

Directive of Strate (Pty) Ltd

Special Gazette No S1 - 2020

Strate Directive SA.2

Requirements for Financial Soundness

The logo consists of a white square with a diagonal line from the top-left to the bottom-right. The word "strate" is written in white lowercase letters on the grey background of the lower-left triangle.

strate

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

*Contents of this material are protected under South African copyright law. No part of this material may be copied, completely or partially, either electronically or manually, without the written consent of Strate (Pty) Ltd.
This material remains the sole property of Strate (Pty) Ltd.*

INDEX

1. INTERPRETATIONS AND DEFINITIONS

2. FINANCIAL SOUNDNESS REQUIREMENTS
 - 2.1 Base Requirement
 - 2.2 Custody Risk Requirement
 - 2.3 Strate Supervision Requirements
 - 2.4 Exclusions

3. DISCLOSURE TEMPLATE

1. INTERPRETATIONS AND DEFINITIONS

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

‘Applicant’ means a person who applies for authorisation as a Participant in terms of Strate Rule 3;

‘Banks Act’ means the Banks Act, No 94 of 1990;

‘Bank’ means a public company registered as a bank in terms of the Banks Act;

‘Branch’ means a branch by means of which a foreign institution is authorised to conduct the business of a Bank in the Republic in terms of the Banks Act;

‘Units’ means participatory interests in a collective investment scheme as defined in the Collective Investment Schemes Control Act, No 45 of 2002 (“CISCA”), or units or any other form of participation in a foreign collective investment scheme approved by the Authority in terms of CISCA;

‘Corporate Participant’ means a Participant that only opens and maintains Accounts for Securities owned by it;

‘Full Participant’ means a Participant who opens and maintains Securities Accounts on behalf of Clients;

‘Non-Bank’ means a person that has not been registered as a Bank (or Branch) in terms of the Banks Act; and

‘Strate Supervision’ means the supervision division of Strate headed by the Head of Supervision and set up by the Controlling Body in terms of the Strate Rules.

2. FINANCIAL SOUNDNESS REQUIREMENTS

To be eligible to be accepted as, or to remain, 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. Participants will be required to comply with the financial soundness requirement/s applicable to them, as set out below:-

Category	Applicant	Market	Requirement(s)
Full Participant	Bank (including Branches)	Equity Securities, Bond Securities, Money Market Securities and Units	No capital requirements other than those already imposed in terms of the Banks Act.
	Non Bank ¹	Equity Securities, Bond Securities, Money Market Securities and Units	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)	Equity Securities, Bond Securities, Money Market Securities and Units	No capital requirements other than those already imposed in terms of the Banks Act.
	Non Bank ¹	Equity Securities, Bond Securities and Units	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

The Base Requirement (“BR”) is the amount required to meet the Participants operating expenditure requirements for a period of 6 (six) months. The amount of this BR shall be agreed with Strate Supervision.

An illustrative example of the computation of the BR is set out in the appendix.

In order to comply with this requirement the Participant must provide Strate with a bank guarantee: -

- for an amount equal to no less than the BR;
- issued by a local Bank acceptable to Strate;
- issued in accordance with wording approved by Strate;
- have a minimum duration of 12 (twelve) months (renewable); and

¹ A Foreign Institution which has not been registered as a Branch in terms of the Banks Act shall, for the purposes of this directive be classified as a Non-Bank

- be subject to a minimum cancellation period of 3 (three) months.

2.2 Custody Risk Requirement (“CRR”)

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.

An illustrative example of the computation of the CRR is set out in the appendix.

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 computed as applicable to it.

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, in consultation with Strate Supervision, be made from time to time.

2.2.1 Computation of CRR

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

A minimum of R3 million;

0,1% of the market value of assets under custody where this value exceeds R300 million but is less than R2 billion;

0,01% of the market value of assets under custody in excess of R2 billion.

For the purpose of this Strate Directive, assets under custody shall include all Equity Securities, Bond Securities and/or Money Market Securities and Units held by the Participant.

2.3 Strate Supervision requirements

Participants are obliged to confirm 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), their BR and CRR computations (as applicable).

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.

Failure to satisfy these requirements may result in disciplinary action being taken in accordance with the Strate Rules.

2.4 Exclusions

The Controlling Body may, at its discretion, exempt any institution from the provisions of this Strate Directive.

Exclusions currently include:

- 2.4.1 The South African Reserve Bank; and
- 2.4.2 The National Treasury (established under section 5 of the Public Finance Management Act, 1999).

3. DISCLOSURE TEMPLATE

In terms of paragraph 2.3 of Strate Directive SA.2 – *Requirements for Financial Soundness* and the Strate Supervision requirements, the below template must be completed and submitted by a Participant and the appointed Strate Compliance Officer (or designated Alternate), for the period stipulated by the Strate Supervision. Template is to be returned to strate-supervision@strate.co.za.

Full Name of Participant: _____

Disclosure for the period ending: _____

Section 1

Please tick the relevant block below indicating the applicable category/s of participation.

		Market	Category of participation (please tick relevant block)
Full Participant	Bank (including Branches)	Equity Securities	
		Bond Securities	
		Money Market Securities	
		Units	
	Non Bank	Equity Securities	
		Bond Securities	
		Money Market Securities	
		Units	
Corporate Participant	Bank (including Branches)	Equity Securities	
		Bond Securities	
		Money Market Securities	
		Units	
	Non Bank	Equity Securities	
		Bond Securities	
		Money Market Securities	
		Units	

Section 2

A. Base Requirement Declaration

I/we ____ (full name(s)) _____ in my/our capacity(ies) as _____ (position(s)) 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 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, charges, etc.	
Auditors remuneration	
Insurance	
IT infrastructure (Hardware and Software) licensing and maintenance costs	
Machine and other leasing charges	
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	
Other	
<u>Total operational expenses for 6 months</u>	R

NOTE: In determining operating cost amounts, the following principles shall 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:

	Full Participant	Corporate Participant
Equity Securities	0	0
Bond Securities	0	0
Money Market Securities	0	0
Units	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)	0

C. Confirmation of adherence to minimum requirements:

ALC (B): R _____

Less

CRR (A): R _____

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

D. Declaration:

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

Name of authorised Participant representative:

Position:

Date:

Signature:

Name of Strate Compliance Officer or Alternate Compliance Officer:

Name:

Date:

Signature: