a person must satisfy the Controlling Body that it meets the participation eligibility requirements set out in the **Strate** Rules, one of which is being able to evidence financial soundness. Participants will be required to comply with the financial soundness requirement/s applicable to them, as set out below:-

| Category | Applicant | Market | Requirement(s) |
|-----------------------|---------------------------|-----------------------------------|---|
| Full Participant | Bank (including Branches) | Equities, Bonds and Money Markets | No capital requirements other than those already imposed in terms of the Banks Act. |
| | Non Bank ³ | Equities, Bonds and Money Markets | A Base requirement (as determined in 2.1 below) plus, A Custody Risk requirement (as determined in 2.2 below). |
| Corporate Participant | Bank (including Branches) | Equities, Bonds and Money Markets | No capital requirements other than those already imposed in terms of the Banks Act. |
| | Non Bank ¹ | Equities and Bonds | A Base requirement (as determined in 2.1 below) plus, A Custody Risk requirement (as determined in 2.2 below). |
| | | Money Markets | No capital requirements. |

³ A Foreign Institution which has not been registered as a Branch in terms of the Banks Act shall, for the purposes of this directive be classified as a Non-Bank



2.1 Base Requirement

The Base Requirement (“BR”) is the amount required to meet the Participants operating expenditure requirements for a period of 6 (six) months. The amount of this BR shall be agreed with STRATE Supervision.

An illustrative example of the computation of the BR is set out in the appendix.

In order to comply with this requirement the Participant must provide Strate with a bank guarantee:-

- for an amount equal to no less than the BR;
- issued by a local Bank acceptable to Strate;
- issued in accordance with wording approved by Strate;
- have a minimum duration of 12 (twelve) months (renewable);and
- be subject to a minimum cancellation period of 3 (three) months.

2.2 Custody Risk Requirement (“CRR”)

The holding of securities in custody introduces risk for which a Participant is required to hold capital. The amount of capital required is based on the market value of assets held under custody (“AUC”) by that Participant.

An illustrative example of the computation of the CRR is set out in the appendix.

In order to comply with this requirement a Participant must on admittance, and at all times thereafter, hold sufficient Adjusted Liquid Capital (“ALC”) to meet the CRR computed as applicable to it.

The computation of the ALC must be agreed with the Head of STRATE Supervision at the time of the initial application. Alterations to qualifying sources of capital may, in consultation with STRATE Supervision, be made from time to time.

2.2.1 Computation of CRR

A Participants’ total CRR shall be not less than the sum of the following:

A minimum of R3 million;

0,1% of the market value of assets under custody where this value exceeds R300 million but is less than R2 billion;

0,01% of the market value of assets under custody in excess of R2 billion.

For the purpose of this Strate Directive, assets under custody shall include all Equities, Bonds and/or Money Market securities held by the Participant.



2.3 STRATE Supervision requirements

Participants are obliged to confirm to STRATE Supervision, on a frequency and in a format determined by the Head of STRATE Supervision from time to time (refer to paragraph 3 Disclosure Template), their BR and CRR computations (as applicable).

To the extent that a Participant is found to be in breach of the minimum requirements stipulated by this Strate Directive, STRATE Supervision shall, in accordance with the Strate Rules, agree with the Participant the actions required to remedy the breach.

Failure to satisfy these requirements may result in disciplinary action being taken in accordance with the Strate Rules.

2.4 Exclusions

The Controlling Body may, at its discretion, exempt any institution from the provisions of this **Strate** Directive.

Exclusions currently include:

- 2.4.1 The South African Reserve Bank; and
- 2.4.2 The National Treasury (established under section 5 of the Public Finance Management Act, 1999).



3. DISCLOSURE TEMPLATE

In terms of paragraph 2.3 of Strate Directive SA.2 and the STRATE Supervision requirements, the below template must be completed and submitted by a Participant and the appointed Strate Compliance Officer (or designated Alternate), for the period stipulated by the STRATE Supervision. Template is to be returned to strate-supervision@strate.co.za.⁴

Full Name of Participant: _____

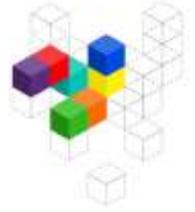
Disclosure for the period ending: _____

Section 1

Please tick the relevant block below indicating the applicable category/s of participation.

| | | Market | Category of participation (please tick relevant block) |
|-----------------------|---------------------------|---------------|--|
| Full Participant | Bank (including Branches) | Equities | |
| | | Bonds | |
| | | Money Markets | |
| | Non Bank | Equities | |
| | | Bonds | |
| | | Money Markets | |
| Corporate Participant | Bank (including Branches) | Equities | |
| | | Bonds | |
| | | Money Markets | |
| | Non Bank | Equities | |
| | | Bonds | |
| | | Money Markets | |

⁴ Amended with effect from 14 July 2014



Section 2

A. Base Requirement Declaration

I/we ____ (full name(s)) _____ in my/our capacity(ies) as _____ (position(s)) confirm that the bank guarantee issued by _____ (name of Bank) _____ in favour of Strate (Pty) Ltd, in the amount of R _____, has been issued in accordance with the requirements stipulated in Strate Directive SA.2.⁵

Signature: _____

Date: _____

B. Illustrative Operating Expenditure calculation

Complete the table below listing those recurring operating expenses necessary to sustain the custody operations of the Participant. Expenditure categories and actual amounts for the six month period immediately preceding this Declaration should be included.

This list does not purport to be exhaustive and rows (per additional expenditure category) may be inserted as required.

| Expense Category | Amount |
|---|---------|
| Accounting and secretarial or other services, charges, etc. | |
| Auditors remuneration | |
| Insurance | |
| IT infrastructure (Hardware and Software) licensing and maintenance costs | |
| Machine and other leasing charges | |
| Motor vehicle expenses | |
| Office rental | |
| Municipal charges (if separate from Office rental) | |
| Printing and stationery | |
| Salaries and wages | |
| Strate charges and fees | |
| Tax obligations | |
| Telephone, Postage etc | |
| Other | |
| <u>Total operational expenses for 6 months</u> | R _____ |

⁵ Amended with effect from 14 July 2014



NOTE: In determining operating cost amounts, the following principles shall be applied:–

- (1) Depreciation and profits or losses on sales of fixed assets are non-cash items and hence shall not be taken into account.
- (2) Non-contractual payments by way of profit shares or performance related bonuses shall be excluded.
- (3) Non-recurring items may be excluded, subject to approval of the Head of STRATE Supervision.

Section 3

A. Illustrative Custody Risk Requirement (“CRR”) computation

State the market value of assets under custody (“AUC”) as at the last day of the month to which this Declaration applies:

| | Full Participant | Corporate Participant |
|---------------------------------|------------------|-----------------------|
| Equities | 0 | 0 |
| Bonds | 0 | 0 |
| Money Market | 0 | |
| Total | 0 | 0 |
| Minimum Capital requirement (A) | 0 | 0 |



B. Illustrative Adjusted Liquid Capital (“ALC”) computation.

The purpose of this calculation is to determine the liquid capital available to comply with this Directive.

The table below illustrates how the ALC is computed:-

| | | |
|---|---|---|
| Ordinary share capital | 0 | |
| Preference share capital | 0 | |
| Share premium account | 0 | |
| Reserves | 0 | |
| Audited retained earnings (or accumulated losses) | 0 | |
| Unaudited profit (or loss) | 0 | |
| Owners’ equity | 0 | 0 |
| Add:- | | |
| Subordinated loans to the company | 0 | |
| Guarantees available | 0 | |
| Total capital resources | 0 | 0 |
| Subtract:- | | |
| Intangible assets | 0 | |
| Guarantees provided | 0 | |
| Capital subject to preferential claims | 0 | |
| Available capital resources | 0 | 0 |
| Subtract:- | | |
| Illiquid assets | 0 | |
| Fixed assets, net of related secured loans | 0 | |
| Investments in unlisted securities | 0 | |
| ADJUSTED LIQUID CAPITAL (B) | 0 | 0 |

C. Confirmation of adherence to minimum requirements:

ALC (B): R _____

Less

CRR (A): R _____

Surplus / (Deficit): R _____ available to support CRR.



D. Declaration:

I / we hereby confirm the above information to be true and accurate.

Name of Authorised Participant representative:

Position:

Date:

Signature:

Name of Strate Compliance Officer or Alternate:

Name:

Date:

Signature: