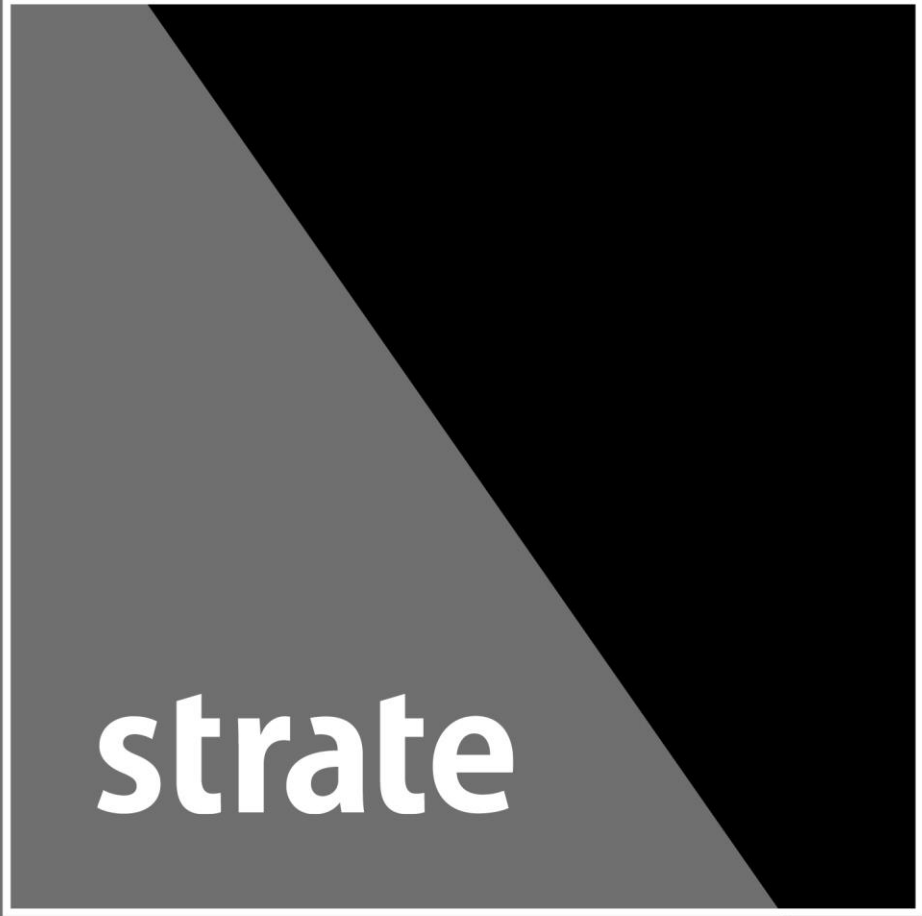


Directive of Strate (Pty) Ltd

Special Gazette No. S19-2025
Strate Directive SA.2 -
Requirements for Financial Soundness

The logo consists of a large white square centered on the page. Inside this square, the word "strate" is written in a bold, lowercase, sans-serif font. The background of the entire page is black, with a large grey triangle on the left side and a teal triangle in the bottom right corner.

strate

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

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1. Interpretation and Definitions

This Strate Directive should be read in conjunction with Strate Directive SZ.1 - *Interpretation and Definitions*.

2. Financial Soundness Requirements

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

Category	Sub-Category	Market	Requirement
Participant	Bank (including branches of foreign banks)	Equities, bonds, MM Securities, CIS Securities, Global CIS Securities	No capital requirements other than those already imposed in terms of the Banks Act, 1990.
	Non-Bank	Equities, bonds, MM Securities, CIS Securities, Global CIS Securities	A Base Requirement (as determined in 2.1 below); plus a Custody Risk Requirement (as determined in 2.2 below).
Corporate Participant	Bank (including branches of foreign banks)	Equities, bonds, MM Securities, CIS Securities, Global CIS Securities	No capital requirements other than those already imposed in terms of the Banks Act, 1990.
	Non-Bank	Equities, bonds, CIS Securities, Global CIS Securities	A Base Requirement (as determined in 2.1 below); plus, a Custody Risk Requirement (as determined in 2.2 below).
		Money Market Securities	No capital requirements.

2.1 Base Requirement (“BR”)

- 2.1.1 The BR shall be the amount deemed necessary to satisfy the Participant’s operational expenditure for a duration of six (6) months. The determination of this amount shall be subject to agreement with Strate Supervision.
- 2.1.2 An illustrative example of the computation of the BR is set out in the appendix.
- 2.1.3 In order to comply with the requirements set out in 2.1 and 2.2, the Participant must provide Strate with a bank guarantee: -
 - 2.1.3.1 for an amount equal to no less than the BR;
 - 2.1.3.2 issued by a local Bank acceptable to Strate;
 - 2.1.3.3 issued in accordance with wording approved by Strate;
 - 2.1.3.4 with a minimum duration of 12 (twelve) months (renewable);
 - 2.1.3.5 that remains in force and effect for the entirety of the stipulated period, and any renewal or replacement thereof shall be provided to Strate not less than thirty (30) days prior to the guarantee’s expiry date; and
 - 2.1.3.6 be subject to a minimum cancellation period of 3 (three) months.
- 2.1.4 Strate will call upon the bank guarantee where an Insolvency Proceeding occurs in respect of a Participant.

2.2 Custody Risk Requirement (“CRR”)

- 2.2.1 The holding of securities in custody introduces risk for which a Participant is required to hold capital. The amount of capital required is based on the market value of assets held under custody (“AUC”) by that Participant.
- 2.2.2 An illustrative example of the computation of the CRR is set out in the appendix.
- 2.2.3 In order to comply with this requirement a Participant must, on admittance and at all times thereafter, hold sufficient Adjusted Liquid Capital (“ALC”) to meet the CRR applicable to it.
- 2.2.4 The computation of the ALC must be agreed with the Head of Strate Supervision at the time of the initial application. Alterations to qualifying sources of capital may be made from time to time in consultation with Strate Supervision.
- 2.2.5 *Computation of CRR*

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

- 2.2.5.1 A minimum of R3 million;
 - 2.2.5.2 0,1% of the market value of assets under custody where this value exceeds R300 million but is less than R2 billion; and
 - 2.2.5.3 0,01% of the market value of assets under custody in excess of R2 billion.
- 2.2.6 For the purpose of this Strate Directive, assets under custody shall include all Equity Securities, Bond Securities, Money Market Securities and/or CIS Securities held by the Participant.

2.3 Strate Supervision Requirements

- 2.3.1 A Participant is obliged to confirm its BR and CRR computations (as applicable) to Strate Supervision, on a frequency and in a format determined by the Head of Strate Supervision from time to time (refer to paragraph 3: Disclosure Template).
- 2.3.2 To the extent that a Participant is found to be in breach of the minimum requirements stipulated by this Strate Directive, Strate Supervision shall, in accordance with the Strate Rules, agree with the Participant the actions required to remedy the breach.
- 2.3.3 Failure to satisfy these requirements may result in disciplinary action being taken in accordance with the Strate Rules.

2.4 Exclusions

- 2.4.1 The Controlling Body may, at its discretion, exempt any institution from the provisions of this Strate Directive.
- 2.4.2 Exclusions currently include:
 - 2.4.2.1 The South African Reserve Bank; and
 - 2.4.2.2 The National Treasury (established under section 5 of the Public Finance Management Act, 1999).

3. Disclosure Template

- 3.1 In terms of paragraph 2.3.1 of Strate Directive SA.2 – *Requirements for Financial Soundness* and the Strate Supervision requirements, the template below must be completed and submitted by the Strate Compliance Officer of a Participant (or the designated alternate), for the period stipulated by Strate Supervision.

The template must be returned to strate-supervision@strate.co.za.

FINANCIAL SOUNDNESS DISCLOSURE

Full Name of Participant: _____

Disclosure for the period ending: _____

Section 1

Please tick the relevant block below indicating the applicable categories of participation.

		Market	Category of participation (please tick relevant block)
Participant			
	Non-Bank	Equities	
		Bonds	
		Money Market Securities	
		CIS Securities or Global CIS Securities	
Corporate Participant			
	Non-Bank	Equities	
		Bonds	
		CIS Securities or Global CIS Securities	

Section 2

A. Base Requirement Declaration

I _____(full name)_____ in my capacity as _____ (position)
confirm that the bank guarantee issued by _____(name of Bank) in favour of Strate

(Pty) Ltd, in the amount of R_____, has been issued in accordance with the requirements stipulated in Strate Directive SA.2 – *Requirements for Financial Soundness*.

Signature:_____

Date:_____

B. Illustrative Operating Expenditure Calculation

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

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

Expense Category	Amount
Accounting and secretarial or other services	
Auditors' remuneration	
Insurance	
IT infrastructure (hardware and software) licensing and maintenance costs	
Motor vehicle expenses	
Office rental	
Municipal charges (if separate from office rental)	
Printing and stationery	
Salaries and wages	
Strate charges and fees	
Tax obligations	
Telephone, Postage etc	
Interest expense or finance charges	
Other	
Total operational expenses for 6 months	R

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

- (1) Depreciation and profits or losses on sales of fixed assets are non-cash items and hence shall not be taken into account.

- (2) Non-contractual payments by way of profit shares or performance related bonuses shall be excluded.
- (3) Non-recurring items may be excluded, subject to approval of the Head of State Supervision.

Section 3

A. Illustrative Custody Risk Requirement ("CRR") Computation

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

	Participant	Corporate Participant
Equities	0	0
Bonds	0	0
Money Market Securities	0	0
CIS Securities or Global CIS Securities	0	
Total	0	0

B. Illustrative Adjusted Liquid Capital ("ALC") Computation.

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

The table below illustrates how the ALC is computed:-

Ordinary share capital	0
Preference share capital	0
Share premium account	0
Reserves	0
Audited retained earnings (or accumulated losses)	0
Unaudited profit (or loss)	0
Owners' equity	0

Add:-

Subordinated loans to the company	0
Guarantees available	0
Total capital resources	0

Subtract:-

Intangible assets	0
Guarantees provided	0
Capital subject to preferential claims	0

Available capital resources

0

Subtract:-

Illiquid assets

0

Fixed assets, net of related secured loans

0

Investments in unlisted securities

0

ADJUSTED LIQUID CAPITAL (B)

C. Confirmation of Adherence to Minimum Requirements:

ALC (B): R _____

Less

CRR (A): R _____

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

D. Declaration:

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

Name of State Compliance Officer or Alternate Compliance Officer:

Name:

Date:

Signature: