

Directive of Strate Proprietary Limited

Special Gazette No B1-2016

Strate Directive SD.2

Operational Market Windows – Off-market – Bonds - JSE





To cater for the settlement of bonds transactions concluded Off-market, not concluded through an Exchange, and which are reported by the sellers and purchasers to the relevant Participants for settlement through Strate¹

*Contents of this material are protected under South African copyright law. No part of this material may be copied, completely or partially, either electronically or manually, without the written consent of Strate (Pty) Ltd.
This material remains the sole property of Strate (Pty) Ltd.*

INDEX

1. INTERPRETATIONS AND DEFINITIONS

2. SETTLEMENT

Transaction Reporting

Commitment to Settlement

Settlement Problem Lists

Exclusion

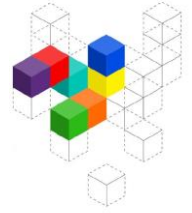
Settlement Runs

Failed Transactions

Moment of Finality of Instructions²

¹ "CSD" and "the CSD" amended to "Strate" throughout the document with effect from 1 August 2016

² Inserted with effect from 1 August 2016



INTERPRETATIONS AND DEFINITIONS³

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

‘Account Transfer’ means a free of payment transfer of Securities, resulting in no change in beneficial ownership, between a Client’s Securities Accounts, either at a single Participant or between Participants;

‘Capital Event’ means an action taken by an Issuer or any other entity or third party which affects the holders of Securities in terms of entitlements or notifications;

‘CD Transfer’ means a transfer of Securities from one Central Securities Account to another Central Securities Account;

‘Collateral Agreement’ means an agreement between a Collateral Provider and a Collateral Taker, in terms of which a Collateral Provider grants or transfers an interest in Securities to a Collateral Taker, whether by means of a pledge, cession *in securitatem debiti* (cession to secure a debt) or an out-and-out cession (outright transfer), in order to secure the performance of relevant obligations;⁴

‘Collateral Provider’ means a person who grants or transfers an interest in Securities to a Collateral Taker under a Collateral Agreement;⁵

‘Collateral Return Transaction’ means a transaction where Securities are returned by a Collateral Taker to a Collateral Provider under a Collateral Agreement;⁶

‘Collateral Taker’ means a person to whom an interest in Securities is granted or transferred by a Collateral Provider under a Collateral Agreement;⁷

‘Collateral Transaction’ means a transaction affecting the granting or the transfer of an interest in Securities to a Collateral Taker by a Collateral Provider under a Collateral Agreement;⁸

‘First Settlement Run’ means the First Settlement Run on S, at which time Securities are settled on a net basis;

‘Interest Rate Market’ means a market operated by the JSE in terms of the Act to facilitate trading in interest rate Securities;

‘JSE’ means JSE Limited Registration Number 2005/022939/06;

‘JSE Settlement Authority’ means the person or persons appointed by the JSE to manage the Settlement of transactions in loan stock effected through the Interest Rate Market Trading System in terms of the JSE’s Interest Rate Market and Currency rules and directives and the Strate Rules and Strate Directives;

‘Member’ means an authorised user of the JSE’s Interest Rate Market;

³ ‘Rules’ and ‘Directives’ changed to ‘Strate Rules’ and ‘Strate Directives’ throughout the document with effect from 1 August 2016

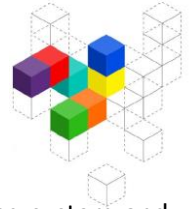
⁴ Added with effect from 2 June 2014

⁵ Added with effect from 2 June 2014

⁶ Added with effect from 2 June 2014

⁷ Added with effect from 2 June 2014

⁸ Added with effect from 2 June 2014



‘Off-market transaction’ means a transaction in bonds not concluded on an Exchange trading system and which is reported by the seller and purchaser to the relevant Participant for settlement through Strate;

‘On-exclusion’ means a transaction leg that is affected by a Trade Exclusion (through a knock-on effect) and which transaction leg, if unresolved, will need to be excluded from the First Settlement Run by a Participant, and placed in the Second Settlement Run;

‘Portfolio Movement’ means a free of payment transfer of Securities, resulting in no change in beneficial ownership, of a Client’s Securities portfolio when such Client changes service providers. The Portfolio Movement may take place between two Participants, two Brokers, two Investment managers or a combination thereof;

‘S’ means settlement day, the day on which that particular security will be settled through Strate;

‘Same Day Settlement’ means a transaction reported to Strate on the same day on which settlement occurs, irrespective of the actual trade date;⁹

‘SAMOS CPL’ means the SAMOS (South African Multiple Option Settlement System) Central Processing Line account as designated by the Participant, which is used for the purposes of funding the settlement of transactions;

‘Second Settlement Run’ means the Second Settlement Run on S, at which time Securities are settled on a gross transaction by transaction basis;

‘Securities Lending and Borrowing’ means an arrangement in terms of which a person (lender) lends Securities to another person (borrower) subject to the borrower agreeing to return the loaned Securities within an agreed time period. Once the loaned Securities have settled, ownership of the Securities is transferred to the borrower. The borrower has the right to sell or on-lend the Securities during the life of the loan. In return, the borrower agrees to compensate the lender for any Capital Events in respect of the Securities which that lender would have been entitled to receive during the period of the loan had the arrangement not been entered into;

‘Strate Operations’ means the operations division of Strate responsible for communication between Participants, Exchanges, SARB and Strate relating to settlement operations;¹⁰

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

‘Strate System’ means the computer system or systems and associated network or networks operated or used by Strate for the purpose of clearing and settlement of Securities, or any other purpose performed by Strate in terms of the Act;

‘T’ means trade date, the day on which a particular transaction was entered into; and

‘Trade Exclusion’ means a transaction leg that is excluded from the First Settlement Run by a Participant, and placed in the Second Settlement Run.

⁹ Added with effect from 2 June 2014

¹⁰ Amended with effect from 1 August 2016



2. SETTLEMENT

2.1 Transaction Reporting¹¹

- 2.1.1 Participants must report transactions to Strate on Business Days between 07h00 and 18h00, failing which they will be rejected by the Strate System.
- 2.1.2 All internal transactions, where the Participant is settling both legs of the transactions, must be reported to Strate.
- 2.1.3 Participants must report T+1, T+2 and T+3 transactions to Strate by 18h00 on S-1.
- 2.1.4 Transactions reported for settlement to Strate on S, irrespective of the trade date, will be considered same day transactions. Same Day transactions may be reported between 07h00 and 13h30.¹²
- 2.1.5 Transactions reported incorrectly for settlement to Strate on S must be cancelled or corrected, and not left to fail in the system. Correction of Same Day Settlement transactions can be effected within the Same Day Settlement window and cancellations before the end of day.¹³
- 2.1.6 Participants must, in writing, between 07h00 and 09h00, request authorisation from Strate Operations to open the Same Day Settlement Off-market corrective window in order to report Off-market transactions for settlement in the First Settlement Run on S.¹⁴
- 2.1.7 Where a Participant receives a transaction instruction after the cut-off time for reporting transactions to Strate, the Participant may facilitate the settlement process by reporting the transaction to Strate for the next available settlement date. This facilitation process may continue for a maximum of 10 (ten) Business Days after the trade date of the original instruction, after which the Participant must cancel the original instruction. The Participant is not permitted to amend the trade date of the original instruction.
- 2.1.8 Participants must only use the CD Transfer functionality in the Strate System for the reporting of Account Transfers, Portfolio Movements, Collateral and Collateral Return and Securities Lending and Borrowing transactions.¹⁵

2.2 Commitment to Settlement¹⁶

- 2.2.1 Participants must immediately notify affected Members and Clients of problem transactions.
- 2.2.2 Participants must commit to final net settlement positions for the First Settlement Run, after the Trade Exclusion process, by 10h30 on S. Participants may request Strate Operations to extend the First Settlement Run for a maximum period of 30 (thirty) minutes, subject to the request having been received in writing by 10h15. Failure to commit by the cut-off time is not permitted, as it will result in the delay of the First Settlement Run.

¹¹ Amended with effect from 1 August 2016

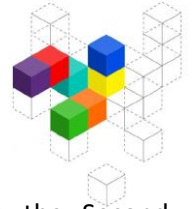
¹² Amended with effect from 9 March 2015 and 21 April 2015

¹³ Amended with effect from 2 June 2014

¹⁴ Amended with effect from 15 June 2015

¹⁵ Amended with effect from 2 June 2014

¹⁶ Section amended with effect from 1 August 2016



- 2.2.3 ¹⁷Notwithstanding 2.2.7.1, Participants must commit to transactions settling in the Second Settlement Run by 14h00 on S.
- 2.2.4 Where Participants request Strate Operations to extend the Second Settlement Run for a maximum period of 30 (thirty) minutes, the request must be received in writing by 14h15. Participants must commit to transactions within the time parameters of the extension granted.¹⁸
- 2.2.5 Only the Participant, for whom the Second Settlement Run has been extended, may commit to further transactions between 14h30 and 15h00 on S. Participants must not commit to any unauthorised transactions during the extension of the Second Settlement Run.¹⁹
- 2.2.6 Participants must within 1 (one) hour of becoming aware of affected problematic transactions, notify in writing, the counterparty Participant about the affected problematic transactions.²⁰
- 2.2.7²¹
- 2.2.7.1 In the event that a Participant intends to commit or un-commit to a transaction 30 (thirty) minutes prior to the commencement of the Second Settlement Run, then:
- a) The initiating Participant must send a written notification to the counterparty Participant and copy Strate Operations on the same notification;
 - b) The counterparty Participant must agree to the opening of the commit or un-commit window in writing; and
 - 1.
 - c) Once the counterparty Participant has agreed in writing, the initiating Participant must telephonically request Strate Operations to open the commit or un-commit window. Upon receipt of the telephonic request, Strate Operations opens the commit or un-commit window for a maximum period of 30 (thirty) minutes.
- 2.2.7.2 No unauthorised commit or un-commit instructions may be reported during the opening of the commit or un-commit window in terms of 2.2.7.1.²²

2.3 Settlement Problem Lists²³

- 2.3.1 Participants must advise Strate Operations and the JSE Settlement Authority of transactions that they are unable to commit to, if there are any on-market Interest Rate Market dependent transactions by 15h30 on S-1 and 08h00 on S. Any amendments to the 15h30 settlement problem list must be sent to Strate Operations and the JSE Settlement Authority between 15h30 and 18h00 on S-1. The 08h00 settlement problem list must include reasons for the inability to commit.
- 2.3.2 Participants must include the details of the first Member affected by any Trade Exclusion on all the lists submitted in terms of 2.3.1.

¹⁷ 2.2.3 to 2.2.7 amended with effect from 9 March 2015

¹⁸ Amended with effect from 1 August 2016

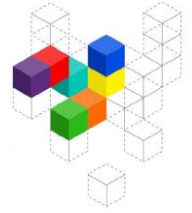
¹⁹ Amended with effect from 1 August 2016

²⁰ Amended with effect from 1 August 2016

²¹ Amended with effect from 15 June 2015

²² Amended with effect from 1 August 2016

²³ Section amended with effect from 1 August 2016



2.4 Exclusions²⁴

- 2.4.1 Participants must, in writing, notify the counterparty Participant to the affected problematic transactions, of their intention to exclude corresponding transaction legs on their side, prior to capturing Trade Exclusions or On-exclusions.
- 2.4.2 Strate Operations opens the exclusion window at 07h00 on S. Participants must only capture transaction details that are listed on the 08h00 settlement problem list.
- 2.4.3 Participants must resolve the knock-on effects of Trade Exclusions by 10h00 on S.
- 2.4.4 Participants must pursue resolution of the knock-on effect with its Clients and reconstitute the settlement position by 10h00 on S. If the settlement positions are not resolved by 10h00 on S, the Participants must request extension of the exclusion window.
- 2.4.5 Participants must send, in writing, transaction leg details and corresponding counterparty transaction leg numbers of the Trade Exclusions within 1 (one) hour of completion of the First Settlement Run if they have not yet already done so.

2.5 Settlement Runs²⁵

- 2.5.1 The First Settlement Run commences at 10h30 on S once all Participants have committed to their net settlement positions. Strate advises Participants systematically of the funding requirements they need to fund through SAMOS.
- 2.5.2 The Second Settlement Run commences at 14h30 on S and any transactions not committed by 14h30 will fail. Strate advises Participants systematically of the funding requirements they need to fund through SAMOS.
- 2.5.3 Participants must fund their designated SAMOS CPL accounts within 30 (thirty) minutes of receiving the funding advice from Strate.
- 2.5.4 Where both legs of a transaction occur within the same Participant, these must be reported to Strate within the parameters set out in this Strate Directive.

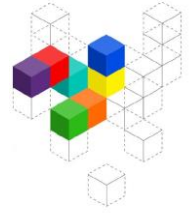
2.6 Failed Transactions²⁶

- 2.6.1 Only the following transactions will be allowed to fail in Strate:
 - 2.6.1.1 Transactions that are reported against a counterparty who does not match the transaction;
 - 2.6.1.2 Transactions that are reported but are short of Securities; and
 - 2.6.1.3 Funding of settlement which is not done during the specified settlement window.

²⁴ Section amended with effect from 1 August 2016

²⁵ Section amended with effect from 1 August 2016

²⁶ Section amended with effect from 9 March 2015



2.7 Moment of Finality of Instructions²⁷

2.7.1 The Moment of Finality of Instructions referred to in the Strate Rules is:

2.7.1.1 in respect of transactions that settle on a net basis, 10h30 on S; and

2.7.1.2 in respect of transactions that settle on a gross basis, 14h30 on S.

²⁷ Section inserted with effect from 1 August 2016