

strate≡

South Africa's Central Securities Depository

Corporate Action Payments via Central Bank Funds - Frequently Asked Questions



1. How does the debit authority work? Is the issuer giving Strate the blanket authority to debit their bank account?

No, the debit authority is signed between the issuer and their settling bank. Therefore, the issuer will provide their settling bank with the debit authority on their bank account.

Strate (Pty) Ltd will send a Society for Worldwide Interbank Financial Telecommunication (SWIFT) notification to the issuer's settling bank with the corporate action event ID, the amount to be debited and the issuer's bank account details. The SWIFT notification sent by Strate to the issuer's settling bank is automated and sent via Straight-Through-Processing (STP). There is no manual intervention by Strate.

Furthermore, Strate is a member of the Payment Association of South Africa (PASA). PASA is the payment management body recognised by the South African Reserve Bank (SARB) in terms of the National Payment System Act No. 78 of 1998 (NPS Act), to organise, manage and regulate the participation of its members in the payment system.

Strate is licensed as a Payment Clearing House (PCH) system operator. A system operator is defined in the NPS Act as a person authorised by the payment system management body, which is PASA, to provide clearing processing services on behalf of two or more system participants or a clearing house.

Strate has been duly authorised by the equity, bond and money market PCHs to perform this function in terms of equity, bond and money market cash settlement obligations.

Strate is therefore regulated by PASA, which has defined rules and guidelines to ensure that its members and other stakeholders meet the requirements of the NPS Act. Besides being a member of PASA, Strate is further governed by the legal framework covered by the PCH agreements. Hence, being a member of PASA and having the PCH agreements in place controls and regulates the manner in which Strate operates within this model.

2. Can the issuer provide their settling bank with the authority for the debit of cash from their account on a 'per corporate action event basis', rather than signing a debit authority?

Yes, the issuer can give their settling bank the authority to debit their account on a per corporate action event basis. It is then the responsibility of the issuer to provide the debit authority to their settling bank each time a corporate action event is made, ensuring the debit authority is sent to their settling bank on time. Should this not be timeously received by the

relevant settling bank for processing, then the consequences could be delayed payment or non-payment on the payment date of the corporate action event.

3. If the issuer utilises the same bank with different bank accounts for each corporate event, how far in advance must the issuer notify Strate of the bank account details?

In such instances, it is preferable for the issuer to advise Strate of the new account details as soon as the salient dates are announced, or two weeks before the Last Day to Trade of the event. It is the issuer's responsibility to advise Strate of any changes to their bank account details. Should the issuer fail to advise Strate of such changes, it could result in delayed payment or non-payment on the payment date of the corporate action event.

A Service Level Agreement (SLA) will be required between Strate and the issuer, should this approach be selected.

4. How will bonds be handled?

The processing of bonds for capital events and redemptions remains unchanged for now. However, the same Central Bank Funds Model is intended to be applied to bonds. The timeline for bonds will be advised once it has been finalised, but it will only be after equities has been implemented.

5. Would Strate be able to access the issuer's bank account and debit the issuer's account for other purposes, e.g. outstanding fees?

No, Strate will never send a notification to the issuer's settling bank to debit their bank account for any purpose other than for a valid corporate action event.

Strate is a member of PASA and is licensed as a PCH system operator. Strate is therefore regulated by PASA, which has defined rules and guidelines to ensure that its members and other stakeholders meet the requirements of the NPS Act. One of the main responsibilities of PASA is to support the SARB in its role as the overseer of the payment system by ensuring compliance by its members and, where necessary, imposing penalties and sanctions.

Strate is further governed by the legal framework covered by the PCH agreements. Being a member of PASA and having the PCH agreements in place thus controls and regulates the manner in which Strate operates within this model.

6. Will there be any impact/additional costs to the issuers with respect to fees?

There will be no increase in the Strate Corporate Action fees for this process.

7. With the new process, what are the risks associated with processing via The South African Multiple Option Settlement (SAMOS) system?

The introduction of processing via SAMOS essentially reduces risk. In addition, once the funds have been released into the SAMOS system, there will no longer be any timing differences in respect of the receipt of funds by each of the CSD Participants. Furthermore, SAMOS processes payments and each group (CA payment) achieves “zero sum”. The primary benefit of this model is the improved liquidity management within the banking system.

8. Who is taking over the risk from Strate?

The risk has been effectively mitigated due to the cash flowing through the SAMOS system, which provides an efficient and safe settlement system.

9. What are the benefits of this model?

The benefits include:

- Improved cash flows through the elimination of unnecessary intermediate steps and any costs associated with this;
- Greater stability within the financial market. There is obviously no denying that the failure of a large commercial bank in South Africa would have far-reaching consequences across the financial sector, but the ability to insulate Strate and the surviving banks from as much of the disruption as possible would be of immense value;
- Efficiencies within the payment process. Once the funds have been released into the SARB’s SAMOS system, there will no longer be any timing differences in respect of the receipt of funds by each of the CSD Participants; and
- Better/improved liquidity management within the banking system. The inward transfer of the full proceeds from the issuer via its authorised banker will be the only transaction requiring liquidity or collateral management, while the outward distribution will be concluded in a matter of moments.

10. Can issuers make corporate action payments directly to the central bank instead of having a debit order in place with their settling bank?

Only those South African Banks that are members of PASA can process corporate action payments through their treasury department. Unfortunately issuers are not members of PASA and cannot make payments directly through to the central bank.

11. The issuer will sign a debit authority mandate with their settling bank. As part of the debit authority mandate, how will the issuer know that the corporate action funds are going into the correct settling bank's CBPL account?

For internal authorisation processes, the issuer requires the account number that will be credited with the funds for risk mitigation purposes.

The debit authority mandate between the issuer and their settling bank should contain both the account number to be debited (issuer's account and name), as well as the account number to be credited (settling bank's SAMOS CBPL account number). Where this is required for authorisation purposes, the issuer should obtain the relative account number from its corporate bankers.

12. Do issuers have the option of utilising Strate to help facilitate the corporate action payment for the 'certificated portion of the share register' by utilising the current central bank model?

The issuers can use Strate to facilitate the corporate action payment. Issuers can kindly contact Gregory Naicker (gregoryn@strate.co.za) or Nita David (nitad@strate.co.za) to make use of this option.

13. As part of the debit authority mandate, will the bank require the issuer to have a board resolution to this effect?

This would depend on each individual settling bank's requirements.

14. If the issuer (company is foreign incorporated) does not have a South African bank account, how can the corporate action payment then be processed?

The issuer can either:

1. Open a bank account in South Africa, or
2. Contact their Issuer Agent/Transfer Secretary and determine if they would be willing to offer this service on the back of the certificated segment of the share register.