

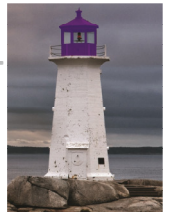
# SEGREGATED DEPOSITORY ACCOUNTS CONCEPT



[www.strate.co.za](http://www.strate.co.za)

***strate*** 

*South Africa's Central Securities Depository*



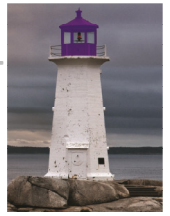
## Introduction

The inter-dependence of the world's financial markets took centre stage with the failure of Lehman Brothers in September 2008. As the significance of this event has rippled through the financial world, many financial institutions and Investors are calling for higher levels of transparency, increased regulation and improved access to their Securities in the event of an intermediary failure. Increasingly the co-mingling of Securities and legal certainty of title has come into question where Client's Securities are placed under the legal ownership of a Custodian or Central Securities Depository (CSD) Participant, in an indirect Securities holding model.

An international trend has recently developed whereby Clients are becoming more insistent on having their Securities safe keeping accounts opened directly in the books of the CSD in order to further protect themselves in the event of an Insolvency Proceeding being instituted against their chosen Custodian or CSD Participant in the local market.

Strate in conjunction with its Participants and supported by the Financial Services Board (FSB), has introduced the concept of Segregated Depository Accounts (SDAs) in South Africa – the key purpose of which is to provide a safe-keeping account structure for Investors ahead of any Insolvency Proceeding being instituted against their chosen Participant with full legal ownership remaining undisturbed.

The product is designed to reduce market, price and operational risk by avoiding a situation where the Securities may otherwise have been trapped in the books of the failed Participant while the Insolvency Administrator endeavours to identify their ownership and return the Securities to the rightful owner. The SDA functionality significantly enhances the portability of a clients holdings, allowing them to engage with an alternate service provider at short notice thereby ensuring that if there was an Insolvency Proceeding instigated against their Participant, their account would not be frozen by the Insolvency Administrator and the Client could continue trading in that account in a relatively seamless manner.



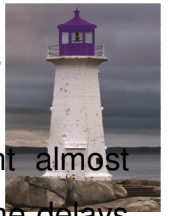
## Segregated Depository Accounts in South Africa

The Companies Act, 2008 (Act 71 of 2008) (effective 1 May 2011) enabled Strate to revise its CSD Rules to allow legal record of ownership to be recorded at the CSD. By allowing Clients' SDAs to be opened directly in the books of the CSD, Investors will be granted full legal ownership rights upon credit of their accounts, providing legal certainty to Investors in the current intermediated Securities environment. While Clients' Securities held in CSD Participants' nominee accounts will not fall in the intermediary's estate in the event of an Insolvency Proceeding (see specifically section 40(2)(a) of the Securities Services Act (Act 36 of 2004)), the proposed SDAs guarantee full legal ownership and direct access at CSD level.

### Benefits of a Segregated Depository Account

SDAs offer numerous benefits to Clients and Investors, including:

- The option of opening a direct SDA at the CSD as opposed to remaining in a Sub-register holding chain in the name of a CSD Participant Nominee;
- Clients/Investors who select the option, through their CSD Participant, to open an SDA directly with the CSD, have the legal security and protection of their Securities in the case of an Insolvency Proceeding against their CSD Participant, thereby reducing both operational and systemic risks;
- In the event of an Insolvency Proceeding, this product is designed to reduce market, price and operational risk by avoiding a situation where the Securities may otherwise have been trapped in the books of the failed Participant, while the Insolvency Administrator endeavors to identify their ownership and return the Securities to the rightful owner;
- The SDA functionality significantly enhances the portability of Clients holdings, allowing them to engage with an alternate service provider at short notice thereby ensuring that if there was an Insolvency Proceeding instigated against their Participant, their account would not be frozen by the Insolvency Administrator and the Client could continue trading in that account in a relatively seamless manner; and
- The ability to appoint a Primary and Secondary Participant where, in the event of Insolvency Proceedings being instituted against the Primary Participant, the custody and administration of



the Client's Securities can be switched to their appointed Secondary Participant almost immediately. This has the effect of significantly reducing the risks associated with time delays and other operational impacts while having to move a portfolio from one Participant to another.

## Principles of a Segregated Depository Account

The following principles apply to all SDAs:

- The SDA is opened in the records of the CSD by the Primary Participant;
- The Client / Investor may pre-appoint a Secondary Participant and details of the appointment are provided to the CSD via the Primary Participant as well as by the Secondary Participant;
- The Primary and Secondary Participants are responsible for entering into or amending a Safe Custody Agreement / Client Mandate with the Client / Investor;
- Where applicable, the SDA account holder must ensure that all standing instructions in place with their Primary Participant, are communicated and switched to the Secondary Participant in the event of an Insolvency Proceeding being instituted against the Primary Participant; and
- The requirements and approval of nominee accounts (local or foreign nominees) remain unchanged whether they open a Securities Account in the Sub-register model or an SDA.

## Conclusion

In line with international trends and Clients' evolving requirements and needs, the South African market provides local and international Investors with an alternative account structure in the event of an Insolvency Proceeding being instituted against a Participant.

## About Strate

Strate Limited (Strate) is the licensed Central Depository (CSD) and a Self-Regulatory Organisation (SRO) in South Africa in terms of the Securities Services Act, 2004 (SSA). To fulfill its legislative SRO requirements, Strate supervises compliance by Participants with the SSA, the Strate Rules and Directives. This effectively means that Strate regulates the custody and settlement operations of the Participants.

Strate's core purpose is to mitigate risk, bring efficiencies to South Africa's financial markets and improve its profile as an investment destination. Strate is aligned to international best practices and

# SEGREGATED DEPOSITORY ACCOUNTS CONCEPT



continually strives to ensure operational excellence and provide enhancements for the good of the Southern Africa financial markets. Strate handles the settlement of a number of Securities including equities and bonds for the Johannesburg Stock Exchange (JSE) as well as the range of derivative products such as warrants, Exchange Traded Funds (ETFs) retail notes and tracker funds. It has now added the settlement of money market to its portfolio of services. It provides services to Issuers for their Investors in terms of the Companies Act and Securities Services Act.

Additional information may be found at [www.strate.co.za](http://www.strate.co.za) | Twitter: @strateltd | YouTube:

[www.youtube.com/user/StrateLtdCSD](http://www.youtube.com/user/StrateLtdCSD) | Facebook: <http://www.facebook.com/#!/groups/107241797726/>

| LinkedIn: <http://za.linkedin.com/pub/strate-ltd/22/1b/195>