ASSESSMENT REPORT ON THE OBSERVANCE OF THE CPSS-IOSCO PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES BY STRATE (PTY) LIMITED AS A CENTRAL SECURITIES DEPOSITORY

April 2014

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ASSESSMENT REPORT ON THE OBSERVANCE OF THE CPSS-IOSCO PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES BY STRATE (PTY) LIMITED

I. Executive summary

The assessment conducted is based on a self-assessment performed by Strate (Pty) Limited ("Strate") in terms of their observance with the Principles for Financial Market Infrastructures ("PFMIs") which were issued in April 2012 by the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organisation of Securities Commissions ("IOSCO").

The Financial Markets Act, Act No. 19 of 2012 ("FMA") defines a central securities depository ("CSD") as follows:

"means a person who constitutes, maintains and provides an infrastructure for holding uncertificated securities which enables the making of entries in respect of uncertificated securities, and which infrastructure includes a securities settlement system".

The PFMI's, issued in April 2012 define a CSD as follows:

"An entity that provides securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions, and plays an important role in helping to ensure the integrity of securities issues (that is, ensure that securities are not accidentally or fraudulently created or destroyed or their details changed)."

The Financial Services Board ("FSB") is responsible for ensuring that the FMIs under its supervision, i.e. central securities depositories, clearing houses, central counterparties and trade repositories are in compliance with the applicable principles.

Strate is licensed as a Central Securities Depository ("CSD"). Strate provides electronic settlement for securities - including equity, bond and derivative products, such as warrants, Exchange Traded Funds ("ETFs"), retail notes and tracker funds for the Johannesburg Stock Exchange ("JSE"), money market securities for the South African market and equities for the Namibian Stock Exchange.

Strate provides electronic settlement for equities, bonds, money market securities, derivative products (such as warrants), ETFs, and Tracker Funds for the JSE. Strate also provides settlement services for equities on behalf of the Namibian Stock Exchange as well as settlement and post-trade services for unlisted companies. As part of Issuer Servicing, Beneficial Ownership ("BND") disclosure is provided on a monthly or on a weekly basis for equities and bonds to issuers and /or their appointed agents.

The FSB has allocated the following ratings to Strate based on the self-assessment conducted by them:

- Of the 24 principles included in the CPSS-IOSCO "Principles for Financial Market Infrastructures" report, only 17 are considered relevant to Strate due to the nature of its operations.
- Having completed the assessment, Strate is rated as "Observed" on 14 of these principles, indicating that any identified gaps and shortcomings are not issues of concern and are minor, manageable, and of a nature that the FMI could consider taking up in the normal course of its business.
- On principles 3, 13 and 15, Strate has been rated as broadly observed, indicating that the assessment has identified one or more issues of concern that the FMI should address and follow up on within a defined timeline.

The following key findings were identified:

- Although an internal simulation exercise has been conducted, it is clear that this needs to be extended to include the JSE (and ultimately also the CSD Participants).
- Although work has been done in the formulation of Recovery and Resolution plans to ensure that the CSD is able to withstand general business risk shocks, these still need to be captured in a formally documented plan.

In preparing for compliance with the relevant principles Strate undertook several initiatives. The table below sets out the work done by Strate to ensure compliance with the PFMI's.

Work undertaken to close gaps in terms of the CPSS-IOSCO Principles for Financial Market Infrastructures:

Strate Rules have been revised to make provision for, amongst others:

- netting arrangements;

- settlement finality; and
- insolvency and loss sharing rules.

II Introduction

- **Assessor:** The assessment was conducted by the FSB, the securities regulator in South Africa. The assessors were members of the Capital Markets Department comprising of Ms Elmarie Hamman, Ms Lorato Phaleng, Ms Shamila Keshav, Mr Masenye Masemola, Ms Nobambo Mlandu, Ms Happy Busakwe and Ms Odirile Ramono.
- **Objective of the assessment:** The main objective of the assessment was to review the self-assessment conducted by Strate.
- **Scope of the assessment:** The assessment conducted was a review of the self-assessment conducted by Strate on the applicable PFMI's.
- **Methodology of the assessment:** The assessment conducted is a review of the self-assessment conducted by Strate on all 24 PFMI's. Seven of the 24 principles have been identified as not being applicable to Strate. These include principles 5, 6, 10, 14, 19, 20 and 24. The reasons are as follows:

  Principle 5 – Strate does not carry credit risk exposure in respect of the transactions it settles and does not, therefore, require collateral to manage either its own or its participants' credit exposures.

  Principle 6 – Strate does not carry credit risk exposure in respect of the transactions it settles and is not, therefore, required to make use of a margin system.

  Principle 10 – Strate is no longer involved with physical deliveries. The Bond certificates previously held in immobilised form have all since been fully dematerialised. Certificates that still exist in the South African market are all handled outside of the CSD system.

  Principle 14 – Notwithstanding the fact that this principle applies primarily to a CCP which Strate is not, the issues of segregation and portability have been recognised and Strate has already introduced specific rules around the opening and management of Segregated Depository Accounts in the CSD to assist in the enhancement of Segregation and Portability in the CSD environment with the ultimate goal of improving the protection afforded investors.
  No rating has, however, been applied to this Principle given the CCP focus.

  Principle 19 – All Participants in the CSD are bound by the CSD Rules and access to the CSD systems is restricted to licensed Participants only. No tiered participation arrangements have been identified and, as a result, no rating has been provided in respect of this principle.

Principle 20 – Strate currently has no links to other FMI's other than its operational link to the SA Reserve Bank for the purposes of facilitating cash settlement.

Principle 24 – Strate is not currently licensed to provide TR services to the market.

Sources of information used are listed in Annexure C of this report.

III Overview of the payment, clearing, and settlement landscape

The National Payment System (NPS) is regulated by the National Payment System Act, No. 78 of 1998 (hereinafter referred to as "the Act"). The Act provides, *inter alia*, for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in the Republic of South Africa. It caters for payments made in Rand (ZAR) for settlement within the borders of South Africa.

The **payment network** can be described as the systems and communications mechanisms put in place by commercial banks to provide their customers with the facilities and channels to effect payment. These networks include the bank-owned automated teller machines (ATMs), Internet banking facilities, branch networks and payment instruments. The banking industry has been encouraged to develop payment instruments. These include a variety of payment instruments such as electronic funds transfer (EFT) mechanisms, debit orders, debit cards and credit cards.

"Clearing' is defined in the NPS Act as the exchange of payment instructions. The *South African National Payment System Framework and Strategy document – 1995* defined 'clearing' "as the physical exchange of payment instructions between the payer's bank and the payee's bank (or their agents)". Traditionally, only banks were allowed in the clearing network. As the payment system evolved and became more sophisticated, more non-banks began to participate in the payment system and the central bank decided to re-evaluate participation criteria in the clearing environment. Changes proposed to the NPS Act would allow the central bank to designate non-participants to clear in their own name in the clearing network. Settlement, however, will continue to be the exclusive domain of the settlement system participant banks.

Also participating in the clearing domain is the PCH system operators, also known as ‘clearing houses’. A ‘PCH system operator’ is defined in the NPS Act as a person that clears on behalf of two or more settlement system participants.

The core of the South African **settlement system** is the SAMOS system, which is owned and operated by the central bank. The SAMOS system was introduced on 9 March 1998. SAMOS brought domestic interbank settlement practices in line with international best practice and signalled the start of a new era for payment practices in South Africa. To become a settlement system participant, an institution must be either the central bank; a commercial bank registered in terms of the Banks Act, No. 94 of 1990; a mutual bank registered in terms of the Mutual Banks Act, No. 124 of 1993; a branch of a foreign institution or a designated settlement system operator such as the Continuous Linked Settlement (CLS) system. Once the Co-operative Banks Act has been implemented, a co-operative bank that meets the necessary requirements may also become a settlement system participant. A settlement system participant has an account at the central bank from which interbank settlement obligations are settled. Furthermore, the settlement system participants need to lodge collateral at the central bank, as prescribed by the central bank. These requirements are necessary to provide sufficient liquidity and to ensure the smooth functioning of the settlement system.

The legal framework is grounded in the Constitution and the Promotion of Administrative Justice Act, 2000 as well as the rule of law and the principles of common law. Self-regulatory organisations, such as exchanges and clearing houses, are also subject to the provisions of the FMA.

Strate is a public company, owned by the Exchange (44%) and a number of Bank Participants (collectively 56%) and has adopted the King III Code of Good Corporate Governance (a globally recognised Code). Strate measures itself against adherence on an on-going basis. The Board of Directors operates under a comprehensive Board Charter that sets out the duties and responsibilities of the Board (and its various committees) in detail.

Strate is currently the only licensed CSD in South Africa. Securities (equities, bonds, money market securities and warrants) are traded mainly on-exchange by investors. The trading of these securities, along with certain corporate actions executed by listed entities, are the main reasons for changes in the records of ownership which are maintained by Strate. These changes are simplistically referred to as 'settlements' and Strate’s core purpose is to facilitate the settlement processes. In this process the money and securities are simultaneously transferred between parties. This is done electronically as they buy and sell securities.

Legislative Requirements for Clearing and Settlement

The FMA defines clearing as follows:

''clear'', in relation to a transaction or group of transactions in securities, means—

(a) to calculate and determine, before each settlement process—

(i) the exact number or nominal value of securities of each kind to be transferred by or on behalf of a seller; and

(ii) the amount of money to be paid by or on behalf of a buyer, to enable settlement of a transaction or group of transactions; or

(b) where applicable, the process by means of which—

(i) the functions referred to in paragraph *(a)* are performed; and

(ii) the due performance of the transaction or group of transactions by the buyer and the seller is underwritten from the time of trade to the time of settlement,

The FMA prescribes the requirements for clearing and settlement:

- In terms of Section 8(1)(i) of the FMA an applicant for an exchange licence and a licensed exchange must make arrangements for the efficient and effective clearing and settlement of transactions effected through the exchange and for the management of settlement risk.

- In terms of Section 10(2)(i) of the FMA an exchange must:

  (i) must make provision for the clearing and settlement of transactions in listed securities effected through the exchange;

  (ii) may appoint an associated or independent clearing house licensed under Chapter V to clear or settle transactions or both clear and settle transactions on behalf of the exchange;

  (iii) must consult with an appointed associated clearing house when making or amending the exchange rules in accordance with which the associated clearing house will clear or settle transactions on behalf of the exchange.

- In terms of Section 17 (2)(e) of the FMA, if the exchange has not appointed a clearing house for the clearing of transactions effected through the exchange, the exchange rules must provide —

  (i) for the determination as to which transactions will be cleared by the exchange;

(ii) for the circumstances in which the exchange may refuse to clear a transaction in securities which would otherwise be cleared in terms of the rules in subparagraph (i);

(iii) for the monitoring of settlement obligations of authorised users.

- Section 47 of the FMA provides for an application for a clearing house licence, whilst Section 48 deals with the requirements applicable to an applicant for a clearing house licence.

IV Summary assessment of observance of the principles

Principle-by-principle summary	
Principle 1 – Legal basis *An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.*	
Strate's key practices and achievements	a. Strate operates as a Central Securities Depository for Equities, Bonds and Money Market securities as well as a Clearing House for Bonds within a clearly defined and robust legal framework. b. Strate operates solely in South Africa under licences granted by the Registrar of Securities Services (in terms of the FMA) in respect of its CSD and Clearing House functions and the Payments Association of South Africa (in terms of the National Payments System Act) in respect of its Payment System Operator licence. c. The Financial Markets Act, 2012 provides for the legal framework for CSDs in South Africa. The Financial Services Board (FSB) has the power to grant, suspend and cancel the licence of the CSD and also oversees its compliance with applicable legislation[1]. d. The CSD is subject to an annual compliance assessment by the FSB in line with the FMA.[2] In terms of section 30 of the FMA, the CSD has the power to issue and enforce Rules and Directives. The Rules and Directives are binding on the CSD, Participants, Issuers and clients.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions.*
Rating of KC 1	**Observed** Legal certainty is addressed in the current South African legislation (Financial

[1] Sections 6(2), 29 and 60 of the FMA refers.

[2] Section 59 of the FMA refers.

	Markets Act, 2012 (FMA) and the Companies Act, 2008) through:- (i) the legal nature and status of uncertificated securities and the conversion into uncertificated securities (section 49 of the Companies Act, and section 33 of the FMA); (ii) the keeping of registers of uncertificated securities to reflect prima facie evidence of ownership (section 50(3)&(4) of the Companies Act); (iii) the deposit of uncertificated securities in the CSD environment and the rights and obligations of the CSD, Participants and Issuers in this regard (section 50(3) of the Companies Act, and sections 30, 32, and 34 of the FMA); (iv) the transfer of uncertificated securities by way of an entry in the relevant account (section 53(2) of the Companies Act, and section 38 of the FMA); (v) the protection of bona fide acquirers of uncertificated securities (section 53(4) of the Companies Act, and section 41 of the FMA); (vi) the exercising of rights, such as dividends and voting rights relating to uncertificated securities (sections 34(2)(h) and 35(2)(h) of the FMA. Also Rule 5.9); (vii) the disclosure of certain information on uncertificated securities to the regulators and other bodies (section 30(2)(s) of the FMA); (viii) the inspection of the register of uncertificated securities (section 52(2) of the Companies Act); (ix) the reconciliation of information on the various accounts in the holding chain (sections 32(2)(k) and 30(2)(n) of the FMA); (x) the withdrawal of uncertificated securities (section 54 of the Companies Act, and section 42 of the FMA). The Financial Markets Act, 2012 brings further legal certainty with regard to the following: (i) effectiveness of transfers and pledges and cessions to secure debt against third parties and creditors (sections 38, 39, 41 and 46) (ii) the legal constructions and ways to give effect to security interests in uncertificated securities (section 39 and 40); (iii) priority Rules where an interest in the same securities has been given (section 40); (iv) the protection of the bona fide transferees of all securities (section 46); (v) attachment can only be made against the relevant party (section 45); (vi) framework for enabling the CSD to CSD links and foreign Participation (section 30(2)(u), 35(4) and 5); (vii) enabling Rules on finality of settlement instructions and revocation after a certain point in time (section 35(2)(w)); (viii) defining Insolvency Proceedings and the commencement thereof and enabling administrative Rules to be published in the Rules to enable the smooth running of the markets (section 1 and 35(2)(x)); (ix) making provision for segregation of securities in own account and account of client (section 37(5) and 32(2)(m)); (x) prohibiting debit balances on Central Securities Accounts and securities accounts (section 35(2)(j)); (xi) enabling more than one holding model, including a transparent central

	Securities Ownership Register (sections 1: definition of "central securities account" and "uncertificated securities register") (xii) enabling netting Rules where applicable (section 35(2)(y)). The FMA also makes provision (through its definition of "Uncertificated Securities" in section 1) for immobilised securities.
Key Consideration 2 (KC2)	*An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.*
Rating of KC 2	***Observed*** As part of its duties Strate has issued a set of Rules (The CSD Rules) which form an overarching structure of regulation in terms of which its licensed Participants (and the CSD itself) are bound. The CSD Rules are further augmented by a set of Directives and together these regulate the functions of the CSD and its Participants. http://www.strate.co.za/regulatory-environment/csd-rules http://www.strate.co.za/regulatory-environment/directives
Key Consideration 3 (KC3)	*An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.*
Rating of KC 3	***Observed*** In terms of section 35(6) of the FMA, the CSD Rules and Directives are binding on Participants and others. Industry standards and market protocols are captured in Directives, where necessary. A Memoranda of Understanding exists between the CSD and the South African Reserve Bank. Legal basis is clear and certain. The CSD is furthermore appointed as the Payment Clearing House System Operator for cash settlements in respect of equities, bonds and money market instruments, in terms of the National Payment System Act, 1998.
Key Consideration 4 (KC4)	*An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.*
Rating of KC 4	***Observed*** The CSD currently only operates in South Africa and its Rules, procedures and contracts are enforceable in the South African jurisdiction and remain enforceable under the South African legislation, even in insolvency. South African Rules, procedures and contracts will only be enforceable in other jurisdictions, if expressly arranged in contracts.
Key Consideration 5 (KC5)	*An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.*

Rating of KC 5	*Not applicable, Strate currently only conducts business in South Africa.*
Principle 2 – Governance *An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.*	
Strate's key practices and achievements	a. Overall governance and direction rests with the Board of Strate which comprises a mix of Executive, Non-executive and Independent industry experts. b. Strate's governance framework encompasses a Memorandum of Incorporation ("MOI") as well as a Board Charter and Terms of Reference for each Board Committee. A Code of Ethics has also been developed for the company. c. The MOI sets out an overarching structure of the governance arrangements in that it deals with matters such as the following: • Incorporation and Nature of the company[3] • Directors and Officers [4]. d. The Board of Directors operates under a comprehensive **Board Charter** that sets out the duties and responsibilities as well as the accountabilities of the Board in detail[5]. This includes such things as: • being the custodian of Corporate Governance in the company; • ensuring that the company is, and is seen to be, a responsible corporate citizen; • providing direction and leadership on the ethical foundation of the company; • contributing towards, and approving the strategy of the company; • identifying key performance and risk areas; • ensuring that the strategy will result in sustainable outcomes; • ensuring the effectiveness of Board Committees; • acting in the best interests of Strate to maximise total economic value to the company; • ensuring that the company complies with relevant laws, rules and standards; • ensuring that real (or perceived) conflicts of interest are appropriately managed; and, • fulfilling the role(s) of the governing body set out in the CSD Rules. e. The Board is supported by three formal sub-committees that assist the Board in the execution of its duties. These are the Audit, Risk and Compliance Committee, the Regulatory and Supervisory Committee and the Remuneration and Nominations Committee. The roles and responsibilities of each committee are fully described in the Terms of Reference for each committee which are reviewed by the Board

[3] Clause 1 of the MOI.

[4] Clause 5 of the MOI which incorporates such matters as Board composition etc.

[5] Section 3 of the Board Charter refers.

	annually. f. In addition, the Board has approved a formal Delegation of Authority which describes those powers delegated to the Executive Committee. This committee also functions under a formal Terms of Reference which is approved by the Board and is reviewed in conjunction with the Delegation of Authority each year.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.*
Rating of KC 1	**Observed** The CSD's objectives are defined annually and approved by the Board[6]. These objectives (and the metrics used to measure the performance of the CSD against these objectives) are captured and measured in the Corporate Balanced Scorecard. The strategic objectives of the CSD include:[7] • Ensuring operational excellence, transparency and the effective management of risk while driving innovation and market best practice; • Being Stakeholder centric; • Being Profitable; and, • Being a Learning Organisation that enables corporate and personal growth.
Key Consideration 2 (KC2)	*An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.*
Rating of KC 2	**Observed** (paragraphs a. to f. on page 12 above refer).
Key Consideration 3 (KC3)	*The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.*
Rating of KC 3	**Observed** (paragraph d. on page 12 above refers).
Key Consideration 4 (KC4)	*The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).*
Rating of KC 4	**Observed** The Board Charter [8]details the process followed to ensure that the individual

[6] Corporate Balanced Scorecard.

[7] Pages 9 to 11 of the Integrated Report provide specific detail with regard to these objectives as well as the metrics being used to assess performance against them.

	members of the Board are appropriately skilled to fulfil their obligations[9] Members are measured against these to ensure that they are contributing to the fulfilment of the roles and responsibilities placed on the Board and its committees. Clause 5 of Strate's Memorandum of Incorporation (MOI) deals specifically with the composition of the Board and specifies the number of independent and non-executive members to be appointed to the Board. The CSD has fourteen directors, made up of two executive directors and twelve non-executive directors, of which eight are independent. Section 2.1 of the Board Charter also endorses a balance between executive and non-executive directors with the majority of non-executive directors being independent. At least two executive directors are required. The Board Charter [10]further details the rights that the Board has to seek expert assistance to assist them in the execution of their duties while section 10 deals with their remuneration.
Key Consideration 5 (KC5)	*The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.*
Rating of KC 5	**Observed** The Executive Management has a documented Terms of Reference and operates under a specific Delegation of Authority from the Board. Other, specific, responsibilities have also been documented in the CSD's Risk Policy and Risk Management Framework. [11]
Key Consideration 6 (KC6)	*The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.*
Rating of KC 6	**Observed** The CSD has established a dedicated and operationally independent Enterprise Risk Management division which functions under the guidance of the approved Risk Policy and Risk Management Framework. The Head of Risk reports administratively to the Chief Executive Officer and, from a functional perspective also has direct access to the Chairman of the Audit, Risk and Compliance Committee as well as the Chairman of the Board (should this be necessary). As illustrated in the corporate organogram, the ERM Division has no direct responsibilities for the operational activities of the

[8] Section 9 of the Board Charter refers.

[9] Section 3 of the Board Charter refers.

[10] Section 6.8 of the Board Charter refers.

[11] Appendix 2 of the Risk Management Framework

	CSD. In terms of the King Code of Good Corporate Governance (King III) the efficacy of the Risk Management function is assessed by Internal Audit on a regular basis. Findings are reported via the normal governance structure (includes EXCO, the Audit, Risk and Compliance Committee and the Board (as necessary). Risk tolerances have been clearly identified and documented [12] while the Risk Framework [13]addresses the assignment of responsibilities and accountabilities for risk management and risk decision-making. An impact and probability assessment is undertaken for each identified risk and the controls identified to mitigate identified risks. A controls framework and, where necessary, an appropriate treatment plan has been established for each risk.
Key Consideration 7 ***(KC5)***	*The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.*
Rating of KC 7	**Observed** Stakeholder engagement takes place on a number of levels within the CSD. These include: • Regular Stakeholder engagement meetings. These are reported on to the Board at regular intervals; • Quarterly Market Advisory Committee meetings (chaired by the CEO); • Executive Management engages with Stakeholders at an annual Strategy Session; • All Rule and Directive amendments (new rules / directives or changes to existing ones) are subjected to a review process[14]. Disclosure of major decisions is done via the website, special gazettes, periodicals, publication, newspaper, government gazettes, brochures and social media platforms.
Principle 3: Framework for the comprehensive management of risks *An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.*	
Strate's key practices and achievements	a. The Risk Policy and Risk Management Framework (as approved and amended by the Board from time to time) set out the policy and procedures used by the CSD to identify, measure, monitor and manage the risks of the CSD. The Risk Management Framework stipulates: • The basis on which risk is to be identified, managed and monitored; • The policies and other governance documents used to effectively guide business; and

[12] Section 4 of the Risk Policy

[13] Appendix 2 of the Risk Framework

[14] As outlined in the Rules/Directives Consultation process.

	• The frequency of identification exercises and review of governance documents. b. Specific roles and responsibilities have been defined for the Board, its committees and Executive Management [15] The Head of Risk Management is accountable for managing emerging and existing risks. These risks are reviewed on a quarterly basis in the risk assessment tabled at the Audit, Risk & Compliance Committee meetings and the Board. c. The CSD has identified five (5) core types of risk to which it is exposed. [16]. These include: • *Strategic Risks* (incorporating aspects of Governance, Ethics and the Business environment in which it operates); • *Financial Risk* (which includes Capital, Investment, Liquidity and Accounting risks); • *Information Technology Risks* (including Systems applications, networks, Installations etc., Access controls and Vulnerabilities); • *Operational Risks* (incorporating adherence to business and/or control processes, the safeguarding of assets, legal risks, Business Continuity, communication, fraud etc.); and, • *Human Resources Risk* (incorporating Management error / incompetence, poor Employee management practices, employee turnover and key man dependencies & succession planning) d. The structure of the CSD in South Africa (and its specific risk profile) means that Strate does not interact with the clients of a Participant directly. Strate does not assume direct credit or liquidity exposures in respect of the settlement process. e. An Austerity Plan has been developed should Strate encounter dramatic reductions in settlement volumes, for example. This plan forms part of the annual budget process and is reviewed in line with budget and market expectations. f. Strate provides each of its Participants with detailed planning information in respect of pending settlements (via its operating systems) which enables them to augment the information flowing from their own, internal systems to more effectively manage their own credit and liquidity risk exposures.
Rating of principle	**Broadly Observed**
Identified gaps	Despite all that has been done by the FMI in the area of business continuity, it acknowledges that it still needs to document its resolution plan formally by consolidating the various elements that have already been developed.
Key Consideration 1 (KC1)	*An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.*

[15] It is also more comprehensively detailed in Appendix 2 of the Risk Framework.

[16] Risk Policy Section 2.1 page 3.

Rating of KC 1	**Observed** Paragraph a. on page 15 refers.
Key Consideration 2 (KC2)	*An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI*
Rating of KC 2	**Observed** The CSD's Rules[17] stipulate that CSD Participants must implement and maintain adequate risk management policies, processes and procedures. Failure to comply with this requirement could result in punitive measures (and even penalties) being imposed. It is further contended that the structured operational windows timelines (and the penalties for non-adherence) assist the CSD in managing the risks posed to it by the CSD Participants.
Key Consideration 3 (KC3)	*An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.*
Rating of KC 3	**Observed** A variety of real-time systems monitoring tools have been deployed to provide the CSD with immediate notification of abnormal events. This includes such things as tools to monitor network outages, system disruptions as well as abnormal exposures across both CSD Participants and CSD systems. In addition, the CSD relies on audit assurance provided by independent external audit reviews to highlight any perceived weaknesses or threats. The Settlement Authority (a division of the JSE) has also deployed its own monitoring tools to manage the exposures it carries in respect of its guarantees in respect of equities settlements.
Key Consideration 4 (KC4)	*An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.*
Rating of KC 4	**Broadly observed** Strate is in the process of developing a Recovery and Resolution Plan appropriate for the CSD as more

[17] Section 8 of the CSD Rules.

Principle 4: Credit Risk	
Principle 4: Credit Risk *An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.*	
Strate's key practices and achievements	a. The CSD does not interpose itself between counterparties in the settlement transaction and does not, therefore, assume any credit risk exposure to its participants in respect of clearing or settlement services. b. The CSD is subjected to limited credit risk exposure in its operations. This exposure is essentially limited to monies owed in respect of services rendered rather than particular counterparty credit risk in respect of the transactions settled through the CSD. c. The Finance Division manages credit exposures in respect of fees due according to normal debtor age analysis. d. In terms of Section 9 of the CSD Rules each CSD Participant is obliged to pay all outstanding debts to the CSD within 30 days of having been invoiced. Failure to comply may result in interest charges and other punitive action being taken against the CSD Participant for non-payment. This could, in serious cases, result in action being taken to suspend/revoke the approval of participation. Credit exposure to CSD Participants is restricted to monies owed in respect of services provided; the CSD does not assume any credit exposure in respect of individual transactions other than the actual fee for settling the transaction. e. In the case of Corporate Event processing, the CSD does assume an element of credit risk exposure although this is carefully managed. [18] f. In the case of Equities and Bonds the funds due for distribution are currently paid to an account in the name of the CSD and, once received and cleared, are then immediately distributed to the participants. [19] g. The CSD makes use of a Simultaneous, Final and Irrevocable Delivery vs Payment settlement model in each of the markets it serves with the licensed Participants underwriting their clients' settlement obligations in the market. h. The use of Central Bank funds is mandatory for all settlements.
Rating of principle	**Observed**

[18] Directives SC.4, SD.3 and SE.5.

[19] Directives SC4 and SD 3

Key Consideration 1 ***(KC1)***	*An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.*
Rating of KC 1	**Observed** As mentioned above, the CSD does not interpose itself between counterparties in the settlement transaction and does not, therefore, assume any credit risk exposure to its participants in respect of clearing or settlement services. The Finance Division manages credit exposures in respect of fees due according to normal debtor age analysis. In terms of Section 9 of the CSD Rules each CSD Participant is obliged to pay all outstanding debts to the CSD within 30 days of having been invoiced. Failure to comply may result in interest charges and other punitive action being taken against the CSD Participant for non-payment. This could, in serious cases, result in action being taken to suspend / revoke the approval of participation. Credit exposure to CSD Participants is restricted to monies owed in respect of services provided; the CSD does not assume any credit exposure in respect of individual transactions other than the actual fee for settling the transaction. In the case of Corporate Event processing, the CSD does assume an element of credit risk exposure. This exposure is managed by Directives[20]. In the case of Equities and Bonds [21] the funds due for distribution are currently paid to an account in the name of the CSD and, once received and cleared, are then immediately distributed to the participants.
Key Consideration 2 ***(KC2)***	*An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.*
Rating of KC 2	**Observed** Formal risk assessments are completed for each and every new product to establish whether the CSD's risk profile changes
Key Consideration 3 ***(KC3)***	*A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.*
Rating of KC 3	Not applicable. The CSD does not assume direct exposure to its CSD Participants in terms of their current payment and SSS obligations. This question is, therefore, not applicable to the CSD.
Key Consideration 4	*A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other*

[20] SC.4, SD.3 and SE.5

[21] SC.4 and SD.3

(KC4)	*prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains*
Rating of KC 4	Not applicable to the CSD as it is not a CCP.
Key Consideration 5 ***(KC5)***	*A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.*
Rating of KC 5	Not applicable to the CSD as it is not a CCP.
Key Consideration 6 ***(KC6)***	*In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.*
Rating of KC 6	Not applicable to the CSD as it is not a CCP.
Key Consideration 7 ***(KC7)***	*An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also*

	indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.
Rating of KC 7	Not applicable to the CSD since it does not face credit losses other than fee payments due to it.
Principle 7 - Liquidity Risk *An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.*	
Strate's key practices and achievements	The SA market settlement model (across all markets) employs a clear risk management model which ensures visibility of any constraints (including liquidity (specifically securities). Cash liquidity is the domain of the settlement banks. Liquidity risk in the South African market structure is borne by the banking system rather than Strate (in respect of cash) and by the Participants rather than Strate in respect of securities. The Strate Rules effectively prevent a Participant from overcommitting on securities thereby reducing the likelihood of any, particular liquidity constraint in respect of the securities[22].
Rating of principle	**Observed**
Key Consideration 1 (KC1)	An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.
Rating of KC 1	**Observed** Cash liquidity is the domain of the settlement banks and is overseen by the Central Bank which monitors day-to-day information from its members. Strate also provides the Central Bank with certain supporting information to assist them in the management of overall liquidity risk exposure of their members.
Key Consideration 2 (KC2)	An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.
Rating of KC 2	**Observed** Projected cash obligations on committed settlements are generated by each settlement application from T+0 until settlement day and these are monitored by Strate to identify and investigate large/unusual values to ensure minimal disruption or settlement delays. In addition, the specific structure of the settlement model proactively manages all pending transactions to ensure that their status is being progressively updated as the settlement cycle advances, thereby ensuring that exceptions are identified and addressed as early as

[22] Strate Rules 6.9.1 and 6.9.2 refer.

	possible.
Key Consideration 3 ***(KC3)***	A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.
Rating of KC 3	**Not applicable** As explained above this function is not carried out by Strate.
Key Consideration 4 ***(KC4)***	A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.
Rating of KC 4	**Not applicable**
Key Consideration 5 ***(KC5)***	For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.
Rating of KC 5	**Not applicable**
Key Consideration 6 ***(KC6)***	An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.

Rating of KC 6	**Not applicable**
Key Consideration 7 (KC7)	An FMI should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.
Rating of KC 7	**Not applicable**
Key Consideration 8 (KC8)	*An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.*
Rating of KC 8	**Not applicable**
Key Consideration 9 (KC9)	*An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.*
Rating of KC 9	**Not applicable**
Key Consideration 10 (KC10)	*An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.*
Rating of KC 10	**Not applicable**

Principle 8: Settlement Finality *An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.*	
Strate's key practices and achievements	a. Settlement finality is achieved through Simultaneous, Final and Irrevocable Delivery vs Payment in Central Bank funds. The FMA [23]empowers the CSD to determine the point in time of finality of both instruction and settlement. b. The CSD Rules [24]deal with the finality of settlement instructions, while the FMA[25] also creates the link with the National Payment System Act which governs the finality of cash settlement). c. Strate (Pty) Limited, as a Payment System Operator, is responsible for ensuring that only those transactions that are ready for settlement are, in fact, submitted to the Central Bank for processing. Once confirmation has been received from the Central Bank that payment has been effected, the securities are moved in the books of the CSD and the relevant Participants are advised accordingly so that they can give effect to the underlying transactions in their books. d. Currently the CSD's Directives deal with contractual commitments as determined by agreed operational timelines. [26] All settlements take place during defined operational window parameters as fully outlined in Directives [27]. e. Under this model the participants carry the credit risk exposure against their own clients in accordance with normal banking practice. f. A temporary lack of funds (i.e. a liquidity constraint) would result in intra-day delays in settlements. A permanent lack of funds would result in settlement failure. Fines are imposed and ultimately participation approval could be withdrawn. g. A temporary lack of securities would result in intra-day settlement delays. A permanent lack of securities would result in settlement failure. Fines are imposed[28], and the ultimate participation approval could be withdrawn [29] h. Transactions that are not yet ready for settlement would be held back until both securities and cash settlement elements can be achieved. Should a transaction remain unresolved at End of Day, these will fail.
Rating of principle	**Observed**

[23] Section 35(2)w of the FMA

[24] Rule 6.11 in the CSD Rules

[25] Section 35(3)(b) of the FMA

[26] Directive SC.1 clauses 3.3.1. 3.3.1.6 and 3.3.1.7

[27] Directives SC.1 & SC.2 (for Equities), SD.1 & SD.2 (for Bonds) as well as SE.4 (in respect of Money Market securities) refer.

[28] As outlined in Directives SF.2, SF.3 and SF.5

[29] In accordance with Rules 3.10 and section 35(2)(c) of the FMA.

<table>
<tr><td>Key Consideration 1
(KC1)</td><td>An FMI’s rules and procedures should clearly define the point at which settlement is final.</td></tr>
<tr><td>Rating of KC 1</td><td>Observed

Paragraphs a. and b. on page 23 refer.</td></tr>
<tr><td>Key Consideration 2
(KC2)</td><td>An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.</td></tr>
<tr><td>Rating of KC 2</td><td>Observed

All transactions are designed to be settled on value date at the CSD and the Central Bank level.

STRATE Supervision in its self-regulatory role monitors to ensure that underlying clients of Participants receive same day value of both cash and securities.

The settlement models utilised in the SA market all make provision for intraday settlement via the SA Reserve Bank (central bank) Real-Time Gross Settlement system. The market makes use of multiple settlement runs with the CSD Participants receiving an ISO 15022 formatted message from the CSD (who, in turn, receive confirmation from the central bank) confirming that a particular cash settlement has been concluded.</td></tr>
<tr><td>Key Consideration 3
(KC3)</td><td>An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.</td></tr>
<tr><td>Rating of KC 3</td><td>Observed

Paragraphs a. and b. on page 23 refer.</td></tr>
<tr><td colspan="2">Principle 9: Money Settlements
An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risks arising from the use of commercial bank money.</td></tr>
<tr><td>Strate’s key practices and achievements</td><td>a. All Strate settlement transactions are conducted using Central Bank funds.

b. Based on the settlement model employed in the South African market, the arrangement is between the Central Bank and its approved Clearing Banks and is irrevocable. Strate does not have any legal agreement in place between itself and any settlement bank.

c. Funds received are transferable on receipt on a real time basis. In most instances there may be a slight timing delay between the time that the cash is moved from one bank to another (at Central Bank level) and the time that the ultimate client receives any funds due to him/her. This is primarily ascribed to the time taken to process these transactions in the retail banking systems.</td></tr>
</table>

	d. Strate only deals in South Africa Rands (ZAR) settlements.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.*
Rating of KC 1	**Observed** Paragraph a. above refers.
Key Consideration 2 (KC2)	*If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.*
Rating of KC 2	**Not applicable** All Strate settlement transactions are conducted using Central Bank funds
Key Consideration 3 (KC3)	*If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.*
Rating of KC 3	**Not applicable** All Strate settlement transactions are conducted using Central Bank funds
Key Consideration 4 (KC4)	*If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks*
Rating of KC 4	**Not applicable** Money settlement takes place at Central Bank level between approved Settlement Banks
Key Consideration 5 (KC5)	*An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.*
Rating of KC 5	**Not applicable** Based on the settlement model employed in the South African market, the arrangement is between the Central Bank and its approved Clearing Banks and is irrevocable. Strate does not have any legal agreement in place between itself and any settlement bank.

Principle 11: Central Securities depositories *A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.*

Strate's key practices and achievements	The CSD's Rules [30]stipulate the duties of a Participant with specific regard to: • Holding of sufficient • The administration and maintenance of information • Their obligation to balance holdings to the CSD on a daily basis • Client mandates; and, • Their obligations in respect of the protection of holders rights. The CSD may only act upon proper authenticated instructions. [31] Authorised CSD Participants are subject to appropriate external (independent) auditing (as more fully outlined in the SAICA Factual Findings Circular). Any weaknesses / instances of non-compliance are addressed by STRATE Supervision as part of their oversight responsibilities; In terms of the CSD's Rules [32] (dealing with participant eligibility), CSD Participants must take all reasonable security measures against any unauthorised access, alteration, destruction or disclosure of client information or records.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.*
Rating of KC 1	**Observed** Section 3.16 of the CSD's Rules provides specific clarity with regards to the rules, procedures and controls applicable to Issuers. Section 6.8 of the CSD's Rules further provides for the provision of information to the Issuer pertaining to holdings in securities issued by that particular issuer held in the CSD system.
Key Consideration 2 (KC2)	*A CSD should prohibit overdrafts and debit balances in securities accounts*
Rating of KC 2	**Observed** Debit balances of securities at either CSD or Participant level are specifically prohibited [33]and systems are designed to 'alert' management of any possible infringement. The CSD balances on a daily basis with its CSD Participants and Issuers. As

[30] Section 5 of the CSD Rules

[31] Section 6.7 of the CSD's Rules

[32] Section 3 (and s3.2.11 specifically) of the CSD's Rules

[33] Sections 6.9 and 7.9 of the CSD's Rules

	per s5.3 of the CSD's Rules, all imbalances must be resolved within 24 hours. In terms of section 43 of the Financial Markets Act, in the event of a discrepancy, the records of the CSD prevail.
Key Consideration 3 (KC3)	*A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities.*
Rating of KC 3	**Observed** Strate only maintains securities in dematerialised form, subject to transfer by book entry. The last remaining immobilised securities were dematerialised during the last quarter of 2012.
Key Consideration 4 (KC4)	*A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.*
Rating of KC 4	**Observed** In terms of the CSD Rules[34], the CSD has the necessary power to do such things as are necessary for, or incidental to, the performance of the functions of the CSD. This, in conjunction with Rule 3.2 (which places specific obligations on the CSD Participants) is used to create the structure for protecting the investor. As the CSD itself does not have a direct relationship with the investor (this relationship is managed by the authorized CSD Participants who actually hold the securities on behalf of the investor) the focus of the CSD is more in ensuring that the settlement and custody models provide the highest possible level of protection to the investor.
Key Consideration 5 (KC5)	*A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.*
Rating of KC 5	**Observed** A CSD Participant may open more than one account with the CSD. Irrespective, however, of which practice is adopted by a CSD Participant, in terms of the CSD's Rules[35], the CSD Participant is obliged to segregate their proprietary holdings from their clients' holdings. A specially created Segregated Depository Account allows the Participant to open accounts for its clients at CSD level.
Key Consideration 6 (KC6)	*A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.*

[34] Rule 2.2 of the CSD Rules

[35] Rule 6.3.2 (in particular rules 6.3.2.1 and 6.3.2.2)

Rating of KC 6	**Observed** The Risk Policy and Risk Management Framework (approved by the Board) assists Strate in identifying, measuring, monitoring and managing the risk associated with all its current (and proposed future) activities. Each and every new business proposal requires a formal risk assessment which forms part of the business case presented to the Board (via the Audit, Risk and Compliance Committee) before a new service / product stream is introduced. As previously mentioned, Strate does not take on credit or liquidity risk arising from settlement activities.
Principle 12: Exchange-of-value settlement systems *If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.*	
Strate's key practices and achievements	a. The CSD oversees all settlement processes to ensure both cash and securities are available for settlement prior to the actual settlement instruction being triggered. In practice, confirmation is received from the Central Bank that the necessary cash movement has taken place. This initiates the securities movements in the CSD. b. The CSD employs simultaneous, final and irrevocable delivery versus payment (SFIDvP) logic in its systems for all settlement obligations in order to effectively eliminate principal risk. This is supported by the CSD's Rules, procedures and contracts with relevant parties as more fully outlined in the response with regards to Principle 8 above.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.*
Rating of KC 1	**Observed** Paragraphs a and b above refer.
Principle 13: Participant-default rules and procedures *An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.*	
Strate's key practices and achievements	Strate has created a well-defined framework of rules for default which are supported by a CSDP Failure Manual which has been developed to assist in the orderly wind-up of the failed entity, should this be necessary. The Failure Manual has been the subject of extensive review by the market over a number of years and is refined (as necessary) to accommodate changes to market practice (e.g. the introduction of Segregated Depository Accounts). Strate completed its first simulation of a failure of one of its Participants during April 2013 and is currently engaging with the JSE to extend future simulation

	exercises to include the JSE and (ultimately) the Participants themselves.
Identified gaps	Although an internal simulation exercise has been conducted, it is clear that this needs to be extended to include the JSE (and ultimately also the Participants). Similar simulation exercises also need to become a regular feature of the calendar. Strate Limited is currently engaging with the JSE to agree, and plan, further exercises of this nature going forward. A joint exercise is expected to take place in mid-2014.
Rating of principle	**Broadly Observed**
Key Consideration 1 (KC1)	*An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.*
Rating of KC 1	**Observed** Financial and operational defaults are defined in the Strate Rules while the Directives provide specific guidance with regard to the identification and reporting of operational defaults. Directive SA.10, for example, stipulates specific reporting requirements which must be followed by participants in the event of difficulties which could, potentially, lead to operational default. With regards to financial default, the Strate Rules define what would constitute an "Insolvency Proceeding" which would result in the termination of participation. With regards to operational default, the Strate Rules [36]define this with regard to improper conduct, and includes failure to continuously adhere to the participation entry criteria. The Strate's Crisis Management Plan and Participant Failure Manual detail, inter alia, the operational procedures to control the orderly wind-down of a Participant in the event of an Insolvency Proceeding.
Key Consideration 2 (KC2)	*An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.*
Rating of KC 2	**Observed** The Participant Failure Manual [37]and the Crisis Management Plan clearly set out roles and responsibilities for addressing instances of default.
Key Consideration 3 (KC3)	*An FMI should publicly disclose key aspects of its default rules and procedures.*
Rating of KC 3	**Observed** The Strate Rules, Directives and procedures (including the Participant Failure

[36] Rule 3.10. refers.

[37] Paragraph 4 on Page 23 of Participant Failure Manual

<table>
<tr><td></td><td>Manual) are available on Strate’s website.

The Strate Rules are also published in the Government Gazette.</td></tr>
<tr><td>Key Consideration 4

(KC4)</td><td>An FMI should involve its participants and other stakeholders in the testing and review of the FMI’s default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.</td></tr>
<tr><td>Rating of KC 4</td><td>Broadly observed

As indicated above, although an internal simulation exercise has been conducted, it is clear that this needs to be extended to include the JSE (and ultimately also the Participants). Similar simulation exercises also need to become a regular feature of the calendar.</td></tr>
<tr><td colspan="2">Principle 15: General business risk
An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.</td></tr>
<tr><td>Strate’s key practices and achievements</td><td>a. Strate has a comprehensive Risk Management Framework which has been implemented and entrenched across the company.
b. It is subjected to on-going review at all levels within Strate to ensure that all known and potential new risks are timeously assessed and, where necessary, actioned appropriately.
c. Given the specific risk profile of the CSD and the legislative limitation on liabilities contained in section 72 of the Financial Markets Act (which applies to the CSD) the calculation of minimum cash reserves has been based on the operating requirements of the CSD. In addition, the CSD has comprehensive insurance for specific loss events.
d. Should a loss deplete minimum cash reserves, surplus funds and/or insurance in any way, shareholders would be approached. The structure for such an approach was originally set out in clause 8 of the Shareholders Agreement of 2003 and has, since, been carried over and incorporated into clause 6.4 of the Memorandum of Incorporation.
e. The CSD does, however, maintain a minimum of 6 months’ worth of cash to support its operational expenditure in the event of an economic downturn.</td></tr>
<tr><td>Identified gaps</td><td>The key gap identified in observance of this principle lies in the documenting of a formal Recovery and Resolution Plan for the CSD. Although work has been done in the formulation of plans to ensure that the CSD is able to withstand general business risk shocks, these do still need to be captured in a formally documented plan.</td></tr>
<tr><td>Rating of principle</td><td>Broadly Observed</td></tr>
<tr><td>Key Consideration 1

(KC1)</td><td>An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and</td></tr>
</table>

	excessively large operating expenses.
Rating of KC 1	**Observed** Paragraphs a and b above refer.
Key Consideration 2 (KC2)	*An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.*
Rating of KC 2	**Observed** Paragraph c above refers.
Key Consideration 3 (KC3)	*An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.*
Rating of KC 3	**Broadly Observed** A formal Recovery and Resolution Plan for the CSD has not been drafted yet. Although work has been done in the formulation of plans to ensure that the CSD is able to withstand general business risk shocks, these do still need to be captured in a formally documented plan.
Key Consideration 4 (KC4)	*Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.*
Rating of KC 4	**Observed** The CSD's Investment Policy [38]dictates that reserve funds be held in cash and dispersed between a number of qualifying banks. This mitigates the possibility of loss of value, even in adverse market conditions.
Key Consideration 5 (KC5)	*An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.*
Rating of KC 5	**Observed** The primary source of additional capital would come in the form of a capital

[38] Section 1.2.1 of the CSD's Investment Policy

	call against the shareholders of the CSD should this ever be necessary. The structure for such an approach was originally set out in clause 8 of the Shareholders Agreement of 2003 and has, since, been carried over and incorporated into clause 6.4 of the Memorandum of Incorporation.
Principle 16: Custody and investment risks *An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.*	
Strate's key practices and achievements	The CSD's Investment Policy governs the investment of its operating funds and dictates how the cash assets of the CSD may be distributed. As governed by the Investment Policy, the CSD is restricted to investing in cash/near cash assets. The Investment Policy is reviewed by the Audit, Risk and Compliance Committee in accordance with its Annual Work Plan and submitted to the Board for approved. The Strate Investment Policy clearly defines: • which institutions qualify to be custodians of the Strate (Pty) Limited cash balances; [39] • the basis upon which the Strate (Pty) Limited funds should be distributed between qualifying institutions (according to a predetermined holding ratio whereby no more than 40% of the total cash on hand at the CSD may be held with a single bank); • the type(s) of investment vehicles that are permitted; and • the permissible terms and duration of such investments. Strate does not hold cash assets on behalf of its Participants (other than on an intraday basis in the case of Corporate Action proceeds).
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.*
Rating of KC 1	**Observed** As the CSD is not a registered bank, it is obliged to hold its cash assets with a registered South African bank. In respect of the South African banks, these are all subject to prudential regulation by the South African Reserve Bank while the CSD Participants themselves (in respect of securities) are regulated by STRATE Supervision, in its role as a self-regulatory organisation.
Key Consideration 2	*An FMI should have prompt access to its assets and the assets provided by participants, when required.*

[39] Section 1.2.2 of the Investment Policy dictates that all assets be held with an entity carrying a predetermined minimum rating from a recognised rating agency.

(KC2)	
Rating of KC 2	**Observed** This would only apply CSD's own assets (should it hold any) as it has no need to have recourse to assets under custody for any other reason. The only assets held by the CSD are cash (or near cash) assets as identified in section 1.2.1 of the Investment Policy. In the event that the bank holding the cash assets of the CSD fails, it is acknowledged that the specific cash held by that bank would be trapped in the failed entity. To avoid this compromising the full cash balances of the CSD, these are required to be spread across multiple banks in accordance with the Investment Policy (as mentioned above).
Key Consideration 3 (KC3)	*An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.*
Rating of KC 3	**Observed** The response to Key Consideration 1 on page 33 refers.
Key Consideration 4 (KC4)	*An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect*
Rating of KC 4	**Observed** As governed by the Investment Policy[40], the CSD is restricted to investing in cash/near cash assets. The Investment Policy is reviewed by the Audit, Risk and Compliance Committee in accordance with its Annual Work Plan and submitted to the Board for approved.
Principle 17: Operational risk *An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.*	
Strate's key practices and achievements	a. The CSD has developed and implemented a comprehensive Risk Management Framework across the organisation. b. The operational risk framework is reviewed on an annual basis to ensure that it remains relevant to the activities of the CSD. The framework serves as the basis for all internal operational risk activities of the CSD. The CSD has a comprehensive risk identification and

[40] Paragraph 1.2.1 of the Investment Policy

	management process involving all staff that has been developed to assist in the identification and, ultimately, management of these risks. To the extent that risks are identified, these are assessed for their impact on the CSD and, to the extent manageable by the CSD itself, appropriate mitigation is put in place. c. Appendix 2 of the Risk Management Framework sets out the duties and responsibilities that have been identified at all staff levels. Individual responsibilities in respect of risk management are captured and measured in staff performance management structures via the Balanced Scorecards that are required for each staff member. d. In addition, the CSD 's Disaster Recovery / Business Continuity infrastructure is formally tested at least twice a year. e. The CSD considers (amongst other things) identified the following as primary sources of operational risk: • Adherence to business and/or control processes; • Safeguarding of assets; • Legal (contract, delictual, criminal liability and regulatory compliance); • Business disruption (including Disaster Recovery / Business Continuity Planning); • Communication; and • Fraud.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.*
Rating of KC 1	**Observed** Paragraphs a. and b. above refer.
Key Consideration 2 (KC2)	*An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.*
Rating of KC 2	**Observed** As outlined in the Risk Policy and Risk Management Framework, the Board is responsible for the total process of risk management within the CSD. It has established an Audit, Risk and Compliance Committee which has been specifically tasked (as outlined in paragraph 3.2.4 of its Terms of Reference) to oversee the efforts of management in the integration and monitoring of risk in respect of the day-to-day activities of the CSD.

Key Consideration 3 ***(KC3)***	*An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.*
Rating of KC 3	**Observed** The operational objectives are clearly spelled out in the performance management metrics (Balanced Scorecard) of the organisation which is reviewed and approved by the Board on an annual basis.
Key Consideration 4 ***(KC4)***	*An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.*
Rating of KC 4	**Observed** The Change Advisory Board monitors systems scalability and capacity on a weekly basis with projected trends also being monitored. Automated alerts have been implemented across certain systems to activate "early warning" should identified parameters be breached thereby giving the CSD sufficient time to address identified constraints timeously.
Key Consideration 5 ***(KC5)***	*An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.*
Rating of KC 5	**Observed** The CSD has a comprehensive structure of policies, processes and controls in place to address physical security. In addition, physical access controls (which include security guards, an electronic access control system incorporating single-access doors and CCTV monitoring) have been deployed at all sites. Computer installations, in addition, have biometric scanning as well as environment monitoring equipment to further protect these environments. An incident log is maintained for each and every breach / attempted breach with each incident being reviewed to ensure that it has not highlighted a potential weakness.
Key Consideration 6 ***(KC6)***	*An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.*
Rating of KC 6	**Observed** Business Impact Analysis reviews are completed for each operational area to ensure that the agreed Recovery Time and Recovery Point Objectives for each system and service are established. These are tested at regular intervals to ensure that they are achievable. The CSD has a fully functioning alternate (or Disaster Recovery) site . The capabilities and capacity of the secondary site is reviewed on a regular basis

	to ensure its suitability. All sites are subjected to regular review to ensure that they still conform to "best practice" standards at all times.
Key Consideration 7 (KC7)	*An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.*
Rating of KC 7	Observed In order to mitigate against possible disruptions, the CSD has developed and maintains a comprehensive BCP/DR capability. In addition, its participation criteria (specifically 8.1.9 of the CSD Rules and Directive SA.10) require each CSD Participant to provide assurance of their own capabilities in this regard.
Principle 18: Access and participation requirements *An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.*	
Strate's key practices and achievements	a. The **Financial Markets Act** [41]and the **CSD's Rules** [42]prescribe participant entry criteria which provide fair and open access to the CSD. Entry criteria are risk-based and cover requirements such as: financial soundness, technology, internal controls and risk management, disaster recovery and business continuity, insurance, staff and management skills and competencies. b. Applicants are required to complete the application forms contained in the Directives [43] which, specifically, call for information which assists STRATE Supervision in its assessment of prospective participants. c. Participant entry criteria which are prescribed provide fair and open access to the CSD. Entry criteria are risk-based and cover requirements such as: • financial soundness; • technology; • internal controls and risk management; • disaster recovery and business continuity, • insurance; • staff and management skills and competencies.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.*
Rating of KC 1	**Observed**

[41] Sections 35(2)b and 35(2)g of the Financial Markets Act

[42] Sections 3.2 and 3.13 of the CSD Rules

[43] Directives SA.1 and SA.2

	Paragraph a above refers.
Key Consideration 2 (KC2)	*An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least-restrictive impact on access that circumstances permit*
Rating of KC 2	**Observed** The participation criteria as stipulated in the CSD's Rules (see specifically section 3.2) are risk-based and are aligned with the objectives of the Financial Markets Act (as outlined in section 2 of the Act) which include ensuring South Africa's global competitiveness, the reduction of systemic risk and ensuring that the markets are fair, open and transparent. All Participants are subject to the same participation requirements as stipulated in section 3 of the CSD's Rules and Directives SA.1 and SA.2, in particular.
Key Consideration 3 (KC3)	*An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.*
Rating of KC 3	**Observed** The CSD functions, in terms of its licence, as a self-regulatory organisation. To fulfil this obligation it has established a division - STRATE Supervision - whose responsibility it is to monitor compliance by CSD Participants with the CSD's Rules and Directives. The Head of Supervision reports directly to the Regulatory and Supervisory Committee of the Board. The CSD has a detailed supervision and enforcement programme which is approved by the Board (via the Regulatory and Supervisory Committee) and the FSB. The CSD's Rules (specifically sections 11 and 12) describe the role and powers of the Head of Supervision. This includes the power to impose a range of sanctions for any wrong-doing or risk deterioration including suspension, termination, monetary fines, restrictions on business practices, conducting of on-site reviews, audits etc.
Principle 21: Efficiency and effectiveness *An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.*	
Strate's key practices and achievements	a. Strate maintains communication channels between it and its Participants. This includes working committees (which cover each of the markets that Strate serves) as well as a Market Advisory Committee which assists Strate in ensuring that developing needs are appropriately tracked and prioritised. b. Strate also provides its various stakeholders with regular opportunities to provide feedback on their level of satisfaction. To the extent necessary, action plans are devised and implemented to address any weaknesses /

	concerns which may have been raised through these mechanisms. These are tabled at Board level for information and tracking. c. Strate measures and reports on achievements at Board level on a quarterly basis via the Balanced Scorecard Board Report. The Corporate Balanced Scorecard assesses Strate from four different perspectives, namely *Internal Processes*, *Stakeholders*, *Financial*, and *Learning & Growth*. Elements of efficiency and effectiveness are contained in each of these perspectives and specific metrics have been identified to provide measurement of performance.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.*
Rating of KC 1	**Observed** Paragraphs a and b above refer.
Key Consideration 2 (KC2)	*An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.*
Rating of KC 2	**Observed** Strate has defined a number of key measurable goals and objectives which are contained in the Strate Corporate Balanced Scorecard which is approved by the Board on an annual basis. Strate measures and reports on achievements at Board level on a quarterly basis via the Balanced Scorecard Board Report.
Key Consideration 3 (KC3)	*An FMI should have established mechanisms for the regular review of its efficiency and effectiveness*
Rating of KC 3	**Observed** Paragraph c above refers.
Principle 22: Communication procedures and standards *An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.*	
Strate's key practices and achievements	The Strate systems utilise globally recognised and accepted messaging standards (primarily ISO 15022 messages) and these are disseminated on secure, reputable and established networks.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.*
Rating of KC 1	**Observed**

	As previously indicated Strate systems utilise globally recognised and accepted messaging standards
Principle 23: Disclosure of rules, key procedures and market data *An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.*	
Strate's key practices and achievements	a. Strate has a comprehensive set of internal policies and procedures which underpin the market-specific CSD Rules and supporting Directives. b. Strate has clearly defined documentation which is published as and when changes are affected. These include: • Rules, Directives and Fee Schedules;- Interface specifications; • Procedure Manuals (including BCP and DR);- Testing and Training facilities/Manuals; • Service Level Agreements; • Annual Financial Statements; • Settlement statistics which are published on the CSD's website. • The CSD Rules and all Directives are publically available via the Strate website. http://www.strate.co.za/regulatory-environment/csd-rules http://www.strate.co.za/what-we-charge/fee-list c. Each Participant is required to appoint a Compliance Officer who is required to pass a Compliance Examination. One of their primary responsibilities is to understand (and ensure compliance with) the CSD Rules and Directives.
Rating of principle	**Observed**
Key Consideration 1 (KC1)	*An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.*
Rating of KC 1	**Observed** Paragraphs a. and b. above refer.
Key Consideration 2 (KC2)	*An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.*
Rating of KC 2	**Observed** Strate discloses its system's design and operational requirements to Participants / users on request. Any stakeholders utilising the services of Strate are given full documentation to enable them to interface with Strate. This documentation gives full

	disclosure on system requirements. No discretion is permitted.
Key Consideration 3 (KC3)	*An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.*
Rating of KC 3	**Observed** Training is provided by Strate to new and existing stakeholders. Training and training material in the form of handbooks and audio disks are provided by Strate to stakeholders. Exams are also available to compliance officers as well as other market players. Further guidance or induction is provided by STRATE Supervision. Compliance officers must also attend continuous education to maintain compliance accreditation.
Key Consideration 4 (KC4)	*An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.*
Rating of KC 4	**Observed** All fees and costs payable by the stakeholders are disclosed on Strate's website. http://www.strate.co.za/what-we-charge/fee-list
Key Consideration 5 (KC5)	*An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.*
Rating of KC 5	**Observed** This is Strate's first disclosure. It is, however, expected that this will be updated following each, material, change. A regular review cycle will be agreed with the FSB to ensure that the disclosure remains valid / up-to-date.

Summary of rating per principle:

Assessment category	Principle
Observed	*Principles 1, 2, 4, 7, 8, 9, 11,12, 16, 17, 18, 21, 22, and 23*
Broadly observed	*Principles 3, 13, 15*
Partly observed	*None*
Not observed	*None*
Not applicable	*Principles 5, 6, 10, 14, 19, 20 and 24*

Annexure A

Recommendations with regard to issues of concern that Strate should address and follow-up on within a defined timeline

Prioritised List of Recommendations				
Principle	**Issue of concern or other gap or shortcoming**	**Recommended action and comments**	**Timeframe for addressing recommended action**	**Current processes/procedures implemented**
13	Although an internal simulation exercise has been conducted, it is clear that this needs to be extended to include the JSE (and ultimately also the Participants).	A joint exercise should be performed. Similar simulation exercises also need to become a regular feature of the calendar.	Strate is currently engaging with the JSE to agree, and plan, further exercises of this nature going forward. A joint exercise is expected to take place in mid-2014.	An internal simulation exercise has been conducted.
3, 15	The lack of a documented, formal Recovery and Resolution Plan for the CSD.	Recovery and Resolution plans should be finalised	Recovery and Resolution plans should be finalised mid 2014.	Although work has been done in the formulation of plans to ensure that the CSD is able to withstand general business risk shocks, these do still need to be captured in a formally documented plan.

Annexure B

Recommendations with regard to gaps and shortcomings which are not issues of concern and are minor, manageable and of a nature that the FMI could consider taking up in the normal course of business

Prioritised List of Recommendations		
Principle	**Issue of concern or other gap or shortcoming**	**Recommended action and comments**
2	Lack of a clear link between the Exco Charter and the Business Continuity and Crisis Management plans to reflect the direct responsibilities in respect of crises and emergencies.	The Exco Charter should be updated to reflect the direct responsibilities in respect of crises and emergencies.
2	In the response it was mentioned that the Risk Policy and the Risk Management Framework are subject to annual review by the Board. It does not, however, correspond with the Risk Framework document that indicates that the Framework is subject to ongoing, regular review in line with the strategic objectives of the organisation.	Documentation should be amended and approved by the Audit and Risk Committee in order to align

Annexure C

Sources of information provided by Strate

#	Name of Document	For Publication YES/No	Principle 1	Principle 2	Principle 3	Principle 4	Principle 5	Principle 6	Principle 7	Principle 8	Principle 9	Principle 10	Principle 11	Principle 12	Principle 13	Principle 14	Principle 15	Principle 16	Principle 17	Principle 18	Principle 19	Principle 20	Principle 21	Principle 22	Principle 23	Principle 24
1	**Financial Markets Act, 2012**	YES	X				N/A	N/A		X		N/A	X		X	N/A	X			X	N/A	N/A	X			N/A
2	**National Payment System Act**	YES	X				N/A	N/A		X	X	N/A				N/A					N/A	N/A				
3	**A Directives Health Status Report**	NO	X				N/A	N/A				N/A				N/A					N/A	N/A				N/A
4	**Delegation of Authority)**	NO	X	X			N/A	N/A				N/A				N/A			X		N/A	N/A				N/A
5	**Memorandum of Understanding between Strate and the SARB**	NO	X				N/A	N/A				N/A				N/A					N/A	N/A				N/A
6	**Corporate Balanced Scorecard.**	NO		X			N/A	N/A				N/A				N/A			X		N/A	N/A	X			N/A
7	**Board Charter**	NO		X			N/A	N/A				N/A				N/A					N/A	N/A				N/A
8	**EXCO Charter**	NO		X			N/A	N/A				N/A				N/A			X		N/A	N/A				N/A
9	**Strate Rules**	YES	X	X		X	N/A	N/A		X		N/A	X		X	N/A			X	X	N/A	N/A			X	N/A

#	Name of Document	For Publication YES/No	Principle 1	Principle 2	Principle 3	Principle 4	Principle 5	Principle 6	Principle 7	Principle 8	Principle 9	Principle 10	Principle 11	Principle 12	Principle 13	Principle 14	Principle 15	Principle 16	Principle 17	Principle 18	Principle 19	Principle 20	Principle 21	Principle 22	Principle 23	Principle 24
10	**Annual Integrated Report**	YES		X			N/A	N/A				N/A				N/A					N/A	N/A				N/A
11	**Declaration of Interest file**	NO		X			N/A	N/A				N/A				N/A					N/A	N/A				N/A
12	**Annual Independence questionnaire**	NO		X			N/A	N/A				N/A				N/A					N/A	N/A				N/A
13	**Risk Policy**	NO		X	X		N/A	N/A				N/A	X			N/A	X		X		N/A	N/A				N/A
14	**Risk Management Framework**	NO		X	X		N/A	N/A				N/A	X			N/A	X		X		N/A	N/A				N/A
15	**Internal Audit Charter**	NO		X			N/A	N/A				N/A				N/A					N/A	N/A				N/A
16	**Memorandum of Incorporation**	NO		X			N/A	N/A				N/A	X			N/A	X				N/A	N/A				N/A
17	**King III assessment**	NO		X			N/A	N/A				N/A				N/A					N/A	N/A				N/A
18	**TOR Audit, Risk and Compliance Committee**	NO		X	X		N/A	N/A				N/A	X			N/A			X		N/A	N/A				N/A
19	**TOR Regulatory and Supervisory Committee**	NO		X	X		N/A	N/A				N/A				N/A			X		N/A	N/A				N/A

#	Name of Document	For Publication YES/No	Principle 1	Principle 2	Principle 3	Principle 4	Principle 5	Principle 6	Principle 7	Principle 8	Principle 9	Principle 10	Principle 11	Principle 12	Principle 13	Principle 14	Principle 15	Principle 16	Principle 17	Principle 18	Principle 19	Principle 20	Principle 21	Principle 22	Principle 23	Principle 24
20	**TOR of the Remuneration and Nominations Committee**	NO		X			N/A	N/A				N/A				N/A					N/A	N/A				N/A
21	**Rules / Directives Consultation process**	YES	X	X			N/A	N/A				N/A				N/A				X	N/A	N/A				N/A
22	**Combined Assurance Charter**	NO		X	X		N/A	N/A				N/A				N/A					N/A	N/A				N/A
23	**Strate Directives**	YES			X	X	N/A	N/A		X		N/A			X	N/A				X	N/A	N/A			X	N/A
24	**Onsite Review programme**	NO			X		N/A	N/A				N/A				N/A					N/A	N/A				N/A
25	**SAICA Factual Findings Audit scope**	YES			X		N/A	N/A				N/A	X			N/A					N/A	N/A				N/A
26	**Bankers Blanket Bond and Fidelity Insurance cover**	NO			X		N/A	N/A				N/A				N/A					N/A	N/A				N/A
27	**Crisis Management Plan**	NO			X		N/A	N/A				N/A			X	N/A			X		N/A	N/A				N/A
28	**Participant Failure Manual**	YES			X		N/A	N/A				N/A			X	N/A				X	N/A	N/A			X	N/A

#	Name of Document	For Publication YES/No	Principle 1	Principle 2	Principle 3	Principle 4	Principle 5	Principle 6	Principle 7	Principle 8	Principle 9	Principle 10	Principle 11	Principle 12	Principle 13	Principle 14	Principle 15	Principle 16	Principle 17	Principle 18	Principle 19	Principle 20	Principle 21	Principle 22	Principle 23	Principle 24
29	**Austerity Plan**	NO			X		N/A	N/A				N/A				N/A	X				N/A	N/A				N/A
30	**Investment Policy**.	NO					N/A	N/A				N/A				N/A	X	X			N/A	N/A				N/A
31	**Annual Work Plan of the Audit, Risk and Compliance Committee**	NO			X		N/A	N/A				N/A			X	N/A		X			N/A	N/A				N/A
32	**Terms of Reference of the Project Steering Committee**,	NO			X		N/A	N/A				N/A				N/A			X		N/A	N/A				N/A
33	**Terms of Reference of the Procurement Advisory Board**	NO			X		N/A	N/A				N/A				N/A	X				N/A	N/A				N/A
34	**Terms of Reference of the Change Advisory Board**	NO			X		N/A	N/A				N/A				N/A			X		N/A	N/A				N/A
35	**Internal Audit Plan**	NO			X		N/A	N/A				N/A			X	N/A			X		N/A	N/A				N/A
36	**Chinese Walls Manual**	YES					N/A	N/A				N/A				N/A			X		N/A	N/A				N/A

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37	**Declaration Policy**	NO					N/A	N/A				N/A				N/A			X		N/A	N/A				N/A
38	**Client satisfaction surveys**	NO					N/A	N/A				N/A				N/A					N/A	N/A	X			N/A
39	**Supervisory Report 2013**	YES					N/A	N/A				N/A	X			N/A					N/A	N/A				N/A
40	**Internal Audit Charter**	NO					N/A	N/A				N/A				N/A					N/A	N/A				N/A
41	**Strate Limited Termination Procedures**	YES					N/A	N/A				N/A				N/A					N/A	N/A				N/A
42	**Corporate Balanced Scorecard Board Report – June 2013**	NO		X			N/A	N/A				N/A				N/A			X		N/A	N/A	X			N/A
43	**Supervision On-site program**	NO					N/A	N/A				N/A	X			N/A					N/A	N/A				N/A
44	**Equities flows**	YES					N/A	N/A	X			N/A				N/A					N/A	N/A				N/A
45	**Bonds flows**	YES					N/A	N/A	X			N/A				N/A					N/A	N/A				N/A
46	**Money Market flows**	YES					N/A	N/A	X			N/A				N/A					N/A	N/A				N/A
47	**Equities Corporate Actions**	YES		X			N/A	N/A				N/A				N/A					N/A	N/A				N/A

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	timelines																									
48	**Directives Health Status Report – February 2013**	NO	X				N/A	N/A				N/A				N/A				X	N/A	N/A				N/A
49	**Contract Health Status**	NO	X																							
50	**Companies Act**	YES	X																							
51	**Governance Framework**	YES		X																						
52	**Promotion of Administrative Justice Act (2000)**	YES		X																						
53	**Finance Act 1986 (UK)**	YES											X													
54	**IT Dashboard**	NO																	X							