



Directive of Strate Proprietary Limited

Special Gazette No M5-2016

Strate Directive SE.5

Processing of Capital Events –Money Market Securities





To cater for the efficient processing of Coupon and Maturity Payments in respect of MM Securities

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1 DISCLAIMER¹

- 1.1 Strate shall not be liable to any person for any delays in the sending or non-receipt of payments and other entitlements.
- 1.2 Strate shall not be responsible or liable to any person for any loss or damage resulting from:
 - 1.2.1 any delay, act or omission on the part of any third party;
 - 1.2.2 incorrect, inaccurate, defective or misleading information furnished or supplied by the MM Issuer or any third party; or
 - 1.2.3 the interruption or failure of communications links, power failure, the loss or destruction of any data and any loss or damage caused by natural disaster, riot, insurrection, acts of vandalism, sabotage or similar cause.
- 1.3 Strate shall not be liable for any loss incurred by any person as a result of amendment and, or cancellation of any Capital Event or variable Coupon Rate indices by the MM Issuer or any third party.

2 INTERPRETATIONS AND DEFINITIONS²

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

‘Beginning of Day (BOD)’ means the time as stipulated in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*;

‘Business Day’ means all days excluding Saturdays, Sundays and public holidays. Ad hoc public holidays declared by the South African Reserve Bank with less than five (5) Business Days’ notice constitute a Business Day;

‘Capital Event’ means an action taken by an MM Issuer or Issuer Agent which affects the holding or entitlement of the owners of MM Securities;

‘Coupon Payment’ means a Capital Event which involves payment of interest by an MM Issuer to the owners of the MM Securities;

‘Coupon Payment Date’ means the date on which a Coupon Payment will be paid;

‘Coupon Payment Interval’ means the time interval between two consecutive Coupon Payments;

‘Coupon Payment Period’ means the number of days on which the Coupon Payment calculation is based;

‘Coupon Rate’ means the percentage at which interest is calculated for the Coupon Payments;

‘Coupon Reset Date’ means the date on which the Coupon Rate is adjusted for the next Coupon Payment Interval;

¹ ‘CSD’ changed to ‘Strate’ throughout the document with effect from 1 December 2016

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

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‘Coupon Reset Interval’ means the time interval between two consecutive Coupon Reset Dates;

‘Default Coupon Payment Date’ means, where a Coupon Payment Date is not specified by the MM Issuer, the day of the month on which the MM Security was issued;

‘End of Day (EOD)’ means the time as stipulated in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*;

‘Eligible Nominal Value’ means the total Issued amount per ISIN minus the balance in the Issuer’s MM Securities Account;

‘Maturity Date’ means the date on which an MM Issuer makes a Maturity Payment;

‘Maturity’ and ‘Maturity Payment’ means a Capital Event which involves the repayment of capital by an MM Issuer to the owners of the MM Securities;

‘MM Securities Account’ means a Securities Account opened and maintained by or on behalf of a Participant for a Client, or for itself, in the Securities Ownership Register reflecting the Client Identification Data of such Client, or itself, and the nominal value of MM Securities deposited and all entries made in respect of such MM Securities;

‘MM Securities Account Nominal Value’ means the total holdings of an MM Security in the MM Securities Account;

‘Money Market Securities Register’ or ‘MMSR’ means the register in the MMSS in which all MM Securities issued, and details thereof, are recorded in accordance with Strate Directive SE.2 – *Master File Administration – Money Market Securities*;

‘MMSS’ means the electronic Money Market Settlement System that facilitates securities services with regards to MM Securities;

‘Modified Following Business Day’ means the first following Business Day, unless the first following Business Day is in the next calendar month, in which case the applicable date will be the last Business Day of that month;

‘On-us’ means settlement through accounting entries within a Settling Bank acting for both the seller and purchaser of an MM Security, or acting for an MM Issuer making Coupon and Maturity Payments, and a Participant with a Client qualifying to receive Coupon and Maturity Payments from the MM Issuer;

‘Payment Date’ means the day on which Capital Events are paid;

‘Pledgee’ means the person to whom MM Securities have been pledged;

‘Pledgor’ means the person who has pledged its MM Securities;

‘Reconciliation Date’ means the EOD on the day before Payment Date of a Capital Event;

‘Repurchase Agreement’ or ‘Carry’ means two simultaneous transactions to purchase MM Securities and the commitment by the seller to repurchase the MM Securities at the same price at an agreed future date;



'Sell and Buy Back means a Repurchase Agreement or Carry whereby the intention of the seller is to sell the MM Securities to the purchaser conditional to the purchaser returning the same MM Securities, or, if agreed to by the parties, MM Securities with the same or similar characteristics;

'SAMOS RTL' means the SAMOS Real Time Line payment stream;

'Settling Bank' means a bank which is a settlement system participant in SAMOS and is responsible for funding the SAMOS RTL for the settlement of transactions, Coupon and Maturity Payments. The Settling Bank also confirms On-us settlement of transactions, Coupon and Maturity Payments;

'SOR' means Securities Ownership Register.

3 COUPON PAYMENT / RESET INTERVAL

3.1 The Coupon Payment Interval must be one of the following:

- 3.1.1 Monthly;
- 3.1.2 Quarterly;
- 3.1.3 Semi-annually;
- 3.1.4 Annually;
- 3.1.5 Term (Coupon Payment is made on Maturity Date);
- 3.1.6 Issuer Defined (Issuer can define a set of payment dates)³

3.2 The Coupon Reset Interval must be one of the following:

- 3.2.1 Monthly;
- 3.2.2 Quarterly;
- 3.2.3 Semi-annually;
- 3.2.4 Annually;
- 3.2.5 Issuer Defined (Issuer can define a set of reset dates);
- 3.2.6 Adhoc.

4 COUPON PAYMENT DATE

4.1 Where a Coupon Payment Date is not specified by the MM Issuer, the default Coupon Payment Date is on the day of the month on which the MM Security was issued. This is applicable for monthly, quarterly, semi-annually and annual Coupon Payment Intervals.

4.2 Where the specified or default Coupon Payment Date is on a day greater than the number of days in the month in which the Coupon Payment Interval falls, then the last day of the month is deemed to be the Coupon Payment Date.

4.3 Where the final Coupon Payment Date is not specified by the MM Issuer, the default Coupon Payment Date is the Maturity Date of the MM Security.

4.4 Where the Coupon Payment Date is a Sunday or public holiday, the payment is made on the next Business Day and the Coupon Payment is accrued up to and including the Reconciliation Date.

³ Amended with effect from 1 March 2016
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5. COUPON PAYMENT PERIOD

- 5.1 Where the Coupon Payment Date is the same day of the month as the date on which the MM Security was issued:
 - 5.1.1 The first Coupon Payment Period is based on the Coupon Payment Interval calculated from the date of issue of the MM Security to the day before the Coupon Payment Date, inclusive;
 - 5.1.2 Any additional interim Coupon Payment Periods are based on the Coupon Payment Interval calculated from the last Coupon Payment Date to the day before the current Coupon Payment Date, inclusive;
 - 5.1.3 The final Coupon Payment Period is based on the number of days from the last Coupon Payment Date to the day before Maturity Date, inclusive.

- 5.2 Where the Coupon Payment Date is specified by the MM Issuer:
 - 5.2.1 The first Coupon Payment Period is based on the number of days from the date of issue of the MM Security to the day before the Coupon Payment Date, inclusive;
 - 5.2.2 Any additional interim Coupon Payment Periods are based on the Coupon Payment Interval calculated from the last Coupon Payment Date to the day before the current Coupon Payment Date, inclusive;
 - 5.2.3 The final Coupon Payment Period is based on the number of days from the last Coupon Payment Date to the day before Maturity Date, inclusive.

- 5.3 Coupon and Maturity Payments will not be made on non-Business Days. When a Coupon Payment Date or Maturity Date falls on a Non-Business Day, these payments will be made on the Modified Following Business Day.

6. RECONCILIATION DATE

- 6.1 On Reconciliation Date, Strate must send Capital Event details to the Issuer Agent and Participants.

- 6.2 Participants may elect to receive Capital Event details per event in the following formats, or a combination thereof:
 - 6.2.1 Coupon Payment amounts per MM Securities Account;
 - 6.2.2 Total Coupon Payment amount per Participant and MM Issuer per ISIN.

7. AUTOMATED CALCULATION OF COUPON PAYMENTS

- 7.1 Where the MM Issuer has elected to have automated Coupon Payment calculation:
 - 7.1.1 Coupon Payments are calculated for all entitled holders in the SOR for MM Securities that have Coupon Payment or Maturity Dates falling on the next Business Day;
 - 7.1.2 The Coupon Payments calculated are recorded in the SOR per MM Securities Account;
 - 7.1.3 The MM Issuer must notify Strate which of the following Coupon Payment calculation methods must be used when calculating Coupon Payments per MM Securities Account:



7.1.3.1 Coupon Payment calculation method 1 (minimum tradeable denomination)

Coupon Payment per MM Securities Account = $\{[(\text{Minimum tradable denomination} * \text{Coupon Rate} * \text{No. Days at Coupon Rate}) / 365]$ rounded to 7 decimal places} * $[(\text{MM Securities Account Nominal Value} / \text{Minimum tradable denomination})]$ rounded to 2 decimal places;

7.1.3.2 Coupon Payment calculation method 2 (using Nominal Value of 1 Rand)

Coupon Payment per MM Securities Account = $[(\text{MM Securities Account Nominal Value} * \text{Coupon Rate} * \text{No. Days at Coupon Rate}) / 365]$ rounded to 2 decimal places;

7.1.3.3 Coupon Payment calculation method 3 (Issuer Agent calculated)

The Coupon Payment method used when the Issuer Agent has calculated the Coupon Payments and is supplying the total Coupon Payment as the basis from which Coupon Payments at MM Securities Accounts level are calculated:

Coupon Payment per MM Securities Account = $[(\text{MM Securities Account Nominal Value} / \text{Total Eligible Nominal Value}) * \text{Total Coupon Payment amount supplied by the MM Issuer}]$ rounded to 2 decimal places.

8. PROCESSING OF AUTOMATED CAPITAL EVENTS

- 8.1 Each Capital Event is assigned a unique Capital Event identification number by the MMSS.
- 8.2 Automated Capital Event payments are processed in terms of the time intervals stipulated in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*.
- 8.3 On the date on which an MM Security is issued, an MM Issuer must notify Strate whether it will settle Capital Event payments through its own systems or via the MMSS.
- 8.4.1 Where the MM Issuer has elected automated Capital Events (only applicable for Generic Category 2 MM Securities), it must, through its Issuer Agent, indicate to Strate whether it wishes Strate to calculate the total Coupon Payment amount or if its Issuer Agent will notify Strate of the total Coupon Payment amount. If the Issuer Agent elects to notify Strate of the Coupon Payment amount then Strate must notify such Issuer Agent of the amount in issue.
- 8.4.2 For Generic Category 3 MM Securities, the Issuer Agent must notify Strate of the total Coupon Payment amount based on the amount in issue provided by Strate.
- 8.5 An MM Issuer that elects automated Capital Event payments via the MMSS must fund the payment through its Settling Bank.
- 8.6 Automated Capital Event payments are paid to the Participants of entitled MM Securities Accounts via the Participants' Settling Banks.
- 8.7 Participants must distribute the Capital Event payment amounts received to their entitled Clients. The payment of automated Capital Events is not made from the MM Issuer's Settling Bank into the bank accounts nominated by the Participants' Clients.



- 8.8 Capital Event payments are not made for any amount accruing to the MM Issuer's holdings of its own MM Securities issued. On Maturity Date, the MM Issuer's holding of its own MM Securities issued in its MM Securities Account is cleared to zero.
- 8.9 Where MM Securities have been pledged, Coupon Payments accrue to the Participant whose Client has pledged the Securities.
- 8.10 3 (Three) days prior to the Maturity Date of an MM Security, the MMSS sends a notification of the pending maturity to both the Participants of the Pledgor and the Pledgee. The onus is on the Participants to follow up on these pledged MM Securities.
- 8.11 On Reconciliation Date, the MMSS automatically releases holdings that remain pledged by the Pledgor, to the Pledgor's Free Balance in its MM Securities Account and the Maturity Payment accrues to the Pledgor. The MMSS automatically releases holdings that remain pledged by the Pledgor, from the Pledgee's Pledge From Balance in the Pledgee's MM Securities Account.
- 8.12 Where a Participant has frozen its Clients MM Securities Account, Capital Event payments are made to such Participant.
- 8.13 At BOD on Maturity Date, the MM Security is flagged as "inactive" in the MMSR. Once Maturity Payments have been paid to Participants and confirmation of settlement of the Maturity Payment has been received from the SARB or a Settling Bank, in respect of On-us transactions, the associated MM Security holdings in the SOR are set to zero.
- 8.14 Where an MM Issuer withdraws a Capital Event before Reconciliation Date, the MM Issuer's Issuing Agent must inform Strate and request Strate to remove the Capital Event from the MMSS.
- 8.15 On Reconciliation Date, the MMSS sends notification of the Coupon Payments, including a unique Capital Event number, to the Issuer Agent and Participants. Where Participants have opted to receive preliminary and final notifications of Coupon Payments, these notifications will be sent on RD-15 and RD-10, respectively. Where the MM Issuer has elected that Strate perform the calculation of the total Coupon Payment amount, this amount is included in the notification of the Coupon Payment.⁴
- 8.16 Where the MM Issuer has elected Strate to calculate the total Coupon Payment amount (only applicable for Generic Category 2 MM Securities), the Issuer Agent must check the total Coupon Payment amount advised by the MMSS and send a message to the MMSS to confirm whether it is in agreement with the amount. Should the Issuer Agent disagree, Strate will liaise with the Issuer Agent and, where required, notify Participants of the updated total Coupon Payment amount.⁵
- 8.17 The MMSS sends a Payment Advice to the Issuer Agent, including the Capital Event identification number, for the amount to be paid by the MM Issuer to each Participant.

⁴ Amended with effect from 1 March 2016

⁵ Amended with effect from 1 March 2016



- 8.18 Issuer Agents must communicate the funding instructions received from Strate to the MM Issuer on whose behalf they are acting.
- 8.19 The MM Issuer's Settling Bank must send:
- 8.19.1 a settlement instruction to SAMOS RTL for each Participant to be paid; and
 - 8.19.2 a payment advice to the Settling Bank of each Participant to be paid.
- 8.20 Where the MM Issuer and a Participant use the same Settling Bank, the Settling Bank must send confirmation of any intra-bank ("On-us") settlement to the MMSS.
- 8.21 SAMOS must send confirmation of payments made to the MMSS.
- 8.22 Once the MMSS has reconciled the settlement confirmations received from SAMOS and the "On-us" confirmations received from the MM Issuer's Settling Bank to the total Capital Event amount, it sends confirmation messages to the Issuer Agent confirming that the total Capital Event payment has been settled and each Participant which was paid.
- 8.23.1 Where a Capital Event cannot be settled by the MM Issuer's Settling Bank within the time stipulated in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities*, Strate will facilitate the processing of the Capital Event up to PD+2. Where Strate does not receive payment by 15h00 PD+2, Strate shall withdraw the Capital Event from its system and notify Participants of withdrawal of the Capital Event by 17h30 on PD+2. After PD+2, settlement of the Capital Event must be handled outside the MMSS.⁶
- 8.23.2 Once Strate is notified by the Issuer Agent of full settlement of a Maturity Payment, the associated MM Securities holdings in the SOR are set to zero.
- 8.23.3 Where Strate is notified by the Issuer Agent of partial settlement of the Maturity Payment, the associated MM Securities holdings in the SOR are reduced accordingly. Strate will maintain the remaining MM Securities holdings in the SOR in accordance with Strate's record retention procedures.⁷
9. SELL AND BUY BACKS
- 9.1 Should the second leg of a Sell and Buy Back be open 3 (three) days prior to Maturity of the ISIN, the Participant is notified of the upcoming Maturity.
- 9.2 On Reconciliation Date should the second leg still be open, that second leg is failed and the Maturity proceeds paid to the Participant of the holder of the MM Securities.
- 9.3 It is the responsibility of the traders to monitor this open second leg and report the replacement legs within the time stipulated in Strate Directive SE.3 – *Operational Market Windows – Money Market Securities* and in accordance with Strate Directive SE.4 – *Trade Reporting, Matching, Clearing, Commitment and Settlement of Money Market Securities*.

⁶ Amended with effect from 1 March 2016

⁷ 8.23.4 deleted with effect from 1 March 2016

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