



Debt Instrument Solution (DIS)

Account Structure (Local Clients) Educational Guide



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Introduction

Strate (Pty) Limited took a strategic decision in 2013 to replace its core custody and settlement systems and consolidate these into a single platform. The TCS BaNCS Market Infrastructure (MI) system was chosen and Money Market Securities were successfully migrated onto the platform at the beginning of 2016.

Strate's Debt Instrument Solution (DIS) Project is the strategic project to replace Strate's previous UnexCor system and migrate bond securities onto the TCS BaNCS MI platform during 2017. This is the key project currently being undertaken by Strate and the South African capital markets. This project will not only ensure the replacement of Strate's core custody and settlement system with regard to bond securities, it too will include the introduction of a new settlement model for bond securities.

The project has two distinct phases. Phase one encompasses the technology replacement coupled with the introduction of a new settlement model and an "AS-IS" Account Structure; while phase two is the migration from the "AS-IS" Account Structure to a more transparent securities holding and ownership model. More information on these two phases is provided in this document.

This document aims to explain and depict the Account Structures following the implementation of the DIS Project and as it applies to Phase One and Phase Two. Various terms are used throughout the document and definitions of these can be found in Appendix A.



Account Structure

Currently, the CSD Participants maintain Central Securities Accounts (including Segregated Depository Accounts) either in the Local Client name or in their Participant Nominee name.

1.1. Summary of phases

Phase 1

This is predominantly the technology implementation and change in settlement and capital events model, which entails an “AS-IS” migration of securities accounts along with the securities holdings into the new platform.

If the securities holdings of South African clients are currently maintained and recorded under a Participant Nominee, this same holding structure will be migrated under Phase One.

Phase 2

This phase of the project involves migration of the “AS-IS” account structures to a transparent securities holding model.

(I.e. CSD Participants will not be permitted to hold Clients’ Securities through their Participant Nominee.)

Note: Broker and FSB Approved Nominee accounts will still exist at the CSD Participant level and Strate level, with the addition of the beneficial holders’ being reflected at Strate. The accounts for the beneficial holders will only be recorded at CSD level and not at Participant level. The Participant will only reflect the aggregate holding for the Broker and/or FSB Approved Nominee. These beneficial holder accounts have been termed “Mirror” sub-accounts.

As stated, these Mirror sub-account will not be reflected at the CSD Participant. CSD Participants will be required to open and maintain separate Central Securities Accounts for Brokers and FSB Approved Nominees that are however currently under a Participant Nominee.

Please note that should a South African client currently maintain, through their Participant, a Strate Money Market account (current Securities Ownership Register (SOR) Account), this same account can be used to hold and record bond securities as well.



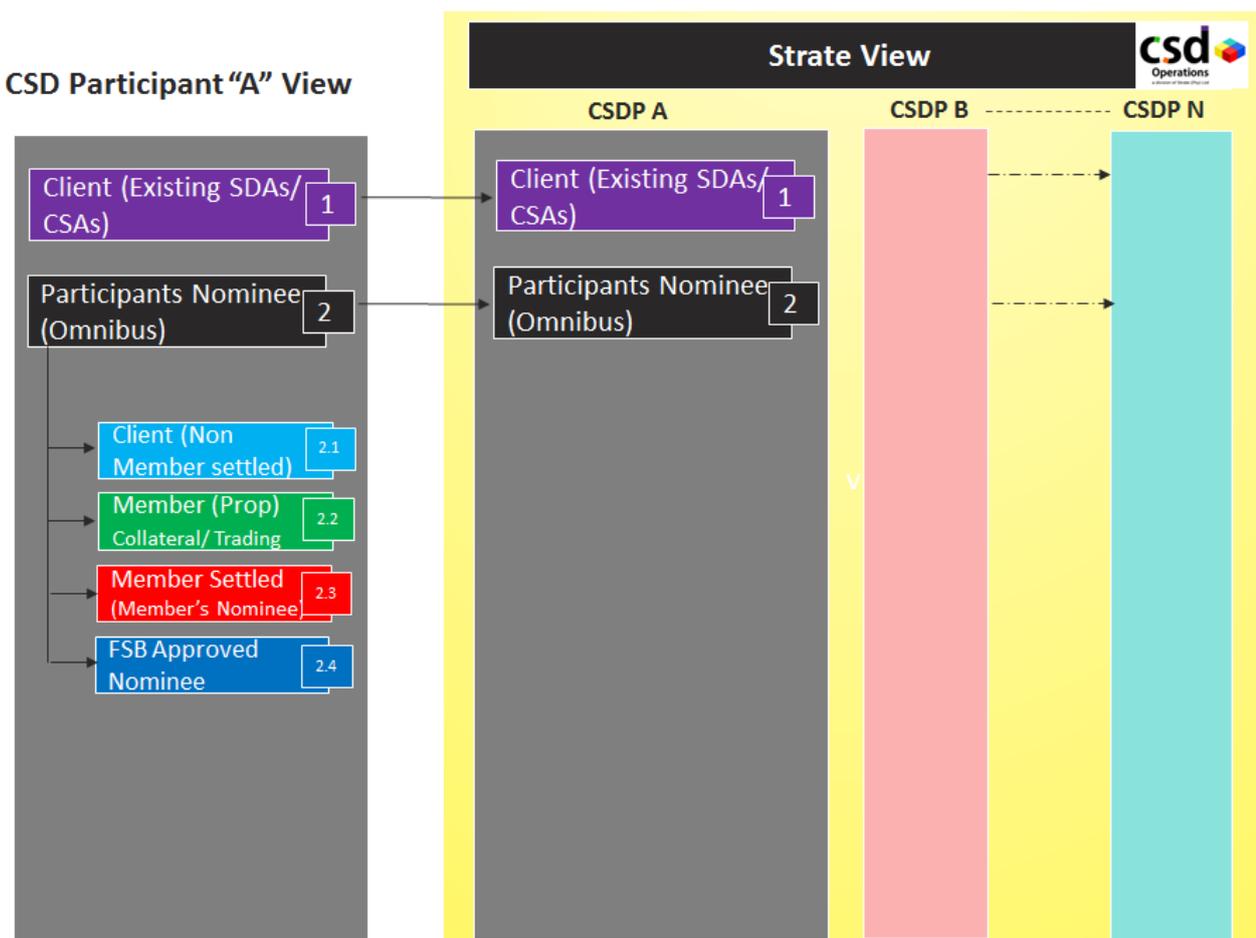
1.2. Details of each phase

1.2.1. DIS Account Structure Phase One

In this phase of the project, if a South African client elects to move away from a local Participant Nominee account structure, they must inform their respective Participant to open a separate Segregated Depository Account / Central Securities Account in the current Bonds platform before the go-live date of DIS Project Phase One. These accounts will automatically be migrated as a Central Securities Account in the new regime. Post DIS Implementation of Phase One, the term Segregated Depository Account will cease to exist for bond securities. All accounts at Strate for bond securities and money market securities will be termed as “Central Securities Accounts”.

A Central Securities Account will enable portability, which enable clients of CSD Participants to appoint a Secondary CSD Participant to administer that Client’s Central Securities Accounts held at Strate in the event of an insolvency proceeding against such clients’ CSD Participant (Primary CSD Participant). A migration process will have to occur from the account of the Primary Participant to that of the Secondary Participant as the same Central Securities Account account number cannot be associated with two different Participants. This was a significant advantage of previous “Segregated Depository Accounts” and this benefit has been enabled for all securities accounts (i.e. Central Securities Accounts) under the DIS platform.

A Strate and a Participant view of the Account Structure for DIS Project Phase One is provided below:



1.2.2. DIS Account Structure Phase Two

In this phase of the project, the recording of securities ownership in the name of a Participant Nominee will no longer be permitted. The Broker and FSB Approved Nominee accounts will still exist at the CSD Participant level and Strate level, with the addition of the beneficial holders' (Mirror Sub-Account) being reflected at Strate. These Mirror Sub-accounts will not be reflected at the CSD Participant.

All CSD Participants will be required to open and maintain separate Central Securities Accounts for Brokers and FSB Approved Nominees, as well as all other South African clients at Beneficial Owner level that are currently under a CSD Participant Nominee.

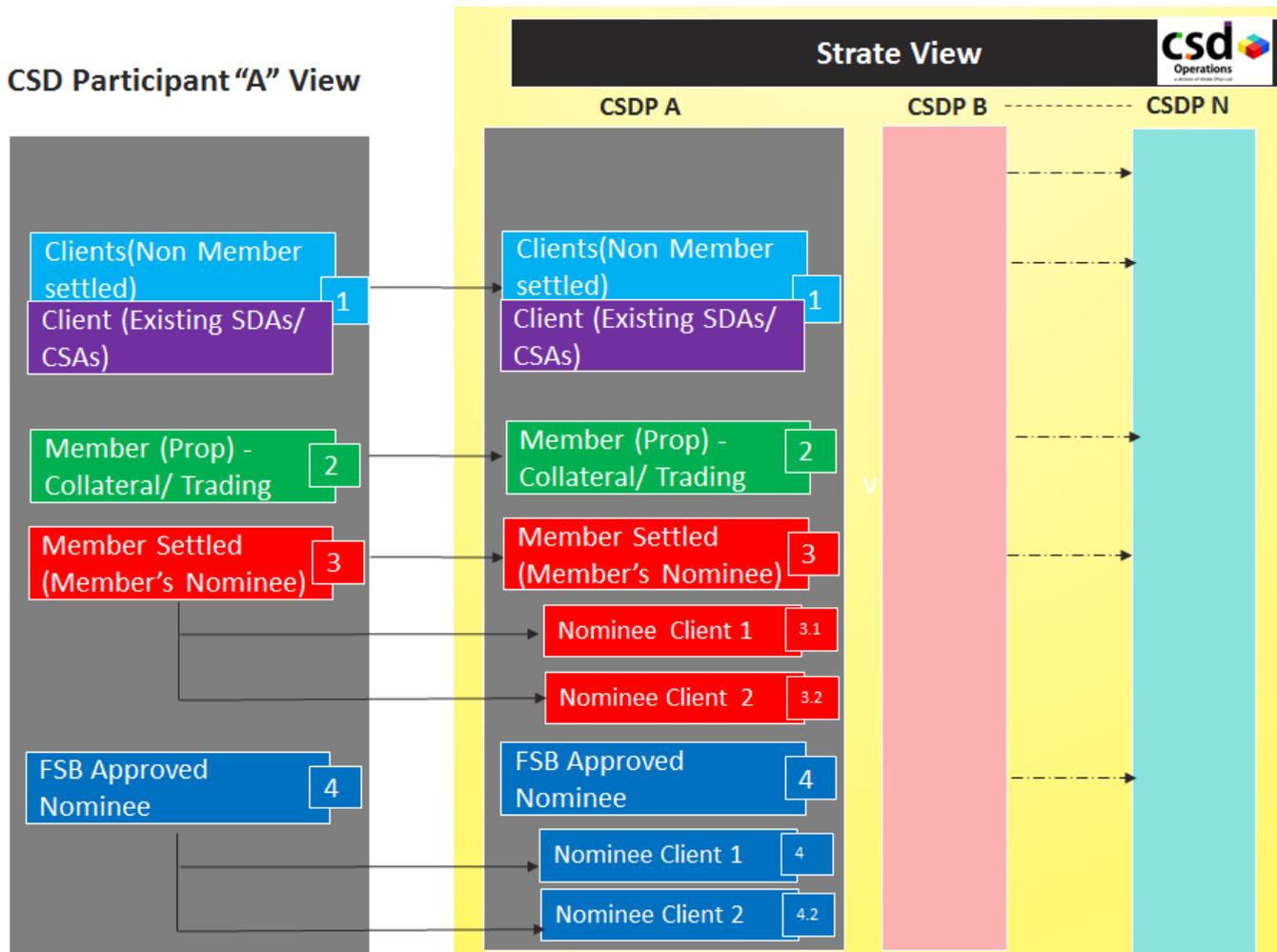
The Central Securities Account (post Bonds DIS Project Phase Two) can be opened in the name of a:

- Client
 - Local or Beneficial Investor;
 - FSB Approved Nominee;
 - Broker Nominee.

A Central Securities Account will enable portability, which enable the clients of CSD Participants to appoint a Secondary CSD Participant to administer that client's Central Securities Accounts held at Strate, in the event of an insolvency proceeding against such clients' CSD Participant (Primary CSD Participant). A migration process will have to occur from the account of the Primary Participant to that of the Secondary Participant as the same CSA account number cannot be associated with two different Participants. This was a significant advantage of previous "Segregated Depository Accounts" and this benefit has been enabled for all securities accounts (i.e. Central Securities Accounts) under the DIS platform.



A Strate and Participant view of the Account Structure for DIS Project Phase Two is provided below:



The Mirror Sub-Accounts (Member Nominee/ FSB Approved Nominee) will be opened at Strate for members' and FSB Approved Nominees' clients. These accounts are not opened by the CSD Participants and they are not responsible for these accounts. Strate will liaise with the JSE (Member Nominee) and FSB Approved Nominees to obtain the underlying client details. Daily securities holdings reconciliation will be performed between Strate and the JSE (Members' Nominee) / FSB Approved Nominees.

APPENDIX A - Definitions

Securities Account means an account kept by:

- (a) a Participant or an authorized user for its own account or for a Client, or
- (b) a Nominee for a person for whom it acts as a Nominee, which reflects the number or Nominal Value of Securities of each kind held for its own account or on behalf of that Client or person, as the case may be, and all Entries made in respect of such Securities.

Central Securities Account means an account that reflects the number or nominal value of Securities of each kind deposited and all Entries made in respect of such Securities, held by Strate for a Participant or external central securities depository in the name of—

- (a) a Participant;
- (b) an external central securities depository; or
- (c) any other persons as determined in the Strate rules.

Segregated Depository Account means a designated **Central Securities Account** opened in the name of a Client, administered by a Participant and clearly segregated and distinguishable from the Participant's Nominee's Central Securities Account.

Mirror Sub-Account¹ means an account mirrored in the CSD, of the Securities Account which forms part of the Sub-Subregister administered either by a Member (Broker) or an FSB Approved Nominee. This account is opened in the name of the Beneficial Holder and is a reflection of an account opened in the Member's or FSB Approved Nominee's records.

¹ This terminology has not yet been finalized. Participants can suggest alternate name for this type of account.



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