



PARTICIPANT FAILURE MANUAL

Version 4.2

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Document Information

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1. GLOSSARY OF TERMS

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| Authorised User | Means a person authorised by an Exchange in terms of the Exchange rules to perform such securities services as the Exchange rules may permit. Also referred to as JSE Equities Member/JSE IRC Member. These terms are used interchangeably. |
| Back-to-Back link | If the delivery of Equity securities is dependent upon the successful receipt of the same securities, then the two orders must be linked via Back-to-Back functionality. This is currently limited to certain trade/transaction types. |
| BAN | Means a unique bilateral allocation number assigned by the ETME for settlement purposes to allocations underlying a bulk transaction |
| Bank | Means a bank as defined in the Banks Act, 1990. |
| Banks Act, 1990 | Banks Act, 1990 (Act No. 94 of 1990). |
| BDA | Broker Deal Accounting system provided by the JSE to their JSE Equities Members. Amongst other functionality the BDA system keeps the securities records and books of individual broking firms for Proprietary (securities) and in respect of their Clients (cash and securities). |
| Beneficial Owner | The true owner of the securities, as opposed to the custodian or a Nominee through whom the securities may be held and/or in whose name the securities may be registered. |
| BIC code | Bank Identifier Code. This is the SWIFT identifier code of organisations with a SWIFT address. |
| BND | Beneficial Ownership Download. A monthly or ad hoc download containing Beneficial Owner information of dematerialised or immobilised Equity and Bond securities holdings, provided monthly or ad hoc by: <ul style="list-style-type: none">- Participants to Strate- JSE Equities Members (via the JSE) to Strate- Strate to the Issuer or their agent. |
| BOD | Beginning Of Day. The series of processes executed at the beginning of every business day. |
| Book entry system | An accounting or ledger system maintained by the CSD which facilitates the holding and transfer of securities electronically. This enables the transfer of securities between accounts, without the need for physical movement of share certificates and other documents. |
| Broker | A Broker is a trading party, who trades in the securities market either for itself or for its Clients. Also referred to as a JSE Equities Member, Member or Authorised User. |

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| Brokers nett | The process of summing trades for Proprietary and Controlled Client's accounts, buys and sells, securities and cash, based on Trade Date, securities and trade type to arrive at a nett settlement position – specific to the Equity securities market. |
| BSD | Bank Supervision Department of the SARB. |
| Business Day | Any day which Strate or the JSE does business, except a Sunday or public holiday or any other day that Strate or the JSE is closed. (Note: Saturday can be a business day for Money Market) Strate can in its discretion and after consultation with the market decide to accommodate the opening of an operational window on a non-business day, provided that:- Strate has three Business Days prior notice of the requirement and all other parties involved have been informed by the requesting party. |
| Business Rescue Practitioner | Means a person appointed, or two or more persons appointed jointly, in terms of Chapter 6 of Companies Act 71 2008 (updated 2011); to oversee a company during business rescue proceedings and 'practitioner' has corresponding meaning. |
| CA | See Corporate Actions. |
| Capital Event | Refers to a Money Market or Bond security "Corporate Action". |
| Carry transaction | Means a buy/sell back transaction between two parties in terms of which one party agrees to buy Bond securities from the other party while simultaneously agreeing to sell the Bond securities back on an agreed future date at an agreed price. |
| Cash Suspense Account (CSA) | A temporary cash account opened at a Bank (other than a Bank being the Failed Participant) to which cash, stemming from the settlement of securities transactions or cash collateral in terms of securities lending returns and/or deposit of New-Cash, is posted following an Insolvency Proceeding. |
| CD Transfer | The transfer of Bond securities from one portfolio or account to another within the same Participant or from a portfolio within one Participant to a portfolio held within another Participant where there is no change in beneficial ownership. |
| Central Bank | Major regulatory bank in a nation's monetary system, generally government controlled. Its role normally includes control of the credit system, note issuance, supervision of commercial banks, management of exchange reserves and the national currency's value, as well as acting as the government's banker. |
| Central Securities Account | An account kept by a Central Securities Depository for a Participant and reflecting the number or nominal value of securities of each kind deposited and all entries made in respect of such securities. |

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| Central Securities Depository [CSD] | Strate Limited ("Strate"), Registration no 1998/022242/06, registered as a Central Securities Depository in terms of the SSA. |
| Central Securities Depository Participant [CSD Participant] or "Participant" | Means a person who holds in custody and administers securities or an interest in securities and who has been accepted in terms of section 34 of the SSA by a Central Securities Depository as a Participant in that Central Securities Depository. Such a Participant could either be a Bank-Participant or a Non-Bank Participant; a Full Participant or a Corporate Participant. |
| Central Order Book | Means the order book of the JSE trading systems in which automated trades occur according to price then time priority. |
| Certificated Securities | Securities evidenced by a certificate or written instrument. |
| Clearing and Settlement System CSD system | <p>The system which collects, processes and transmits the information which enables settlement.</p> <p>The computer system or systems and associated network or networks operated or used by the CSD for the purposes of clearing and settlement of securities.</p> |
| Clearing Bank | A bank that is regulated by the Registrar of Banks and is permitted to clear and settle cash. It is a settlement system participant and a member of the Payment Association of South Africa (PASA) as required by the National Payments System Act 1998. |
| Client | Client is a third party, individual or organisation, who through a JSE Equities Member, JSE IRC Member or Participant, participates in the securities market for trading, custody and settlement. |
| Collateral | Security, cash or securities, provided by a borrower to a lender or agent to secure securities loans. |
| Commitment or Commit | An electronic instruction that constitutes an undertaking by a Participant to settle a transaction in uncertificated securities on settlement date. |
| Companies Act, 2008 | Companies Act, 2008 (Act No. 71 of 2008) or any replacing legislation. |
| Company | A company incorporated under the Companies Act, 2008. |
| Contractual Settlement | The market convention embodied in the Rules of the JSE for Equities and Bonds whereby a Client has a contractual obligation to cause a trade to be settled on settlement day. |
| Controlled Client | A Client or an account holder on whose behalf a JSE Equities Member is acting, whose cash and uncertificated Equity securities are under the control of the JSE Equities Member or whose settlements take place via the Participant of a JSE Equities Member. |

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| Corporate Action | An action taken by the Issuer or any third party, that results in changes to the capital structure or financial position of the Issuer of a security, that affects any of the securities issued by an Issuer, and which affects the Beneficial Owner of uncertificated securities in terms of an entitlement. |
| Corporate Actions Suspense Account (CASA) | A temporary cash account opened at a bank (other than a bank being the Failed Participant) to which cash, stemming from a Corporate Action or Capital Event, is posted following an Insolvency Proceeding. |
| Corporate Participant | A Participant who exclusively administers securities held in its own name in its own SOR Securities Account. |
| Counterparty | One party to a transaction. A transaction can take place between two or more counterparties. Usually one party to a transaction refers to its trading partners as counterparties. |
| Coupon | The amount of interest an Issuer has agreed to pay through the life of the Bond instrument to the investor. |
| Curator Guidelines | Guidelines that stipulate the parameters within which the Registrar appointed Curator may act. |
| Custody | The safekeeping and administration of securities on behalf of third parties. |
| Custody system | The system used to record the ownership and movement of securities. |
| Delivery Free of Payment [DFP] | Settlement of trades that occur without the payment of cash. |
| Delivery versus Payment [DvP] | The good delivery of securities in exchange for the simultaneous, final and irrevocable payment of money. |
| Depository Rules | The Rules made by a Central Securities Depository in accordance with the SSA; in this case the Rules of Strate Ltd, also referred to as the Strate Rules. |
| Dividend | That part of a company's earning which is distributed in cash or in specie to shareholders. |
| EOD | End Of Day. The series of processes executed at the end of every business day. |
| Equity | Share capital of a company. Also known as Equity securities. |
| Event type | A classification of a Corporate Action. |
| F | Date of Failure |
| F+n | Date of Failure plus 'n' Business Days, 'n' being a number of Business Days. |
| Failed trade | Any securities transaction that does not settle on the contractual settlement date because one of the settlement parties does not meet the contractual settlement obligations. |

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| Failure Manager | Strate representative or representatives who oversee the securities operations of a Failed Participant on behalf of the Insolvency Administrator. |
| Financial Intelligence Centre Act, 2001 (FICA) | Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) and refers to Client identification requirements. |
| Forward-dated trade | A Bond trade that is to be settled at a future date more than three business days after Trade Date. |
| FSB | Financial Services Board. |
| FSCF | Financial Sector Contingency Forum. |
| Give-up | Where the JSE Settlement Authority requests a non-defaulting party to give-up their transaction to ensure that settlement takes place. |
| Full Participant | Is an organisation that retains custodial accounts for their Clients in the Central Securities Depository. |
| Gross settlement | The settlement of transactions on a trade-by-trade basis, without aggregation or netting. |
| Guarantee fund / Fidelity fund | A fund maintained by an Exchange in terms of the SSA. |
| Guaranteed transaction | A trade in Equity or Bond securities which is conducted on the Central Order Book which is guaranteed to settlement by the JSE, for Equities, or SAFCOM, for Bonds. |
| Insolvency Act, 1936 | Insolvency Act, 1936 (Act No. 24 of 1936) |
| Insolvency Administrator | Means a person authorised to administer an Insolvency Proceeding by a court or any national legislation, or the laws of a country other than the Republic of South Africa, including a person authorised on an interim basis. |
| Insolvency Proceeding | Means a judicial or administrative proceeding or both, authorised in or by national legislation or the laws of a country other than the Republic of South Africa, including an interim proceeding, in which the assets and affairs of a person are subject to control or supervision by a court or an Insolvency Administrator for the purpose of re-organisation, business rescue, curatorship or liquidation, and includes, but is not limited to, any such proceeding under – <ul style="list-style-type: none"> (a) the Companies Act; (b) the Insolvency Act, 1936 (Act No. 24 of 1936); (c) the Banks Act, 1990 (Act No. 94 of 1990); (d) the Financial Institutions (Protection of Funds Act), 2001 (Act No. 28 of 2001); and (e) the National Payment Systems Act, 1998 (Act No. 78 of 1998) |

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| IRC Market (Interest Rate Market) | Means the market operated by the JSE in terms of the SSA to facilitate trading in securities listed on the Interest Rate Market. |
| ISIN | International Securities Identification Number, a unique internationally recognised securities identification number. |
| Issuer | Means an Issuer of securities. |
| JSE | Means JSE Limited, a public company incorporated in accordance with the laws of the Republic of South Africa, with registration number 2005/022939/06, licensed to carry on the business of an Exchange in terms of section 8 of the SSA. |
| JSE Equities Member | Means an Equities Member, which is a category of Authorised User admitted to membership of the JSE under the JSE Equities Rules. |
| JSE Trustees (JSET) | JSET must accept from JSE Equities Members all funds arising from time to time from accounts operated by Members on behalf of Clients in terms of the JSE's Rules, and must repay to such JSE Equities Members the funds which are required to be repaid to Clients by the JSE Equities Member or are required to meet any Client obligation to the JSE Equities Member arising out of transactions or services provided. |
| Lamfalussy Report | Named after the chairman of the Committee of Wise Men, Alexander Lamfalussy proposed a new framework for the regulation of the securities market, distinguishing four levels of financial legislation and implementation. |
| Member | See Authorised User. |
| Member-Settled Client | Means a Client who has appointed a Trading Member to settle transactions in Bonds on their behalf via the Participant of the Trading Member. The Member holds custody of the Clients' securities. |
| National Payment System Act, 1998 | National Payment System Act, 1998 (Act No. 78 of 1998) |
| Nett Settlement | The settlement of securities or cash, or both, based on the arithmetic sum of trades in the same class of securities for settlement on the same day by the same person. |
| Netting | A process of summing trades to arrive at a nett settlement position. This means settlement of cash or securities balances by summing all credits and countervailing debits for a given day, then moving cash or securities only in the amount of the nett total. |
| New-Cash | Cash which was not held at the Failed Participant at the date of failure and is therefore assumed to be freely transferable to the Cash Suspense Account or Corporate Actions Suspense Account, including proceeds from settled transactions, cash collateral returns, or a Corporate Action/ Capital Event. |

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| New-Securities | Securities resulting from a Corporate Action such as a rights issue or Capitalisation Issue split which are freely available to settle a pending sale of securities. |
| New-Collateral | A cash suspense account to be opened by securities lending agents for deposits of new cash collateral to be posted when the lender's agent or lender is with the Failed Participant. |
| Nominee | A person that acts as the registered holder of securities or an interest in securities on behalf of other persons. |
| Non-controlled Client | A Client or an account holder on whose behalf a JSE Equities Member is acting, who has appointed his own Participant to settle transactions in Equity securities on his behalf. |
| Non-Member settled | Means a Client other than a Member-Settled Client who has appointed his own Participant to settle transactions in Bonds on his behalf. The Participant holds custody of the Clients' securities. |
| Non-standard trade | A Bond trade which is to be settled less than three business days after Trade Date. |
| NPSD | National Payment System Department. |
| Off-market trade or Off-Exchange or OTS | An Off-market order is a trade in uncertificated securities which is not concluded through the Exchange and is reported by the seller and purchaser of the uncertificated securities to the relevant Participant for settlement through the CSD. |
| On-market trades or On-Exchange or BMA Order | An On-market trade is a transaction (buy or sell) in uncertificated securities which is concluded through the Exchange for settlement through the CSD. |
| Order | An offer to sell, or a bid to buy, an agreed quantity of securities at a fixed or determinable price. |
| Participant | See Central Securities Depository Participant. |
| Primary Participant | Means the Participant responsible for administering a Segregated Depository Account, and who will be replaced by a Secondary Participant in the event of an Insolvency Proceeding against such Primary Participant. |
| PASA | Payments Association of South Africa. |
| Payment Date [PD] | This is the date on which Corporate Action / Capital Event entitlements will be paid or posted. |
| Payments system | The system used to achieve settlement of cash in a securities transaction. |
| PFCC | Participant Failure Crisis Committee. |

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| PMO | Pay Money Only. An On-market type settlement transaction involving the payment and transfer of cash only. |
| Portfolio Move | <p>The term “Portfolio Movement” refers to instances where there is no change in beneficial ownership and includes all Strate approved uncertificated securities in the Client's portfolio. When the underlying Client chooses to change service providers, the portfolio movements may take place between:</p> <ul style="list-style-type: none"> ➤ Participant to Participant, ➤ Broker to Broker, ➤ Asset Manager to Asset Manager, ➤ Global Custodian to Global Custodian <p>- or a combination thereof.</p> |
| Project Stakeholder | <p>Any one of the following entities who have collectively been tasked to prepare this Participant Failure Manual:</p> <ul style="list-style-type: none"> ➤ Strate ➤ JSE |
| Proprietary | JSE Equities Members stock, default and allocation accounts for which deals that are allocated to these accounts are included in the Brokers nett and are settled via the JSE Equities Members' Participant. |
| Receipt Free of Payment – [RFP] | The receipt of securities without payment of cash. |
| Receipt versus Payment – [RvP] | The receipt of securities in exchange for the simultaneous, final and irrevocable payment of cash. |
| Registrar of Banks | Means the Registrar of Banks designated under section 4 of the Banks Act, 1990. |
| Repurchase agreement [Repo] | Two simultaneous transactions: the purchase of Bond securities (the collateral) by an investor from a bank or dealer; and the commitment by the bank or dealer to repurchase the Bond securities at an agreed rate at an agreed future date. |
| Reverse substitution | If a Client's agent (Participant) is unable to secure to settle a transaction due to lack of securities or cash on the Clients account/s or lack of Clients instruction, the JSE Equities Member has to assume the obligation to settle the relevant transaction. |
| Rights issues | Rights to buy additional securities through an issue granted to existing holders of the original securities. |
| RMO | Receive Money Only. An On-market type settlement transaction involving the receipt of cash only. |
| Rolling settlement | A settlement environment in which transactions (securities and cash) become due for settlement a set number of business days after Trade Date. |

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| S | Settlement Date. |
| SAFIRES | Southern African Financial Instruments Real Time Electronic Settlement System that is the composite electronic settlement system used by Strate which caters for issuing, custody, clearing and settlement of Equity securities. |
| SAMOS | South African Multiple Options System - National Payments System of SARB. |
| SARB | South African Reserve Bank. |
| SCA | Safe Custody Account. See Securities Account. |
| Secondary Participant | Means the Participant appointed by a Client to administer a Segregated Depository Account in the event of an Insolvency Proceeding against the Primary Participant. |
| Securities | Includes Equity, debit and Money Market securities as defined in the SSA. |
| Securities Account | Means an account kept by or on behalf of a Participant for a Client and reflecting the number or nominal value of securities of each kind deposited and all entries made in respect of such securities as defined by the SSA. |
| Securities Lending and Borrowing - SLB | The loan of securities between two parties against the return of equivalent securities at a future date which is done against collateral, either cash or securities. |
| Securities Services Act, 2004 [SSA] | Securities Services Act, 2004 (Act No. 36 of 2004) |
| Self-Regulatory Organisation [SRO] | An Exchange or a Central Securities Depository; in the case of South Africa, the JSE and Strate. |
| SENS | Securities Exchange News Service of the JSE. |
| Segregated Depository Account [SDA] | Means a designated Central Securities Account opened in the name of a Client, administered by a Participant and clearly segregated and distinguishable from the Participants' Central Securities Account. |
| Settlement | The completion of a transaction, whereby securities and corresponding cash are delivered and received, into the appropriate accounts at Beneficial Owner or Nominee level. |
| Settlement Authority | The person or persons appointed by the JSE to manage the settlement of transactions in Equity securities effected through the JSE Equities trading system in terms of the JSE Rules and Directives; or Means the person or persons appointed by the SAFCOM to manage the settlement of transactions in Bonds effected through the JSE IRC trading system in terms of the JSE IRC Rules and Directives. |
| SFI DvP | Simultaneous, Final, Irrevocable Delivery versus Payment. |
| SI | Settlement Instruction. |

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| SLB | Securities Lending and Borrowing. |
| stakeholder | <p>In this Manual the term “stakeholder” is used to refer to any one of the following market entities:</p> <ul style="list-style-type: none"> ➤ Participants; ➤ the JSE; ➤ JSE Equities Members; ➤ JSE IRC Members; ➤ Strate; ➤ the Financial Services Board (FSB); ➤ the Payments Association of South Africa (PASA); ➤ the SARB in their capacity as operator of the South African Multiple Option Settlement System (SAMOS); ➤ Clients (investors) (Retail and Institutional); ➤ Business Partners (including Traders (Money Market) and securities lending desks); ➤ Transfer Secretaries, Registrars, Issuer Agents; and ➤ Issuers. |
| Standard trade | A Bond trade that is to be settled on the third business day after Trade Date. This is also referred to as a “Spot” trade. |
| Strate Bonds System | The composite electronic settlement system used by Strate which caters for issuing, custody, clearing and settlement of Bond securities. |
| Survivor / Surviving Participants | Those Participants who can perform all the securities related activities and who have not been declared a “Failed Participant”. |
| SWIFT | Society for Worldwide Inter-bank Financial Telecommunication, a world-renowned messaging network. |
| Systemic Risk | The risk of a sudden shock that would damage the financial system to such an extent that economic activity in the wider economy would suffer. |
| T | Trade Date |
| TradElect | The JSE’s Equities trading system. |
| Trade matching | The matching of buy and sell orders. |
| Trade reversal | A reported Member-Client Bond trade which cannot be settled by the Client’s Participant or by the Member owing to a lack of securities, cash or settlement instructions on the part of the Client, and which is accordingly rescheduled for settlement on a subsequent date. |
| Uncertificated securities | Securities that are not evidenced by a certificate or written instrument and are transferable by entry without a written instrument. |
| UTRN | Means a unique trade reference number assigned by the ETME to matched transactions. |

2. INTRODUCTION TO THE FAILURE MANUAL

Strate Limited (Strate) has been licensed as a Central Securities Depository (CSD) and a Self-Regulatory Organisation (SRO) in terms of the Securities Services Act, 2004 (SSA). To fulfil its legislative SRO requirements, Strate must supervise compliance by Participants with the SSA, the Strate Rules and Directives. This effectively means that Strate acts as the regulator of the custody and settlement (of securities) operations of the Participants.

The reader of this Failure Manual must note that the SSA is currently being amended and the Financial Markets Bill (which will replace the SSA), has been circulated for comment by the Financial Services Board (FSB) and National Treasury (NT). The Financial Markets Bill (FMB) currently proposes the inclusion of certain insolvency provisions and where these draft provisions relate to this Failure Manual, the drafters of this Failure Manual have catered for this future legislative and regulatory environment.

Strate has been tasked with the coordination of the development of a Participant Failure Manual which can be applied in the event of the failure of any of the Participants regulated and supervised by it. The definition of “failure” used in the context of this Failure Manual is defined and explained in the chapter that follows.

The reason why Strate was tasked with this responsibility is not only because it is the regulator of Participants, but it is also considered the “trusted third party” in the securities industry i.e. Strate staff have the necessary skills and experience which is required to produce a Failure Manual which caters for all possible implications of a failure event and the resultant impact to the various identified securities market stakeholders. Strate can remain neutral in developing such a Failure Manual and is best positioned to identify all the relevant issues.

Similarly, the JSE Limited (JSE) has been included as a stakeholder in the development of this Failure Manual. The JSE regulates and supervises compliance by their Authorised Users (referred to as Members), and in the case of the Equities market, guarantees settlement of Equity securities executed on the Central Order Book. In the case of the IRC Market, SAFCOM guarantees settlement of Bond securities executed on the Central Order Book or accepted by the Clearing Member for risk management, and likewise have the required skills and expertise to produce a Failure Manual and consider all the impacts.

Collectively these two entities are referred to as the Project Stakeholders. Strate prepared an initial draft of the Failure Manual, culminating in a version styled as the “Procedure Manual in the event of the termination of a license of a Participant in terms of Rule 3.10.1.1”, version 4.1, dated December 2006.

During 2007 the Project Stakeholders (which at that time included the Bond Exchange of South Africa (BESA) as a separate Exchange in South Africa) appointed PricewaterhouseCoopers (PwC) to assist with the further development of a Participant Failure

Manual based on the then current clearing and settlement practices. Version 3.1 of the Failure Manual was released on the 30th of October 2009 as a result of this work.

Version 3.1 of the manual was released after the financial markets crisis of 2008. Many lessons were learnt and subsequently, a wave of regulatory measures, both locally and globally, were introduced. South Africa has witnessed several changes including the two Exchanges of BESA and the JSE merging, the rewrite of the Companies Act and Securities Services Act commenced, and the concept of Segregated Depository Accounts (SDAs) was introduced during 2011. For these reasons, the Project Stakeholders came together in November 2011 to rewrite the Failure Manual as it is their commitment to keep it current and relevant.

This Failure Manual, the procedures and processes that follow, is the result of the Project Stakeholders considering the global and local developments since 2008.

Version 3.1 - 30 October 2009 contained numerous assumptions and action items. Since its release the Project Stakeholders have investigated and resolved many of the action items and the promulgation of the Financial Markets Act will nullify / eradicate several of the assumptions.

It was key for the Project Stakeholders to obtain the endorsement of the Failure Manual by the FSB and the South African Reserve Bank (SARB). Since the Failure Manual's release in October 2009, the Project Stakeholders have had significant interaction with these regulators and have reached a point where there is wide-spread support for the manual and the failure procedures. The Financial Risk Subcommittee of the South African Reserve Bank (FRS) has made explicit reference to the fact that an appointed curator should consider the additional implications if a failing bank is a State Participant and the implications for financial stability. Being a State Participant also increases the systemic significance of a bank, and the FRS has made provision for this in their assessment of systemic significance.

Based on the State Rules, the Project Stakeholders have made a key assumption that in terms of the Financial Markets Bill, State will have the power, upon the occurrence of any Insolvency Proceeding, to appoint representatives from State, or any identified third party, to act as the "Failure Manager" of the Failed Participant. Throughout the Failure Manual we refer to "Failure Manager". This appointment is based on the fact that State is the lead-regulator of Participants, is considered the "trusted third party" and has the necessary skills and expertise to manage the failure process.

The term, "manage the failure process" includes the following core responsibilities for the Failure Manager as detailed in this Failure Manual, namely:

1. Oversee the finality of the settlement of transactions in the settlement timeline immediately following the declaration of a Participant failure as defined;
2. Oversee the migration of Client Securities Accounts to a new service provider after Clients have opened these accounts;

3. Oversee the migration of Client Segregated Depository Accounts to appointed Secondary Participants following the declaration of a Participant failure as defined; and
4. Oversee the processing of Corporate Actions (Equities) and Capital Events (Bonds and Money Market).

The reader must note that the appointment of Strate, or its representative, as a Failure Manager is in addition to, and completely separate from, the role that Strate performs in supervising compliance by Participants. The role performed by the Supervision Division of Strate is distinct from the roles Strate Limited and/or the Failure Manager will perform.

The chapter that follows will explain the exact point at which the Failure Manager will be appointed. Please note that the Failure Manager will continue performing the core responsibilities detailed in this Failure Manual until such time that it, together with the JSE, FSB, SARB, or Insolvency Administrator mutually decide and agree to terminate this role. As Project Stakeholders, Strate and the JSE will have certain additional roles and responsibilities to fulfil in the event of a Participant failure.

3. DEFINITION OF FAILURE / INSOLVENCY PROCEEDING

3.1 Failure

The term “failure” in this manual is limited to the financial failure of a Participant and is limited to the definition of "Insolvency Proceeding" in the Strate Rules, including:

- curatorship;
- business rescue; and/or
- liquidation (whether provisional or final).

To provide clarity to the reader of this Failure Manual, the following terms are expanded on:

3.1.1 Curatorship

The appointment of a curator to a bank is governed by the Banks Act, 1990. Section 69 of this Act sets out when consideration may be made to place a bank under curatorship. If, in the opinion of the Registrar of Banks, any bank will be unable to repay, when legally obliged to do so, deposits made with it or will probably be unable to meet any other of its obligations, the Minister of Finance may, if he deems it desirable in the public interest, with the written consent of the Chief Executive Officer or the chairman of the board of directors of that bank, appoint a curator to the bank.

On appointment of a curator, management of the bank concerned shall vest with the curator, subject to the supervision of the Registrar, and any other person responsible for the management of the affairs of that bank, shall be divested thereof.

In addition, the curator is obliged to recover and take possession of all the assets of the bank. These assets include all cash deposited with the bank and would include any deposits made with the bank after the appointment of the curator.

Therefore, the practical implication of a curator being appointed to a bank is that the control of the bank is vested with the curator who **may** suspend the right of the creditors of the bank concerned to claim or receive interest on any money owing to them by that bank and to make payments to any creditor of the bank concerned. However, **the bank would otherwise, subject to the terms of the curator’s appointment, continue conducting its normal day-to-day business.**

Curatorship of a bank will lapse upon-

- a) the issue by the Minister of written notification to that effect to the curator; or
- b) the winding-up of the bank in terms of the provisions of section 68 of the Banks Act, 1990.

The procedures documented in this Failure Manual will commence immediately upon the occurrence of an Insolvency Proceeding, including the appointment of a curator.

The Strate participation may be terminated by Strate. Please see below.

3.1.2 Business Rescue

The business rescue proceedings are governed by sections 128 to 154 of the Companies Act, 2008, and will apply in respect of a **Non-Bank** Participant. The business rescue proceedings provides for the temporary supervision of a financially distressed company with the aim of facilitating rehabilitation. The business rescue proceedings can be initiated through –

- a) a resolution adopted by the board of the company and filed with the Companies and Intellectual Property Commission, or
- b) a Court application by any affected person.

The full management control of the company vests in an independent business rescue practitioner, who may delegate any power or function to a Member of the pre-existing board or management. The directors continue to exercise their functions of directors, subject to the authority of the business rescue practitioner.

Where the company resolve to initiate the business rescue proceedings, the company will appoint a business rescue practitioner. But, where any interested person applies to Court to commence the business rescue proceedings, the Court may order an interim appointment of a person nominated by such applicant, subject to the ratification by the majority of independent creditors. The business rescue practitioner is an officer of the Court, and must report to the Court in accordance with the applicable rules or orders made by the Court.

The assets of the company remain vested in the company, but under the control of the business rescue practitioner. As soon as practicable after being appointed, the business rescue practitioner must investigate the company's affairs, business, property, and financial situation, and consider whether there are reasonable prospects of rescuing the company.

If at any time during the business rescue proceedings, the business rescue practitioner concludes that there are no reasonable prospects for rescuing the company, he must then inform the Court, the company and all affected persons. He must also apply to Court for an order discontinuing the business rescue proceedings and placing the company into liquidation. Upon liquidation, the company may not continue conducting its business, other than the activities that may be necessary for its beneficial winding up.

The procedures documented in this Failure Manual will commence at the point when a business rescue practitioner is appointed.

The Strate participation may be terminated by Strate. Please see below.

3.1.3 Liquidation

The appointment of a liquidator to a bank is governed in terms of section 68 of the Banks Act, 1990. In relation to the liquidation of a **Bank** Participant, all cash with the bank would form part of the pool of assets of the bank (which does not include securities) and any depositors would have a claim against the bank in relation to any cash held with the bank. These claims would have to be proved in the ordinary course of events. The task of the liquidator is to take possession of all movable and immovable property of the bank, to realise such property and to apply the proceeds of the realisation to the payment of the costs of liquidation and the claims of the creditors.

The Strate participation may be terminated by Strate. Please see below.

The effect of a liquidation of a **Non-Bank** Participant in accordance with the Companies Act, 2008 and the Insolvency Act, 1936 is that the directors are divested of control of the company, the assets (which do not include securities) of the company are placed under the control of the liquidator and the company may not continue conducting its business, other than those activities that may be necessary for its beneficial winding up.

The Strate participation may be terminated by Strate. Please see below.

3.2 Client Failure

It must be noted from the above, that a Client's failure is not within the definition of "Participant failure" for this manual. Whilst it is very possible that the failure of a Client of a Participant could ultimately cause / trigger the failure of a Participant, this manual does not include any procedures to cater for the failure of a Client of a Participant.

This Failure Manual, or rather the procedures proposed therein, will only be activated as stipulated in paragraph 3.6 below.

3.3 Multiple Failures

The global financial crisis during 2008 highlighted the domino effect of systemic risk i.e. the possibility that the failure of one entity could cause the subsequent failure of another entity. The very real possibility exists, that the failure of one of Strate's Participants could lead to the subsequent failure of another Participant.

Please note that should such an event occur, it is envisaged that the proposed procedures contained in this Failure Manual would be followed for both failed entities i.e. additional or amended procedures are not envisaged. It is acknowledged that the impact to the market and administrative burden of trying to cope with the failure of two or more Participants would be untenable. This gives even more weight to the initiative that Strate Legal Division is taking to drive legislative changes in South Africa so that improved insolvency laws and protections can be introduced.

3.4 Pending legislative changes

As stated in the Introduction chapter above, please note that the SSA does not currently bind a curator, liquidator or business rescue practitioner (or the Court in terms of the business rescue proceedings) to accept the Failure Manager's role or follow the procedures proposed in this Failure Manual. However, the provisions which have been proposed in the Financial Markets Bill have recognised that a securities settlement system's Rules should provide effective protection for system stability and legal certainty. It is recognised that such Rules should have effect notwithstanding the commencement of Insolvency Proceedings over the system or a Participant in the system.

This key insolvency principle has been recognised in the Companies Act, 2008 (s. 53(4)) which confirms "*A transfer of ownership..... occurs despite any fraud, illegality or insolvency that may affect the relevant uncertificated securities.*" This is however limited to the securities governed by the Companies Act, 2008.

Extremely positive proposed wording is seen in the Financial Markets Bill which includes "*the provisions of this Act and the rules relating to settlement and effectiveness of entries in a central securities account and securities account and insolvency proceedings, prevail over any other law, legislation, agreement or founding document of any person and are binding on any person.*(c.3)) This would then include Strate Rules pertaining to Participant failure, the Failure Manual and the appointment of a Failure Manager. The Financial Markets Bill contains further proposed clauses (see c.34(2)(v)) that the Strate Rules "*must provide for the administration of securities held for own account or on behalf of a Client by a Participant, including the settlement of unsettled transactions, under insolvency proceedings in respect of that Participant.*"

3.5 CSD Rules

The introduction of the Companies Act, 2008, albeit limited to certain securities, enabled Strate to amend its CSD Rules (as approved in Government Gazette Number 34811 dated 9th December 2011) and include certain insolvency related clauses, principles and conditions.

In terms of the CSD Rules:

"Insolvency Administrator" means: "*a person authorised to administer an Insolvency Proceeding by a court or any national legislation, or the laws of a country other than the Republic of South Africa, including a person authorised on an interim basis*".

“Insolvency Proceeding” means: *“a judicial or administrative proceeding or both, authorised in or by national legislation or the laws of a country other than the Republic of South Africa, including an interim proceeding, in which the assets and affairs of a person are subject to control or supervision by a court or an Insolvency Administrator for the purpose of re-organisation, business rescue, curatorship or liquidation, and includes, but is not limited to, any such proceeding under –*

- a) the Companies Act;*
- b) the Insolvency Act, 1936 (Act No. 24 of 1936);*
- c) the Banks Act, 1990 (Act No. 94 of 1990);*
- d) the Financial Institutions (Protection of Funds Act), 2001 (Act No. 28 of 2001); and*
- e) the National Payment Systems Act, 1998 (Act No. 78 of 1998);*

The terms Insolvency Administrator and Insolvency Proceeding, as per the above definitions, are used throughout this Failure Manual.

3.6 Activation of this Manual

In terms of the CSD Rules:

1.3 For the purpose of the definition of “Insolvency Proceeding”, a proceeding referred to in that definition commences:

- (a) in relation to a judicial proceeding, on the granting of an interim order; and*
 - (b) in relation to an administrative proceeding, on the filing of a resolution by a company, or the appointment of an Insolvency Administrator, as the case may be;*
- in accordance with national legislation or the laws of a country other than the Republic of South Africa.*

In addition to the above, the appointment of a Failure Manager (which will be enabled through the *Financial Markets Bill, once promulgated*) will be enabled via the Strate Rules. The Rules will define, *inter alia*, the circumstances under which and the timing of the appointment of a Failure Manager.

Upon the notification of an Insolvency Proceeding, the following will apply:

- a) The Participant Failure Crisis Committee will be constituted on commencement of curatorship, business rescue proceedings or on the application for liquidation (either provisional or final) of any Participant.
- b) This Failure Manual will be activated the moment the curator is appointed or the liquidator or business rescue practitioner has been appointed.

Strate, or its representative, will be appointed as the Failure Manager of the Failed Participant as soon as:

- a) in respect of Bank Participants – a curator is appointed; or
- b) in respect of Non-Bank Participants – a liquidator or business rescue practitioner has been appointed to oversee and/or wind-down the business of the entity.

3.7 Strate Rules and “Termination of Participation”

In terms of Strate Rule 3.10.1.1, the Controlling Body **may** terminate the participation of a Participant where:

“the Participant is placed under an Insolvency Proceeding, or the Participant makes a compromise or arrangement with its creditors;”

When the Failure Manual refers to a “failure” or a “Failed Participant” it relates specifically to any of the Insolvency Proceedings as per the definition in the Strate Rules, including:

- curatorship
- business rescue proceedings
- liquidation

The suspension or termination of participation in Strate is a totally separate procedure and does not form part of the procedures detailed in this Failure Manual. The activation of this manual and adopting the proposed failure procedures **may** witness the concurrent suspension and subsequent termination of the Failed Participants’ Strate participation. It does, however, remain two distinct procedures.

The procedure to be followed in the event that the Controlling Body decides that participation be suspended or terminated, is already catered for in the Strate Rules.

4. STAKEHOLDER ROLES AND RESPONSIBILITIES

Strate and its approved Participants, together with the JSE and its approved Authorised Users (Members), are critical components of the South African financial market. Due to the high levels of inter-dependency in the settlement environment, a stakeholder's financial and/or operational weakness could be a source of systemic disturbance and risk. The market is critically dependent on confidence in the safety and reliability of the settlement arrangements and its stakeholders.

Securities markets should be prepared for, and have procedures in place, to deal with the financial failure of Participants in a manner which alleviates or mitigates risks (including, *inter alia*, credit risk, settlement failure risk, systemic risk, legal risks), in a way that will result in the least disruption of these markets and ensures ongoing confidence in the financial markets by investors.

4.1 Roles and responsibilities of stakeholders in the event of failure.

As a result of the interdependencies within the South African financial markets, it is to be expected that the failure of a Participant will affect the operations of all stakeholders in one form or another. This implies that every stakeholder may have a role to play following the failure of a Participant, and may have certain responsibilities they need to discharge in order to ensure that the failure is managed in the most efficient and least disruptive manner.

This Failure Manual seeks to identify, describe and summarise the roles and responsibilities of certain stakeholders in the event of a Participant failure, and these have been included in the sections detailing the failure management actions required for the various securities, namely:

- Equities;
- Bonds; and
- Money Market.

This section of the Failure Manual explains some of the key roles and responsibilities to be performed.

4.1.1 Strate acting as or appointing a Failure Manager

In terms of the Strate Rules, Strate will have the power to appoint a Failure Manager for the Failed Participant.

The Failure Manager will be deployed to the failed Participant to:

- 1) oversee the finality of the settlement of transactions in the settlement timeline immediately following the declaration of a Participant failure as defined;
- 2) oversee the migration of Client Securities Accounts to a new service provider;
- 3) oversee the migration of Client Segregated Depository Accounts to appointed Secondary Participants; and

- 4) oversee the processing of Corporate Actions (Equities) and Capital Events (Bonds and Money Market);

in a manner which is least disruptive to the functioning of the South African financial markets.

The Failure Manager will not assume any liabilities of the Failed Participant, including from the failure management actions required by this Failure Manual.

Strate, through the Failure Manager, will assist the Insolvency Administrator to continue the custody and settlement operations of the Failed Participant in an orderly manner, which will protect the melt down of the financial markets as well as the Client's interests and ensure the orderly winding down of these operations.

4.1.2 STRATE Supervision

From the time the failure of a Participant is declared and whilst the procedures documented in this Failure Manual are being followed, STRATE Supervision will continue to monitor and supervise compliance by all Participants with the SSA and Strate's Rules and Directives.

In all likelihood however, the settlement timelines and parameters normally supporting the Strate environment will be lengthened / extended to accommodate the processing of the transactions in the settlement pipeline and the migration of Clients securities to new service providers. As such, it has been acknowledged by STRATE Supervision, and similarly by the JSE, that any penalties (monetary fines) may be suspended during this period of crisis management.

Should it be deemed necessary to terminate the Strate participation of the failed entity, this process will be managed by the Head of STRATE Supervision in accordance with the Strate Rules.

4.1.3 JSE Settlement Authority

4.1.3.1 Equity market

In terms of the JSE's Rules, the Settlement Authority means the person or persons appointed by the JSE to manage the settlement of transactions in Equity securities affected through the JSE Equities trading system in terms of the JSE Rules and Directives. The role of the Settlement Authority through the failure period will be to monitor and manage settlement of On-market transactions and ultimately ensure settlement of transactions as embodied in the JSE's Rules and Directives and the Strate Rules and Directives.

4.1.3.2 IRC Market

The JSE Settlement Authority will manage settlement of spot Bond transactions executed on the IRC Market. In terms of JSE's IRC Rules, the Settlement Authority means the person or persons appointed by the JSE to manage the settlement of transactions in Bonds affected through the IRC trading system in terms of the JSE IRC Rules and Directives and the Strate Rules and Directives. The role of the Settlement Authority through the failure period will be to

monitor and manage settlement of On-market transactions and ultimately ensure settlement of transactions as embodied in the IRC Rules and Directives and the Strate Rules and Directives.

4.1.4 JSE Surveillance

The JSE Surveillance Division is responsible for supervision of compliance by JSE Authorised Users with the JSE Rules and Directives and the SSA. The key issue that impacts on the Surveillance Division's supervisory activities in relation to a Participant failure is the custody of securities held by a Participant on behalf of JSE Authorised Users and their Controlled Clients (Equities) and Member-Settled Clients (IRC).

Following the failure of a Participant, the Surveillance Division will have a material interest in the transfer of the affected Authorised Users' Securities Accounts to another Participant as soon as possible, to ensure the continuity of business of those Authorised Users and the effective safeguarding of the securities held by the Failed Participant.

Ideally the Surveillance Division would want the Securities Account balances held by the Failed Participant to still be communicated to the affected Authorised Users as frequently as occurred prior to the failure (for example, daily in the case of Equities) until the Securities Accounts are transferred to another Authorised User. This will enable the Authorised Users to continue to balance their custody records with the records of the Failed Participant, which is an important element of their custodial responsibilities in terms of the JSE Rules and Directives, and will enable the Surveillance Division to continue to oversee this activity.

In terms of the statement above, it is envisaged that the sending of MT535 and MT536 SWIFT messages by the Failed Participant will continue until all Authorised Users' securities have been migrated to a new custodian.

4.1.5 Participants

A Participant is defined in the Securities Services Act, 2004 (SSA) as *“a person that holds custody and administers securities or an interest in securities and that has been accepted in terms of section 34 by a Central securities Depository as a Participant in that Central Securities Depository.”*

Strate has accepted and currently supervises several Participants to hold Equity, Bond and/or Money Market securities. For the current list of Strate approved Participants please go to www.strate.co.za

The current list of Strate Participants as at 2012 are:

| | |
|---|-------------------------------------|
| ➤ ABSA Bank Limited | - Full - Bank Participant |
| ➤ Citibank NA, South Africa Branch | - Full – Bank Participant |
| ➤ Computershare Limited | - Full - Non-bank Participant |
| ➤ Eskom | - Corporate – Non-bank Participant |
| ➤ FirstRand Bank Limited | - Full - Bank Participant |
| ➤ Link Investor Services | - Full – Non-bank Participant |
| ➤ Nedbank Limited | - Full - Bank Participant |
| ➤ Societe Generale Johannesburg Branch | - Full - Bank Participant |
| ➤ Standard Chartered Bank, JHB Branch | - Full – Bank Participant |
| ➤ The Standard Bank of South Africa Limited | - Full - Bank Participant |
| ➤ South African Reserve Bank | - Full – Participant - Central Bank |

It should be noted that this Failure Manual would not apply to a “Central Bank” failure.

4.1.5.1 Types of Participants

Bank-Participants

refer to those entities who are accepted as a Participant by Strate in terms of the SSA and Strate Rules and Directives and who are also licensed as a bank under the Banks Act, 1990, and whose bank activities are regulated by the Bank Supervision Department (BSD) of the SARB.

Non-Bank Participants

refer to those entities who are accepted as a Participant by Strate in terms of the SSA and Strate Rules and Directives and who are not licensed under the Banks Act, 1990;

Full Participant

means a Participant who opens and maintains Securities Accounts on behalf of their Clients and themselves;

Corporate Participant

means a Participant who opens and maintains Securities Accounts only for securities owned by it.

4.1.5.2 Failed Participant

An explanation of the types of participation is explained in the paragraphs that follow.

Since the definition of failure in this Failure Manual is limited to the financial failure of the entity and does not include a disaster recovery or business continuity event, it is assumed that the internal custody and settlement system of the Failed Participant will be in operation. Staff of the Failed Participant (albeit probably skeleton staff) will be available to continue processing settlement and Capital Event / Corporate Action instructions from Clients, Strate and / or the JSE. Further the Insolvency Administrator will be winding down the business and realising value in some assets, and therefore will continue to engage the services of certain

service providers (e.g. IT vendors) whose services are needed in order to run the Participant operations.

In terms of defined Strate participation criteria, Non-Bank Participants (excluding Money Market Participants – see Strate Directive SA.2) are required to continuously hold, at the disposal of Strate, sufficient capital to ensure the entities ongoing operation for a period of no less than six (6) months. This capital is held in the form of a Bank Guarantee from a local Bank in favour of Strate and is equivalent to six (6) months fixed and some variable operating expenses. As such, in the case of at least a Non-Bank Participant, it is foreseen that the systems and staff costs can be paid for at least six (6) months.

5. PFCC – PARTICIPANT FAILURE CRISIS COMMITTEE AND COMMUNICATION/_ESCALATION PROCEDURES

The following represents the structure and terms of reference for the operational committee which will oversee the operational aspects of the management of a Participant failure.

5.1 Participant Failure Crisis Committee (“PFCC”)

5.1.1 Name of Committee: Participant Failure Crisis Committee (“PFCC”)

5.1.2 Mandate:

1. Constituted on the occurrence of an Insolvency Proceeding including the announcement of curatorship, business rescue proceedings or on the application for liquidation (whether provisional or final) of any Participant;
2. Ensure that the actions and requirements determined by the Participant Failure Manual are executed and adhered to; and
3. To monitor and report on the status of the management of the Participant failure to the State Crisis Committee and Financial Services Board.

5.1.3 Chairperson: Financial Services Board to nominate an independent market expert.

5.1.4 Secretary: To be appointed by State.

5.1.5 Members:

1. State Limited
 - Head: STRATE Supervision Division (or a representative)
 - Head: Marketing and Communication (or a representative)
 - Head: Legal Division (or a representative)
 - Head: Risk Division (or a representative)
 - Head: Custody and Settlement Services Division (or a representative)
2. JSE Limited
 - Director: Clearing and Settlement (or a representative)
 - General Manager: Clearing and Settlement (or a representative)
 - Director: Surveillance (or a representative)
 - Director: Interest Rate Division (or a representative)
 - Chief Operations Officer (or a representative)
 - Director: Legal Division (or a representative)
3. Appointed Failure Manager (once appointed)
4. Financial Services Board
 - Representative of the Capital Markets Department

5. South African Reserve Bank
 - Representative from the National Payments Systems Department (NPSD)
 - Representative from Bank Supervision Department (BSD).
6. Payments Association of South Africa (PASA)
 - Representative
7. Representative from the management of the Failed Participant.
8. Representatives from management of all Survivor Participants who operate in the market in which the Failed Participant operated.
9. Representative from Business Partners:
 - Traders (Money Market)
 - Lending Desks – SASLA – (Equities and Bonds) (The Chairman of SASLA unless they are from the Failed Participant, in which case an alternative representative will be appointed by SASLA.)

All representatives to be available on conference call if unable to attend in person.

5.1.6 Quorum:

The quorum of the Committee will be:

1. The Chairperson or his/her nominated representative;
2. A representative from each of the two SRO's, where applicable (Strate and the JSE);
3. Representative from Strate Custody and Settlement Services Division;
4. Representative from the FSB Capital Markets Department; and
5. Representative from management of the Failed Participant.
6. Failure Manager – once appointed.

Strate maintains a stakeholder database which includes the contact list for all Members and representatives proposed above.

5.1.7 Reporting lines of the Committee:

The Participant Failure Crisis Committee will report to the Strate Crisis Management Committee.

The CEO of Strate (or his/her designated alternate) will report to the Securities Registrar who will inform the Capital Markets Department of the FSB. A decision will be taken by the Capital Markets Department, depending on the circumstances, whether to convene the FSB SRO Incidents Committee.

The FSB SRO Incidents Committee in turn reports to the Financial Sector Contingency Forum (FSCF).

5.1.8 Meeting location:

The offices of Strate Limited, Ground Floor, 9 Fricker Road, Illovo

5.1.9 Terms of Reference of the Committee:

The terms of reference of the Committee shall be the following:

1. To oversee / monitor / report on the management of the clearing and settlement, Corporate Action / Capital Event and Client Migration processes following the failure of a Participant in line with the requirements of the Participant Failure Manual;
2. To nominate the representative/s who will act as the Failure Manager/s and authorise their deployment to the Failed Participant;
3. Nominate a representative to liaise and interact with the Insolvency Administrator;
4. To communicate and liaise with the State Crisis Management Committee who in turn will liaise with the Securities Registrar;
5. To make any proposals to the State Crisis Management Committee where an impact to existing or planned market projects, initiatives or testing cycles is envisaged;
6. To make any proposals to the State Crisis Management Committee where an impact to the SAMOS cut-off times is envisaged and an extension must be requested from the SARB;
7. To liaise with all other stakeholders in respect of both internal and external communication by those stakeholders;
8. To determine an internal communication strategy for Project Stakeholders to support the execution of the Participant Failure Manual; and
9. To review and approve the Participant Failure Manual on a frequent basis and ensure that this manual is updated for all changes in settlement processes and market statistics, Committees, settlement decision trees, etc.

5.2 Escalation Procedures and Communications Plan

This section of the Failure Manual details how information pertaining to the announcement of a Failed Participant will be released to the market.

In respect of a Bank-Participant, it is recognised that there is a need to guard against “over-communication” as this could result in panic and possible systemic consequences. As detailed above, the Participant Failure Crisis Committee will be responsible for determining an internal communication strategy for Project Stakeholders to support the execution of the Failure Manual.

As the failure of a Bank Participant will constitute an event falling into the Level 3 environment of the FSCF, the FSCF will prepare and disseminate a press release to the general public.

In respect of a Non-Bank Participant, failure would most likely take the form of the appointment of a business rescue practitioner or liquidator under the Companies Act, 2008, as read with the Insolvency Act, 1936.

However, depending on the classification of the severity of the event by the FSCF, i.e. a Level 1 or Level 2 severity, certain communication to the general public may be prepared and disseminated by the FSCF itself.

5.3 Strate Rule Requirements

In terms of Rule 3.10.4:

“A Participant, or its Insolvency Administrator or other lawful agent as the case requires, shall immediately notify the Executive Officer and the Registrar in writing upon the happening of any of the events referred to in Rule 3.10.1 and shall in addition to their obligation in 3.10.3 immediately upon the termination of the participation of the Participant ensure that all of its Records are placed in custody as determined by the Controlling Body.”

Where the participation of the Participant may also be terminated by Strate, in terms of Rule 3.10.7:

“The CSD must give notice of termination to the Registrar and other Participants, within the category of Participants in which the Participant has been terminated, and the effective date of termination.”

In terms of the duties of a Participant under Rule 5.7.7:

“Clients are advised in writing within 3 (three) Business Days by the Participant, its Insolvency Administrator or other lawful agent of any suspension, restriction or termination of its participation, or of it being placed under interim management in terms of the Rules.”

6. OVERVIEW OF THE SETTLEMENT PROCESS

This Failure Manual is based on the current Equities, Bonds and Money Market settlement procedures, functionality and timelines. Market initiatives such as the move to “T+3 for Equities” or the Bonds “Debit Instruments Solution” project will only be considered and included in the manual, when such settlement procedures are adopted formally in the market.

6.1 Rolling Settlement

Rolling settlement refers to a settlement environment in which transactions (securities and cash) become due for settlement a set number of business days after trade date. In South Africa, settlement has been introduced on a rolling basis (where T= Trade Date) as follows:

- Equities: T+5
- Bonds: T+3
- Money Market T+0

This is important to bear in mind when dealing with an occurrence of a Failed Participant as every business day is a trading day and as such, under Strate, every business day is also a settlement day. The continuous flow of settlement orders exacerbates the situation stakeholders are trying to manage when a failure does occur.

Please note that the JSE Rules allow for the “rolling of settlement date” (not to be confused with Rolling Settlement) as part of their Failed Trade procedures. Please also note that this is only allowed under extremely exceptional circumstances as defined by the JSE. Currently, the JSE cannot process any bulk “rolled settlements” to cater for a Participant failure scenario and for this reason, including others, it has not been included and catered for as a possible failure procedure.

The Project Stakeholders are currently investigating “rolling of settlement date” across all markets and systems, as a means of mitigating the administrative burden which will be associated with a Participant failure.

6.2 Contractual Settlement

Contractual settlement is a market convention embodied in the Rules of the JSE which states that a Client has a contractual obligation to ensure that a trade concluded on the JSE settles on settlement day. The settlement obligation still resides with the Authorised User.

The JSE, in its capacity as Settlement Authority, monitors and manages settlement in order that all Equities and Bond On-market transactions executed on TradElect and IRC, settle five or three business days respectively after the Trade Date. The JSE also guarantees trades executed on the Central Order Book on TradElect whereas SAFCOM guarantees trades executed on the Central Order Book or Report-Only transactions accepted for risk management by the Clearing Member on IRC.

6.3 Simultaneous Final Irrevocable Delivery versus Payment (SFI DvP)

On settlement day, the Strate settlement system confirms the availability of securities at Participant level through the “reservation process”. If reservation of securities at Participant level is successful, the Strate systems proceed to send a request for the transfer of cash to the SARB. The SARB facilitates the movement of cash between Clearing Banks through the South African Multiple Option Settlement System (SAMOS).

Cash obligations are netted across transactions, per Participant, per payment run. Accordingly, Participants may be nett payers or nett receivers of cash from SAMOS on any settlement day. Settlements for the different markets (Equities, Bonds and Money Markets) are settled separately.

Once the availability of cash has been confirmed, and money has been transferred between SARB bank accounts at Clearing Bank level and confirmation has been received from SARB, the Strate settlement systems will transfer securities within each Participant’s Central Securities Accounts or for Money Market the Clients SOR Account (Securities Ownership Register). For transactions that do not involve payment (i.e. free of value orders), transfers will be effected on Settlement Date provided the Participants and Clients have sufficient securities balances.

Confirmation of a successful settlement is then released to the Participants and the JSE (for On-market Equities and IRC Bonds trades), who reflect the corresponding Client entries in their systems. Settlement is completely secure because the transfer of cash and securities at Nominee / omnibus level, Segregated Depository Account level and for the electronic Money Market, Beneficial Ownership level, occurs simultaneously in a contractual transaction that is considered to be both final and irrevocable.

At the end of the business day, transactions that could not settle (either due to lack of security or cash) will be treated as failed. As the JSE monitors settlement of On-market Equities and IRC transactions (on behalf of SAFCOM) and guarantees settlement of transactions conducted on the Central Order Book, no On-market Equities or IRC transactions will be left to fail.

6.4 Principle of fail one, fail all

Settlement of Equities’ transactions within Strate has been maximised through netting of securities at Central Securities Account level and cash at Participant level. In addition, a third level of netting of both cash and securities (for Proprietary and Controlled Client transactions) is achieved at JSE Equities Member level using the BDA system. Due to these three levels of netting the principle of “fail one, fail all” also applies at three levels, namely at settlement group level, at cash level and lastly at securities level.

On settlement day the CSD system reserves the securities for the nett positions of all transactions reported and committed to for settlement on that day. For Equities, this process is commenced shortly after the Beginning of Day (BOD) process has run. For s, this process

is commenced once Participants have either excluded or committed to the trades comprising the First Settlement Run.

For Equities' transactions that do not involve payment (i.e. free of value orders), transfer of securities occurs immediately provided that the balance of securities in the Participants Central Securities Account, or Clients Segregated Depository Account is sufficient. For Bond transactions that do not involve payment refer to Chapter 13 for processing of CD Transfers. Free-of-value transactions have also been introduced on the IRC systems and provided that the balance of securities is sufficient, these trades will settle.

For transactions that involve payment, once this reservation of securities has been processed, a payment instruction per market (separate for Equities, Bonds and Money Market), per Participant, is generated and automatically submitted to the Central Bank. The SARB facilitates the movement of cash between the Clearing Banks through the SAMOS. Each Bank-Participant, or the Clearing Bank appointed by a Non-Bank Participant, would be required to fund their accounts in SAMOS (depending on whether they are nett receivers or payers of cash for that settlement run).

What is important to note from this explanation of the settlement functionality within Strate is that cash obligations are netted across transactions per market (for Equities and Bonds), per Participant, per payment run, only when trades are committed to. With respect to Money Markets these trades settle gross and cash settles gross on a trade by trade basis. All cash, across all markets, are settled in Central Bank funds.

The interdependency created by this cash obligation means that each Participant will be required to fund their nett cash obligations (where they are a nett payer) before cash settlement at Central Bank level will proceed. Only once the availability of cash has been confirmed at SAMOS account level, will cash be transferred between the SARB bank accounts.

The constitution of the nett cash obligations is across all Participants and across all transactions reported and committed for the particular settlement run on settlement day.

As such:

1. Transactions reported and committed by one particular Participant (whether for both legs of a transaction, or only as counterparty to a transaction) **cannot be excluded** from the constitution of the nett cash obligation;
2. Should one bank (as Bank-Participant or Clearing Bank of a Non-Bank Participant) not fund their SAMOS account, settlement at Central Bank level will not occur for **all transactions**;
3. If settlement at Central Bank level does not take place, Strate will not receive a settlement confirmation from the SARB and as such all transactions incorporated into the nett cash obligation will **all fail**;

4. For Equities' settlements, functionality does not currently exist to extract one Participant's reported and committed transactions from a settlement day's obligations and reconstitute the nett cash obligations excluding one such Participant. Due to the nature of the Equities market and potential impact, it is not considered possible or viable to build this type of functionality;
5. For Bonds' settlements, it is possible to process gross settlements in the Second Settlement Run, which in effect allows for the exclusion of one Participant's reported transactions.

On each day following the declaration of a Failed Participant, the CSD systems will continue to constitute obligations for the Failed Participant for those transactions which were reported, matched and committed to before the declared failure. Should such transactions involve payment, the cash obligations constituted by a CSD system will continue to be released to the Central Bank.

It has been stated in this Failure Manual that the banks (including Bank-Participants and the Clearing Bank appointed by the Non-Bank Participant) are regulated by the SARB under the Banks Act, 1990. As such, the curator would risk-manage the cash positions and obligations of the failed entity.

The curator, on receipt of each cash obligation from Strate for the failed entity, must determine whether or not to honour each obligation. Should the curator decide to fund the required cash, then settlement will proceed. Alternatively, as discussed above, cash settlement at Central Bank level will not take place and as such all transactions making up the nett obligation on failure date will fail.

7. ACCOUNTS (Securities Accounts, Segregated Depository Accounts and MM SOR Accounts)

An investor wishing to hold uncertificated securities must first open an account with a Participant. The Participant may open and maintain one or many accounts for each Client, and such accounts may be one of the following types:

1. Equities – a Participant may open for its Client, a Securities Account or a Segregated Depository Account;
2. Bonds - a Participant may open for its Client, a Securities Account or a Segregated Depository Account;
3. Money Markets – A Participant may only open an SOR account for its Client.

It is important for the reader of this Failure Manual to understand these separate accounts, since the different account structures impact the decisions to be taken and processes to be followed once an Insolvency Proceeding is announced.

7.1 Securities Accounts – Sub-register

A Securities Account means an account kept by or on behalf of a Participant for a Client. In the Equities environment, the Sub-register model of record keeping is followed and a similar model is followed in the Bonds market.

The accounts are maintained by the Participants. The Sub-register will reflect registered ownership and not Beneficial Ownership as these securities are generally held in the name of the Client or a Nominee. Where securities are held in the name of a Nominee, the Nominee's name, and not the Client's name will be recorded in the Sub-register.

Where such a model is followed, Strate will only have a record of the aggregate of securities maintained by a Participant in one or many Central Securities Accounts. The Central Securities Account does not reflect ownership but is simply a record of each Participant's total securities holding in that market for Clients. As such, in the event of an Insolvency Proceeding, Strate has no real-time record of the underlying Clients of the Failed Participant.

The identification of each underlying Client's securities portfolio can be determined by the Failure Manager and for each such Client, separate instructions will have to be sent to migrate unencumbered securities from the Failed Participant to a new custodian. It is envisaged that the administrative burden relating to this reconciliation of securities holders at Client level, the opening of new Securities Accounts and the migration of securities to a new custodian will be extensive.

7.2 Segregated Depository Accounts

Recent bank failures like Lehman Brothers have highlighted the need to address the access of securities and legal certainty of title which may exist in markets where Clients securities are placed under the management and custody of a Participant. As the significance of the recent economic crisis has rippled through the financial world, many financial institutions and investors are calling for higher levels of transparency, increased regulation and improved protection of their securities.

Increasingly the co-mingling of securities and legal certainty of title has come into question where Client's Securities are placed under the management and custody of a custodian or Participant.

Clients are becoming more demanding to have their safe keeping accounts opened directly in the books of the CSD where they will be easily accessible, identifiable and readily available in the event of the insolvency of a Participant.

The Companies Act, 2008 became operational on the 1st May 2011 and it enabled the CSD to pass the necessary CSD Rules to enable investors to open accounts (Segregated Depository Accounts or SDAs) at the CSD.

Investors have 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 Participant Nominee and thereby have the legal security and protection of their securities in case of Insolvency Proceedings against their Participant. The SDA account therefore reduces both operational and systemic risks.

While current CSD Rules allow for a procedure for movement of Clients' Securities from a Failed Participant to a replacement Participant, there is a huge administrative burden post-failure.

Although the CSD Rules require Clients to nominate a replacement Participant within a 30 day period, in practice, the actual movement of securities and the opening of new Securities Accounts at such Participant could take a longer period. The amended CSD Rules now enable Clients to open Segregated Depository Accounts through their current ("Primary") Participant and to simultaneously appoint a replacement ("Secondary") Participant. The CSD Rules therefore enable Participants and Clients to pro-actively deal with the administrative procedures envisaged in the current CSD Rules prior to any Participant failure.

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 (see CSD Rules 6.13.4 and 6.13.5);
- The Primary and Secondary Participants are responsible for entering into or amending a Safe Custody Agreement / Client Mandate with the Client / investor; and

- 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.

7.2.1 Primary and Secondary Participants

A 'Primary Participant' is the Participant responsible for administering an SDA on behalf of a Client / investor.

Clients / investors may appoint a Secondary Participant upfront when opening an SDA account. In the event of an Insolvency Proceeding being instituted against such Primary Participant, the Client / investors account would be switched to the Secondary Participant.

Therefore a 'Secondary Participant' means the Participant appointed by a Client to administer an SDA in the event of an Insolvency Proceeding being instituted against their Primary Participant.

Please refer to Chapter 15 of this Manual for the processes which will be followed to migrate securities from the Failed Primary Participant to the appointed Secondary Participant.

7.3 Money Market SOR Accounts

In the Money Market environment a Securities Ownership Register (SOR) is maintained. The SOR is the record of Money Market securities held in a Money Market Securities Account kept by the CSD. A Money Market Securities Account is a Central Securities Account opened and maintained by a Participant for a Client in the SOR.

Please refer to Chapter 15 of this Manual for the processes which will be followed to migrate Money Market Securities Accounts to a new Participant.

7.4 CSD Obligations in the event of an Insolvency Proceeding on Securities Accounts

Strate will play a central role in facilitating the migration of Clients' securities from the Securities Account, SDA or Money Market SOR Account opened and administered by the Failed (Primary – where applicable) Participant to accounts opened at a new or already recorded (Secondary – where applicable) Participant/s. The most important function will be assisting Participants to reconcile the unencumbered securities which are able to be migrated to the newly appointed custodian.

8 SETTLEMENTS ON DATE OF FAILURE

As is current practice, this Failure Manual assumes that the curatorship of a bank will be announced after close of business of any week day. The next day will therefore constitute the first day of failure, referred to in this Manual as “Failure Date” or “F”.

Due to the curatorship announcement being made after hours there will be very little opportunity to intervene in any of the settlements due for the following day, i.e. date of failure (F). As detailed above, the Failed Participant will either be a nett receiver or a nett payer of cash on the date of failure.

As no failure management actions will be possible, it is a core principle and assumption of this Manual that the SARB will honour the payment obligations of the Failed Participant on the date of failure so as to ensure that all settlements which are due to occur on that date are concluded as normal.

This assumption is made in the context of Settlement Assurance Option 1 (Lamfalussy) under which the SARB has undertaken to “manage” the failure of any bank in the South African payments arena. This “management”, for purposes of the failure of a Bank-Participant or Clearing Bank in respect of a Non-Bank Participant, is taken to imply that the SARB will provide the necessary liquidity on behalf of the failed bank to ensure that all cash settlements through SAMOS are effected for settlements due to occur on the day of failure.

9 SETTLEMENTS FOLLOWING THE DATE OF FAILURE

In the event of the failure of a Participant (being a Bank-Participant or the Clearing Bank appointed by a Non-Bank Participant) an anomaly currently exists between the legal status for securities and the legal status of cash.

The Strate Rules determine that securities are ring-fenced and so do not form part of the pool of assets of the failed entity.

It is therefore envisaged that all sale transactions should be allowed to settle following the date of failure if the securities are available. However, this would result in the payment of the sale proceeds to the Failed Bank Participant or Clearing Bank of the Non-Bank Participant (assuming it is the Clearing Bank that has failed) where it will be trapped and not be accessible to the Client until the bank is put into liquidation and wound up (this assumption is made in the Manual based on past historical experience). Strate, or its representative, acting as the Failure Manager should guard against “cherry picking” where proceeds of a sale could fund a purchase and the curator decides to honour the sale but not the purchase. The Client would become a concurrent creditor of the bank in the case of proceeds from sales.

Similar to sale transactions all cash due to Clients of the failed entity as a result of Corporate Actions / Capital Events will also be trapped after payment by the Issuer to the failed entity.

The solution offered in this Manual therefore requires that the cash proceeds from the settlement of sale transactions, Corporate Actions / Capital Events and cash collateral (for securities loan returns) be diverted away from the failed entity using temporary cash suspense accounts opened specifically for this purpose. This principle is expanded on below.

Please Note: Some stakeholders, when initially reviewing this Failure Manual and giving comments, requested that the proposal be amended and that the “New-Cash” be diverted to a “ring-fenced”, clearly distinguished cash suspense account/s still within the failed entity. The Cash Suspense Account and Corporate Actions Suspense Account proposal explained below is currently based on the premise that these accounts will be opened at a new / surviving bank.

However, the Project Stakeholders recognise the more complicated IT systems and manual reconciliation procedures involved in diverting cash away from the failed entity¹ and will certainly engage with the legislators when they present the Failure Manual and proposed procedures, to determine whether the legislators would adopt the concept of “ring-fenced within failed entity” versus the current proposal of “ring-fenced and diverted away from failed entity”.

At the time of releasing this Version of the Failure Manual, these discussions have not been concluded and final determination of where such Suspense Accounts may be opened, has not been established.

9.1 Transfer of securities from a Failed Full Participant

As stated above in Chapter 7, there may be an administrative delay in migrating Client securities from a Failed Participant to a new custodian. These securities can be:

- Equities
- Bonds
- Money Markets

In terms of the Strate Rules, the migration of Client securities, following the termination of a Participant's acceptance by Strate, has been catered for.

The following Strate Rules detail the procedure to be adopted:

3.10.2 *A Participant, its Insolvency Administrator or other lawful agent must, upon notification of the Participant's termination, transfer all Securities Accounts to other Participants in accordance with Client instructions in terms of Rule 5.6.3.9, the Client Mandate, Rules and Directives.*

1.10.3 *Where a Client has not provided a Participant with the instructions referred to in Rule 3.10.2 within 30 (thirty) calendar days of the Participant, its Insolvency Administrator or other lawful agent giving notice to the Client of its termination in terms of Rule 5.7.7, the Participant, its Insolvency Administrator or other lawful agent shall transfer the Client's Securities Account to another willing Participant in its discretion and advise the Client of the details of the receiving Participant.*

Separate CSD Rules and Directive SA.9 cater for the migration of securities within a Segregated Depository Account, where a Secondary Participant has been appointed. (Please see Chapter 15 of this Manual.)

9.2 Transfer of cash from a Failed Bank-Participant or Failed Clearing Bank of a Non-Bank Participant

All cash already deposited within the failed bank and cash deposited into a failed bank after failure date, forms part of the banks fungible pool of assets and is therefore trapped.

This is explained in section 69 of the Banks Act, 1990, which deals specifically with the appointment of a curator to a bank and provides as follows:

“69_1. (a) *If, in the opinion of the Registrar, any bank will be unable to repay, when legally obliged to do so, deposits made with it or will probably be unable to meet any other of its obligations, the Minister may, if he or she deems it desirable in the public interest, with the written consent of the chief executive officer or the chairperson of the board of directors of that bank, appoint a Curator to the bank.*

2. *the Minister shall appoint a Curator by letter of appointment which shall set out-*

- a) *the name of the bank in respect of which the Curator is appointed and the address of its head office;*

- b) *directions in regard to the security which the Curator has to furnish for the proper performance of his or her duties;*
 - c) *directions in regard to the remuneration of the Curator; and*
 - d) *such other directions as the management of the bank concerned or any matter incidental thereto, including directions in regard to the raising of money by that bank, as the Minister may deem necessary.*
2. (a) *On appointment of a Curator-*
- a) *the management of the bank concerned shall vest in the Curator, subject to the supervision of the Registrar, and any other person vested with the management of the affairs of that bank shall be divested thereof; and*
 - b) *the Curator shall recover and take possession of all the assets of the bank.”*

The abovementioned provisions of the Banks Act, 1990, require that the curator takes possession and control of all of the assets of the bank (and therefore the cash at the failed Bank-Participant and failed Clearing Bank of a Non-Bank Participant).

Given that the Banks Act, 1990, does not differentiate between the assets of the bank prior to the appointment of the curator and those assets acquired after such appointment, the assets placed under the control of the curator would therefore include any cash deposited with the bank after the appointment of the curator (but would exclude any cash already in the clearing and settlement system, which must be settled in terms of section 8 of the National Payment System Act, 1998.)

9.3 Re-routing of cash proceeds from settled sale transactions, collateral and Corporate Actions / Capital Event related cash receipts

The above position for both proceeds from sale transactions, cash collateral proceeds for securities lending returns and Corporate Action / Capital Event -related receipts has necessitated that a critical assumption be made in this Failure Manual that Strate or its representative, acting as the Failure Manager, will be permitted to open two bank accounts with another bank or banks (i.e. other than the Failed Bank-Participant or Clearing Bank of the Non-Bank Participant).

All cash proceeds from the settlement of sale transactions and cash collateral proceeds for securities lending returns, from the date after failure (F+1), will be routed to one of these accounts in order to prevent the cash from being trapped in the failed bank. This cash account is termed the **Cash Suspense Account (CSA)**.

The other account will be used for all Corporate Action / Capital Event related payments, either for payments to Issuers for Corporate Actions or payments to Clients of the Failed Participant for cash dividends, interest and other related payments. This cash account is termed the **Corporate Action Suspense Account (CASA)**.

PLEASE Note: Whilst this Manual refers to “a CSA” and “a CASA”, it may be a single omnibus account structure or a structure where a CSA or CASA is opened per Client – the principle will remain the same. Whether one or multiple CSA’s or CASA’s are opened will depend on, inter alia, which Participant failed, how their business was normally run, how many Clients they acted on behalf of and ultimately, the best way in which to manage and reconcile the cash flowing through the accounts. Some stakeholders, whilst reviewing this Manual, accepted the principle of a single CSA and a single CASA whilst other stakeholders said using a CSA and CASA PER CLIENT may be easier to manage and reconcile. This Manual does not mandate which option to choose – the main principle of “diverting and protecting New-Cash” remains unchanged. So, when the Manual refers to a CSA or a CASA account – it could include one or many such accounts and is not prescriptive.

The opening of a Cash Suspense Account and the Corporate Action Suspense Account and their proposed operational functioning are discussed in further detail below.

9.4 Nature and functioning of the Cash Suspense Account for sale proceeds and cash collateral proceeds for securities lending returns

The proposed solution offered by this Failure Manual requires that a separate cash account be opened at another bank or banks, to which all proceeds for sale transactions and cash collateral proceeds for securities lending returns can be routed and into which Clients of the Failed Participant may deposit New-Cash in order to ensure the settlement of any pending purchase trades or even the take-up of corporate Action/Capital Event benefits. The details of this account will be loaded into the custody and settlement system of the Failed Participant by the Failure Manager on the date of failure. Strate’s own CSD systems and Master-Data will be updated simultaneously. This will result in the re-routing of all cash proceeds due to Clients of the Failed Participant to this new cash account upon settlement of securities transactions.

For purposes of this Failure Manual this account will be styled as the “Cash Suspense Account” and the following operational aspects need to be clarified by Strate:

1. This cash account will be in the name of a Nominee of the Failed Participant. Alternatively in the name of a Nominee of Strate.
2. Operationally the cash account will be administered by employees of the Failed Participant in the case of a Nominee of the Failed Participant, or by employees/representatives of Strate (in its role as Failure Manager) in the event of a Strate Nominee, with the appropriate authority.
3. Clients of the Failed Participant, Issuers, the JSE and Authorised Users will be allowed to deposit New-Cash into this cash account.
4. New settlement instructions for purchase transactions will be allowed to be routed to this account and will be treated for commitment as for any other account. Settlement instructions will be committed to by staff of the Failed Participant as they would

normally do provided that proceeds from a previous transaction have been transferred (i.e. settlement of sale where securities are available), cleared New-Cash has been deposited into the cash account or New-Cash has been transferred from the Corporate Action Suspense Account.

5. Clients' cash in the Cash Suspense account may be transferred to the Corporate Actions Suspense Account to cover the take-up of any corporate action/ capital event benefits.
6. In respect of cash due to any Clients, the JSE and Authorised Users of the Failed Participant following the re-routing of such cash to the Cash Suspense Account, such Clients will be required to claim the funds as determined by the procedures listed in 9.6 below.

9.5 Nature and functioning of the Corporate Action Suspense Account for Corporate Action / Capital Event related cash receipts

The opening of a separate cash account for Corporate Action / Capital Event related payments is incorporated in this Failure Manual as it provides security to Issuers, the JSE Authorised Users and shareholders who are Clients of the Failed Participant in respect of access to their funds.

1. This cash account will be in the name of a Nominee of the Failed Participant. Alternatively in the name of a Nominee of State.
2. The cash account will be used to record all cash payments due to Issuers (e.g. Rights Offers, New Issues) or shareholders (e.g. dividends) who are Clients of the Failed Bank-Participant or Clearing Bank in the case of a Non-Bank Participant in order to ensure that the cash is not trapped in the failed entity.
3. This cash account will be administered by the Failure Manager.
4. In respect of cash due to Clients as a result of a Corporate Action / Capital Event entitlement from an Issuer, where these JSE Members and shareholders are Clients of the Failed Bank Participant such JSE Members or Clients will be required to claim the funds as determined by the procedures listed in 9.6 below.
5. Clients or JSE Members are permitted to use any New-Cash in the Corporate Actions Suspense Account and move such cash to the Cash Suspense Account to fund any upcoming settlement.

9.6 Suggested claims control framework for claiming of cash by claimants from the Cash Suspense Account and Corporate Action Suspense Account.

1. No cash will be paid out by Strate or its representative, acting as the Failure Manager, unless the claimant has identified itself as determined by the current FICA requirements;
2. The access to release any cash to any claimant has to be restricted to a limited number of authorised staff at the Failed Participant, under the supervision of the Failure Manager;
3. Evidence of the original settlement instruction, the trade which gave rise to the securities' settlement and the claimants entitlement to the cash from the Corporate Action / Capital Event need to be obtained from the claimant in a form acceptable to the Failure Manager;
4. A claim form stamped by a Commissioner of Oath or person holding a similar position needs to be completed by the claimant and verified by the Failed Participant's staff who has been authorised to perform this role by the Failure Manager;
5. This claim form should state the reference number and all details of the original transaction;
6. The new banking details of the claimant need to be verified before any payment will be made;
7. Access and ability to change any of these banking details should be restricted to a limited number of authorised staff;
8. Provision should be made in the new "Cash Suspense Account" and "Corporate Actions / Capital Event Suspense Account" for referencing of the cash proceeds to the original instruction or event to ensure a proper audit trail, and
9. An audit trail of all claims paid to other bank accounts should be generated daily.

9.7 Legal status of cash balances belonging to Clients of the Failed Non-Bank Participant

The anomaly between the treatment of cash and securities in the event of the failure of a Bank-Participant does not arise in the case of the failure of a Non-Bank Participant.

The reason is that the Non-Bank Participant does not hold the cash balances of the Client in its own name - these are deposited with a bank in an omnibus account in the name of its Nominee. Therefore, these cash balances do not form part of assets of the Non-Bank Participant and cannot be attached by the Insolvency Administrator. Accordingly there is no need for a "Cash Suspense Account" or "Corporate Actions Suspense Account" in the event of the failure of a Non-Bank Participant.

One Action Item for Strate is to amend the Clearing Bank Agreement requirements, so that the Clearing Bank of a Non-Bank Participant will be bound to continue performing cash

settlement services notwithstanding the failure of the Non-Bank Participant and will accept the role of the Failure Manager as it pertains to the winding down of the failed Non-Bank Participant. As such, the Clearing Bank for the Failed Non-Bank Participant will continue to perform this service and the normal ways of settling cash will apply.

9.8 JSE Trustees (JSET) Cash Account and an explanation of the JSET “sweeps” process in the event of a failure

The table which follows explains firstly, the current JSET sweeps process on a T+5 settlement cycle under normal operating conditions and timelines and then secondly in the comments column, explains how this process will need to be altered for JSE Equities Members, who hold their accounts with the failed entity, on date of failure following the announcement of a Failed Participant. The JSE will control and manage this process during a failure event.

JSE Trustees (JSET) Sweeps – CSDP Failure where the broker holds their accounts with the failed entity – on date of Failure (F)

| Settlement Cycle | Action | Messages in normal operating conditions | Comments – actions to be taken on date of Failure |
|------------------|--|---|--|
| T- | Controlled Clients deposit cash to the brokers trust account. Broker does a Cash Receipt on BDA which sweeps the funds to JSET | 1) BDA in batch generates a MT 198-104 SWIFT message to sweep cash from the brokers trust account to JSET. These messages are generated in batch and backdated to the previous business day. Reports are also generated which the banks collect daily. | 2) On date of failure, Broker will be requested to open up new cash accounts with a surviving Bank Participant or the Clearing Bank of a Non-Bank Participant. 3) Accounts will be updated on BDA.BDA will pick up on the new accounts when generating messages. 4) Broker will be requested to notify all controlled Clients of the new bank account details so that they do not deposit cash into the incorrect accounts at the failed entity. |
| T- | BDA month end. BDA calculates interest due on controlled Clients account. | 1) After calculation in batch BDA generates a MT 198-101 SWIFT message to transfer the interest from JSET to the broker's current account. These messages are generated in batch on BDA month end which is normally a Friday for value date the Saturday. Reports are also generated which the banks collect on the Saturday. | 1) On date of failure, Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) Accounts will be updated on BDA.BDA will pick up on the new accounts when generating messages. |

| Settlement Cycle | Action | Messages in normal operating conditions | Comments – actions to be taken on date of Failure |
|------------------|---|--|---|
| T- | JSET interest due to Clients – Monday after BDA month end | 1) BDA in batch calculates the JSET interest due to Clients. After calculation in batch BDA generates a MT 198-104 SWIFT messages to sweep the interest from the brokers current account to JSET. These messages are generated in batch and backdated to the previous business day. Reports are also generated which the banks collect daily. | 1) On date of failure, Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) Accounts will be updated on BDA.BDA will pick up on the new accounts when generating messages. |
| T | Trades are booked and allocated to the stock or Clients' accounts | N/A | N/A |
| T+1 | Late allocations and allocation corrections | N/A | N/A |
| T+2 | Late allocations and allocation corrections | N/A | N/A |
| T+3 | End-Of-Day T+3 – BDA system looks for all purchases for stock and controlled Clients' accounts. | 1) If broker's current account and settlement account is with the same bank – BDA in batch generates a MT 103 SWIFT message for value date of the settlement cycle to transfer cash to cover <u>all purchases</u> from the broker's current account to their settlement account. 2) If brokers current account and settlement account is not with the same bank – BDA in batch generates a MT 198-101 SWIFT message for value date of the settlement cycle to the bank where the current account is held, to transfer cash to cover <u>all purchases</u> from the brokers current account to their settlement | BOD T+3 1) Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) Accounts will be updated on BDA.BDA will pick up on the new accounts when generating messages. BOD T+4 (T+3 messages generated in batch previous evening) 1) Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) JSE will cancel the original MT 198-101 SWIFT message and send a new SWIFT |

| Settlement Cycle | Action | Messages in normal operating conditions | Comments – actions to be taken on date of Failure |
|------------------|---|--|--|
| | | account. | message with the updated details. |
| T+4 | End-Of-Day T+4 – BDA system looks for all purchases on controlled Clients' accounts where there is cash on JSET | <ol style="list-style-type: none"> 1) BDA in batch generates a MT 198-101 SWIFT message for value date of the settlement cycle to transfer cash from JSET to the broker's current account. This is only where cash is available on JSET. Where cash is not available it is assumed that the broker will fund – see activities for T+3 2) Where cash is not available on the Clients account the BDA system allocates the securities from the purchase to broker float and the securities effectively becomes the brokers until such time that the Client deposits the cash to cover the purchase. Per the JSE's Rules the broker may sell the securities out against the Client. 3) Brokers can "force free" the purchases. The result of this is that the funds are swept from the broker's current account to JSET and then JSET to the settlement account per the normal flow. However, this causes an anomaly on BDA as the Clients traded balance goes negative whereas the cash on JSET goes positive. The Client is then only charged the difference between the negative and positive and the broker is charged for the | <p>BOD T+4</p> <ol style="list-style-type: none"> 1) Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) Accounts will be updated on BDA. BDA will pick up on the new accounts when generating messages. <p>BOD T+5 (T+4 messages generated in batch previous evening)</p> <ol style="list-style-type: none"> 1) Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) JSE will cancel the original MT 198-101 SWIFT message and send a new SWIFT message with the updated details. |

| Settlement Cycle | Action | Messages in normal operating conditions | Comments – actions to be taken on date of Failure |
|------------------|---|---|---|
| | | full amount transferred to JSET funded from their current account. The brokers' preference is that they do not force free the purchase and on settlement date BDA moves the Clients account to a negative traded balance which the broker can charge interest on as they have funded the purchase. | |
| T+4 | End-Of-Day T+4 – BDA system looks for all sales on controlled Clients' accounts where there are sufficient securities | <ol style="list-style-type: none"> 1) BDA in batch generates a MT 198-104 SWIFT message for value date of the settlement cycle to transfer cash from the brokers settlement account to JSET account. This is only where sufficient securities are available on the Clients account. 2) Where the securities are not available on the Clients account the funds are not swept to JSET. The proceeds remain on the brokers settlement account and are then moved to the broker's current account by the bank. Per the JSE's Rules the broker may buy the securities out against the Client. | <p>BOD T+4</p> <ol style="list-style-type: none"> 1) Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) Accounts will be updated on BDA. BDA will pick up on the new accounts when generating messages. <p>BOD T+5 (T+4 messages generated in batch previous evening)</p> <ol style="list-style-type: none"> 1) Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) JSE will cancel the original MT 198-104 SWIFT message and send a new SWIFT message with the updated details. |

| Settlement Cycle | Action | Messages in normal operating conditions | Comments – actions to be taken on date of Failure |
|-----------------------|--|--|---|
| T+5 and going forward | Controlled Client deposits cash the brokers trust account to cover purchases | <ol style="list-style-type: none"> 1) BDA in batch generates a MT 198-104 SWIFT message to sweep cash from the brokers trust account to JSET. These messages are generated in batch and backdated to the previous business day. Reports are also generated which the banks collect daily. 2) BDA in batch generates a MT 198-101 SWIFT message to transfer cash from JSET account to the broker's current account. These messages are generated in batch and backdated to the previous business day. Reports are also generated which the banks collect daily. 3) In batch BDA allocates securities from the brokers float to the controlled Clients account. | <ol style="list-style-type: none"> 1) Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) Accounts will be updated on BDA.BDA will pick up on the new accounts when generating messages. 3) Broker will be requested to notify all controlled Clients of the new details so that they do not deposit cash into the incorrect accounts at the failed entity. |
| T+5 and going forward | Controlled Client transfer securities to cover sales | <ol style="list-style-type: none"> 1) BDA in batch generates a MT 198-104 SWIFT message to transfer cash from the broker's current account to JSET. | <ol style="list-style-type: none"> 1) Broker will be requested to open up new cash accounts with a surviving Bank Participant or Clearing Bank of a Non-Bank Participant. 2) Accounts will be updated on BDA.BDA will pick up on the new accounts when generating messages. |

Note: The above process does not include the movement of cash to and from JSET where the cash is invested by the JSE – this is not in the scope of this manual.

10. FAILURE MANAGEMENT

This Failure Manual has been prepared based on a number of key assumptions. The pending legislative changes and the inclusion of insolvency principles within the Financial Markets Bill, will once enacted, allow Strate to issue CSD Rules which will bind an Insolvency Administrator to this manual and these failure procedures.

10.1 Generic Principles of Failure Manager

In addition to the assumptions of the Failure Manual, the Project Stakeholders involved in its development have agreed the following generic principles;

1. As the Securities Services Act determines that securities are ring-fenced, and will therefore not be trapped in the Failed Participant, all sales which have sufficient securities available should be allowed to settle and from Failure Date plus 1 (F+1) onwards, the cash from such sale proceeds, will be re-routed to the new Cash Suspense Account;
2. All transactions which are either Deliver or Receive Free of Payment “DFP/RFP” should be allowed to settle if securities are available since these have no cash implication to the Failed Participant, and
3. All existing commits for purchases of Non-controlled Clients which are Receive versus Payments “RvP” must be uplifted following the announcement of the failure and the relevant decision trees followed to determine whether the settlements can be re-committed to.

10.2 Assumptions for the management of Participant Failure

1. In terms of Settlement Assurance Option 1 (Lamfalussy) the SARB has undertaken to manage the failure of any bank in the payments arena. This “management”, for purposes of the management of the failure of a Participant, assumes that the SARB will provide the necessary liquidity on behalf of the failed bank (being a Failed Bank-Participant or Clearing Bank of a Non-Bank Participant) to ensure that all cash settlements through SAMOS are effected for settlements due to occur on the day of failure. (**Please Note:** The SARB usually argues that it does not want to cause moral hazard by letting settlement system Participants think that the SARB will always provide liquidity. SARB’s assurance and acceptance of this Failure Manual is necessary and is an action item for the Project Stakeholders.)
2. The systems and infrastructure of the custody and settlement operations of the Failed Participant will be operational and the Insolvency Administrator will allow Strate, or its representative, access to these systems and data as the Failure Manager of the custody and settlement operations;
3. The NPSD (or potentially BSD) of the SARB (both in respect of cash settlement via the SAMOS Real-Time Line [RTL] or Concurrent Batch Processing Line [CBPL]) will

permit payments to be re-routed to and from the Failed Participant using the two cash suspense accounts detailed below beyond the date of failure.

- a. That it will be possible for cash due to Clients of the Failed Participant for settled sale transactions or securities lending collateral returns to be re-routed to an alternate cash account, the Cash Suspense Account/s;
 - b. That it will be possible for cash due to Clients (including, Issuers and Clients) of the Failed Participant for Corporate Action / Capital Event related payments to be re-routed to an alternate cash account, the Corporate Action Suspense Account/s;
4. That the re-routing of the cash as proposed will not affect the updating of the Client's account in the Participant custody system by the settled status intimation from Strate;
5. That it is possible for the Failed Participant to deactivate the "auto-commit" functionality of their systems at the request of Strate in order to allow for manual committing on a trade-by-trade basis;
6. Strate, or its representative, acting as the Failure Manager will be able to instruct the Failed Participant to lift the commit on settlements without affecting the legal recourse of the Client against the Failed Participant;
7. That all Participant's systems, and those of Strate and the JSE can timeously produce the detailed reports and information which will be required by each of these stakeholders during the process of failure management;
8. All of the Surviving Participants will be able to deal with the increased activity due to the failing of a concurrent Participant, be it dealing with increased account opening procedures and account management or increased volume of transactions due to the number of new Clients; and
9. All of the JSEs' Members will be able to deal with the increased activity due to the failing of a Participant, be it dealing with account management or increased volume of transactions due to the number of new Clients; and
10. In order to ensure that Clients of the Failed Participant can open new cash and securities accounts with another service provider within the 90 day period, i.e. it must be agreed that the FICA requirements would not be completed immediately but must be completed within 90 days.

11 NON-BANK PARTICIPANT FAILURE

11.1 The Failure of a Non-Bank Participant

A Non-Bank Participant failure would most likely take the form of a liquidation or business rescue under the Companies Act, 2008 as read with the Insolvency Act. In the event of liquidation the liquidator is to take possession of all property, to realise such property and to apply the proceeds to the payment of the costs of liquidation and the claims of creditors.

Communication would therefore come from the liquidator – and may also be received via the Courts. A business rescue practitioner is tasked with the management of the company in order to affect the return to normal business.

Once notified by the Court, liquidator or business rescue practitioner, Strate will convene the Participant Failure Crisis Committee, follow the Strate Crisis Communication Plan, the internal crisis management process and notify all Members of the Strate Crisis Management Committee.

11.2 Proposed action to manage a Failed Non-Bank Participant

The proposed action to be taken in respect of this category of Participant recognises that the Failed Non-Bank Participant does not hold Client's cash. In addition, all securities are ring-fenced (*the Strate Rules mandate the segregation of Clients assets - a procedure which is subject to external audit*) and do not appear on the balance sheet of the Failed Non-Bank Participant. These securities holdings are, as a result, freely transferable.

The cash settlement account held at the Non-Bank Participant's banker is a "Client Trust Account" and does not form part of the assets of the Failed Non-Bank Participant. As such the cash would be available for transfer to the Clients of the Failed Non-Bank Participant and for honouring the settlements of the Clients of the Non-Bank Participant in the event of a failure. All the Clients of the Failed Non-Bank Participant fund the Client Trust Account for any settlement requirements two days prior to settlement. The Failed Non-Bank Participant will only commit to the trades if cash is available in the Client Trust Account.

There is normally a standard agreement in place between a Non-Bank Participant and its Client, which stipulates the arrangement between the Participant and that Client in respect of cash movements. The principle is that a Client of a Non-Bank Participant has a current account in the Client's own name with their chosen bank. The agreement referred to above dictates the basis upon which the Client is required to fund the Non-Bank Participants' Client Trust Account in order to meet settlement purchases or Corporate Action / Capital Event take-up arrangements. The agreement also covers the arrangements with respect to refunding Clients in respect of sale proceeds, securities lending collateral returns or corporate action / capital event entitlements.

In terms of defined Strate participation criteria, Non-Bank Participants will at all times hold, at the disposal of Strate, sufficient capital to ensure on-going operation for a period of no less

than six (6) months. This capital is held in the form of a Bank Guarantee acceptable to, and in favour of Strate.

Given the continued operating of the Failed Non-Bank Participant (covered by the operating capital provision mentioned above) and the existing funding arrangement in place with the appointed Clearing Bank, no immediate impacts are foreseen in the settlement process which will utilise existing staff which are assumed to be well versed in the operation of the system. *(This statement assumes that the Clearing Bank will still be prepared to accept the “commit” from the party appointed to oversee the operations at the Failed Participant.)*

11.3 Points for consideration

In order to protect the assets of the Failed Participant it would be advisable that the Insolvency Administrator allows the continued functioning of the Participants’ custody and settlement operations. It would therefore be imperative for the Participant Failure Crisis Committee to immediately interact with the Insolvency Administrator and agree to the continuation of this function and the appointment of a Failure Manager. Bear in mind that the roles of the business rescue practitioner and the liquidator are very different. Whereas the former’s role is to try and ensure the continued existence of the entity under business rescue proceedings, the latter’s role is to wind up the entity, which may or may not entail the “continuation” of Participant functions’ as proposed.

An additional complication could arise in the event that it is the Non-Bank Participants Clearing Bank which has failed. The risk of Client’s cash being trapped in a Failed Clearing Bank will, at all times, remain the risk to be borne by the Client. It is imperative that a funding arrangement be entered into between the Non-Bank Participant and a replacement Clearing Bank as soon as is possible. The responsibility to negotiate an agreement with a “replacement” Clearing Bank remains with the Non-Bank Participant.

(The reader of this Manual must note that STRATE Supervision, in reviewing an application form for Strate participation, places significant importance on the applicant’s chosen Clearing Bank. Further, as part of STRATE Supervision’s continued supervision of a Participants adherence to the participation criteria, reviews of the Clearing Bank Agreements are undertaken on a periodic basis.)

12 FAILURE MANAGEMENT ACTIONS FOR EQUITIES – Sub-register and SDA models

This chapter deals with the Failure Management Actions which will be performed by Strate, the JSE, the Failure Manager (in conjunction with the Failed Participant) and Survivor Participants in respect of settlements for Equities' transactions where a Sub-register model of record-keeping is followed or Segregated Depository Accounts have been opened.

Guidance for the processing of the various settlement scenarios are provided in the format of decision trees. Explanatory notes or assumptions have been added to the decision trees to elaborate on certain actions where deemed necessary.

With regards to Report-Only transactions, the procedures are included with the explanatory notes but separate decision trees have been provided – see Scenario 6.

Pay-Money Only (PMO) and Receive-Money Only (RMO) transactions only need to be considered for T+3 and T+4 transactions since the process for T; T+1 and T+2 transactions (i.e. before the Brokers Nett is created) is already catered for in that the JSE Equities Member has to open a new cash account and Securities Account with a survivor Participant or will activate their cash and SDA with their appointed Secondary Participant, which the JSE will update to the BDA system, and such transactions will be routed to the new Participant.

With regards to PMO and RMO transaction the basic principle applies that for:

- PMO transactions, New-Cash will be drawn from the Cash-Suspense Account if available (either the JSE Equities Member or the JSE will fund the New-Cash); whilst
- RMO transactions will settle and cash will be directed to the Cash-Suspense Account where applicable (this cash will go through the normal claims process).

Separate decision trees for PMO and RMO transactions have not been provided and these will be managed as part of the brokers nett by the JSE.

Refer to **Addendum A** for these decision trees, an index of which is provided below:

| Scenario number | Scenario | Addendum |
|-------------------|--|----------|
| | | |
| | Equities – On-market | |
| Scenario 1 | T+4/T+3: On-market, un-committed, RvP and guaranteed (Broker Proprietary, Controlled Clients and Non-controlled Clients) | A |
| | | |
| Scenario 2 | T+4/T+3: On-market, un-committed, DvP or DFP and guaranteed (Broker Proprietary and Controlled Clients) | A |
| | | |
| Scenario 3 | T+4/T+3: On-market, un-committed, DvP or DFP and guaranteed (Non-controlled Clients) | A |
| | | |
| Scenario 4 | T+4/T+3: On-market, committed, DvP or DFP and guaranteed (Broker Proprietary and Controlled Clients) | A |
| | | |
| Scenario 5 | T+4/T+3: On-market, committed, DvP or DFP and guaranteed (Non-controlled Clients) | A |
| | | |
| Scenario 6a to e. | On-market: Report-Only Transactions. | A |
| | | |
| | Equities – Off-market transactions | |
| Scenario 7 | RFP/DFP | A |
| | | |
| Scenario 8 | RvP/DvP | A |
| | | |
| | Corporate Actions | |
| Scenario 9 | Equities Corporate Actions | A |
| | | |
| | Securities Lending | |
| Scenario 10 | Securities Lending – Existing loan returns | A |

| Scenario number | Scenario | Addendum |
|-----------------|-------------------------------------|----------|
| | | |
| Scenario 11 | Securities Lending – New loans | A |
| | | |
| | Securities Account Transfers | |
| Scenario 12 | Account Transfers / Portfolio Moves | A |
| | | |

The actions detailed in this chapter and the Addendum referred to above should be considered in the context of the Assumptions listed in Chapter 10.

12.1 For settlements on failure date = F

Based on the assumption that all settlements due on date of failure will settle as a result of the intervention of the SARB as detailed in Chapter 8, an unfortunate consequence will arise for transactions for sellers who are Clients of the Failed Participant as the seller's proceeds will be trapped in the Failed Participant. As a result the seller will become a concurrent creditor of the failed entity. There are no actions by either Strate or the JSE which can prevent this situation.

12.2 Preparing for Failure Management = F+1

12.2.1 The following actions need to be undertaken by Strate and the Participant Failure Crisis Committee in preparation for the failure management process detailed in this Failure Manual:

| | Action items for Strate Limited | Action items for Participant Failure Crisis Committee |
|----|--|---|
| | | |
| 1. | In the event that Strate's own banker has failed, Strate to open any new applicable cash accounts e.g. a new Corporate Action Trust Account into which Issuer Corporate Action / Capital Event entitlements can be paid, and Issuers advised of the new account details. | <p>Following the media release by the FSB, SARB or FSCF, the Participant Failure Crisis Committee (PFCC) and the Strate Crisis Management Committee must be constituted.</p> <p>Note: The Financial Services Board may have constituted the SRO Incidents Committee.</p> <p>The failure of a Bank Participant will constitute an event falling into the Level 3 environment of the FSCF and therefore the FSCF will prepare and disseminate a press release to the general public in accordance</p> |

| | Action items for Strate Limited | Action items for Participant Failure Crisis Committee |
|----|---------------------------------|--|
| | | with its Media Statement Policy. The PFCC must, <i>inter alia</i> , determine what internal information is going to be released to stakeholders. |
| | | |
| 2. | | The PFCC to nominate Strate representative/s to be deployed at the Failed Participant and act as Failure Manager. The PFCC to also determine who will liaise with the Insolvency Administrator. |

12.2.2 The following actions need to be undertaken by the Failure Manager and by the JSE in preparation for the execution of the failure management procedures detailed in this Failure Manual:

| | Action items for the Failure Manager | Action items for JSE |
|----|---|--|
| | | |
| 1. | <p>Activate Cash Suspense Account and ensure that the details of this account are loaded into the custody and settlement system of the Failed Participant and the CSD system.</p> <p>Circulate the cash account details to Strate, the JSE and authorised staff within the Failed Participant. The cash account details are required by the JSE so that JSET sweeps can be routed through this account and to notify the JSE Equities Members and JSE IRC Members of the details.</p> | <p>Following the announcement of the failure, the constitution of the PFCC and the appointment of the Failure Manager the JSE Executive Committee (Exco) to convene a meeting and consider the need to suspend trading on the JSE, and if so, the period of suspension.</p> <p>JSE Exco to escalate their decision to the FSCF.</p> <p>Where the Member has chosen to operate an SDA, the new cash account number at the Secondary Participant will be captured – the Cash Suspense Accounts will only be used for those transaction which have been reported to the Failed Participant and will still settle within the records of the Failed Participant (i.e. F+1 / T+4 trades and F+2 / T+3 trades).</p> |

| | Action items for the Failure Manager | Action items for JSE |
|----|--|--|
| | | |
| 2. | <p>Activate Corporate Actions Suspense Account and ensure that the details of this account are loaded into the custody and settlement system of the Failed Participant and the CSD System.</p> <p>Circulate cash account details to the State Corporate Actions Department, State's banker, the JSE and authorised staff within the Failed Participant.</p> | <p>Following the media release by the FSB, SARB or FSCF or notification via the PFCC release relevant information to Members of the Exchange.</p> <p>Where the broker has chosen to operate an SDA, the new cash account number at the Secondary Participant will be captured – the Corporate Actions Suspense Accounts will only be used for those corporate actions which will still be finalised within the records of the Failed Participant.</p> |
| | | |
| 3. | <p>Uplift existing commits on all RvP purchases in order to ensure that these are only settled with New-Cash or by proceeds of committed On/Off-market transactions, including SLB collateral returns and Corporate Actions.</p> <p>These settlements will be committed to on a trade-by-trade basis with reference to the relevant decision trees contained in this Failure Manual.</p> | <p>Ensure that no JSET settlement sweeps are paid to the Failed Participant.</p> <p>All JSET sweeps due on F+1 or F+2 must be cancelled and re-directed to the Cash Suspense Account activated in point 1 above, for future transactions. JSE to confirm and reconcile amounts with the Failure Manager where applicable.</p> <p>All JSET sweeps on F+3 and onwards will be re-routed to the Cash Suspense Accounts or JSE Equities Members new bank details where account has been opened as the Broker's Nett constituted at the end of T+2 will contain the Cash Suspense Account's or JSE Equities Members new bank details.</p> |
| | | |
| 4. | <p>Ensure that staff of the Failed Participant produces the reports and obtain all information as detailed in Chapter 16.</p> | <p>Ensure that staff at the JSE produces the reports and obtain all information as detailed in Chapter 16.</p> |
| | | |
| 5. | <p>Instruct Failed Participant to deactivate "auto-commit" functionality of the custody and settlement system and</p> | |

| | Action items for the Failure Manager | Action items for JSE |
|----|--|---|
| | ensure that this has been done. No auto-commits must be sent by the Failed Participant after Failure Date. | |
| | | |
| 6. | | <p>Identify all JSE Equities Members who bank with the Failed Participant and request these to open new cash and SCA accounts with a Survivor Participant. Where the Member operates an SDA, accounts at the Secondary Participant must be activated. JSE to update the BDA system with these details.</p> <p>All trades for Proprietary and Controlled Client accounts, from statuses T to T+2, will be routed to the new accounts. Where new accounts are not opened Cash Suspense Account to be loaded on BDA so JSE Trustee funds are swept to this account.</p> |
| | | |
| 7. | | <p>JSE will do an extract of all Non-controlled Clients who bank with the Failed Participant where there are pending settlements (F+1 and onwards) and supply same to the applicable JSE Equities Member and request them to contact their Non-controlled Clients and enquire whether they are multi-banked.</p> <p>If these Non-controlled Clients are multi-banked, or operate an SDA and have appointed a Secondary Participant, the JSE Equities Member should request the details of such account/s with the alternative Participant and load these into BDA. Settlement Orders for all new trades will be sent to the new Participant. Settlement instructions for F+1 and F+2 will remain with the Failed Participant.</p> <p>Trades on T+1 and T+2 will be reallocated to</p> |

| | Action items for the Failure Manager | Action items for JSE |
|----|---|---|
| | | <p>cancel the old Settlement Orders and send new Settlement Orders to the new Participant.</p> <p>If Non-controlled Clients are not multi-banked these Clients should be requested and encouraged to open new cash and SCA accounts with a Survivor Participant and bank as soon as is possible to ensure that settlements can continue. JSE Equities Member to update BDA as and when these details become available and follow the above process.</p> |
| | | |
| 8. | Initiate the process for Portfolio Movement transactions of Clients of the Failed Participant to a new service provider. Refer to Chapter 15 for detailed guidance. | |
| | | |
| 9. | Search for all upcoming Corporate Action events and determine whether the Issuer is a Client of the Failed Participant. If so, inform the Issuer of the impact of the failure and request the Issuer to open a new bank account with a surviving bank for receipt of all Corporate Action related payments from shareholders. | |

12.3 For On-market settlements on T+4 and T+3 = F+1 and F+2

In respect of committed settlements for Brokers Netts (Controlled Clients and Proprietary trades) the cash legs cannot be re-routed after the constitution of the Broker's Nett at the end of T+2, and therefore need to be managed on a case-by-case basis. The cash can be routed to the Cash or Corporate Action Suspense Accounts after any existing commit has been lifted and the new allegation committed against this account.

| | Action items for Failure Manager and Failed Participant | Action items for JSE |
|----|---|-----------------------------|
| | | |
| 1. | Search for all transactions which are free of value (On-market reported transactions or Off-markets), i.e. DFP and RFP, and between Clients of the Failed Participant or across Participants, and commit to these if the securities are available. These transactions should be allowed to settle as they have no impact on the pool of assets of the Insolvency Administrator of the Failed Participant. | |

Scenario 1: Actions where On-market, RvP, guaranteed transactions are on T+3 or T+4 and are un-committed.

Broker Proprietary, Controlled Client and Non-controlled Client transactions.

| | Broker Proprietary/Controlled Clients – RvP, uncommitted | |
|----|--|---|
| 1. | Search for all RvP purchases (which should all now be in uncommitted status). For Controlled Clients with no cash on JSET and Broker Proprietary trades, check whether there is an On-market (Central Order Book or Report Only transaction) or Off-market DvP transactions settling on T+4 or on or before T+3 (as the case may be), which is in committed status to provide the funds for the purchase, including proceeds from Corporate Action events. The value of these committed transactions | JSE to identify such uncommitted RvP Broker Nett Trades. (Note: The JSE does not need this info from Strate or the Failed Participant as the BDA system will give them the current status of On-market trades.) JSE to work out:- - Deals making up the Brokers Nett and breakdown into: Controlled Client / Proprietary / sales / purchases. - For Controlled Client' purchases, if cash is held in JSET for Clients or if proceeds |

| | Action items for Failure Manager and Failed Participant | Action items for JSE |
|----|---|---|
| | <p>must be equal or higher than the value of the RvP settlement.</p> <p>If not committed and if the orders are for the same settlement date, Back-to-Back link the orders and they will move to commit status, or if they are on separate settlement dates, then commit to the two orders separately.</p> <p>If there is no pending On-market (Central Order Book or Report Only) or Off-market DvP settlement, check:-</p> <ul style="list-style-type: none"> ➤ whether the Broker can fund the Cash Suspense Account; or ➤ the Controlled Client can deposit New-Cash to the Cash Suspense Account ; or ➤ JSE fund the Cash Suspense Account . <p>If proceeds of sales or New-Cash from the Broker, Controlled Client or the JSE are available, commit to these transactions on a trade-by-trade basis.</p> <p>If funding is not available the settlements will fail and the JSE needs to initiate Failed Trade Procedures. For Report-Only transactions, if funding is not available the settlements will fail and the JSE will cancel the Report-Only transaction.</p> <p>Refer Equities Scenario 6a.</p> | <p>from a sale will cover the purchase including Corporate Action entitlements.</p> <p>Note: If no cash Broker to contact Client and request that they deposit the cash into the Cash Suspense Account – see opposite column regarding New Cash by Controlled Client. If no cash deposited, trade to be reversed to a Broker's Proprietary account.</p> <p>- For Proprietary purchase positions, if proceeds from a sale settling on or before (must be pre-settlement as the funds need to be routed away from the Failed Participant) will cover the purchase or Corporate Action entitlements.</p> <p>If funding is not available the settlements will fail and the JSE needs to initiate Failed Trade Procedures.</p> <p>For Report-Only transactions, if funding is not available the settlements will fail and the JSE will cancel the Report-Only transaction.</p> <p>Refer Equities Scenario 6a.</p> |
| | | |
| | Non-controlled Clients – RvP, uncommitted | |
| 2. | Check whether there is an On- Market (Central Order Book or Report Only) or Off-market DvP transactions settling on T+4 or on or before T+3 (as the case may be), | If Client is not multi-banked, does not have proceeds from sales or Corporate Action entitlement or does not have New-Cash, the JSE to contact its JSE Equities |

| | Action items for Failure Manager and Failed Participant | Action items for JSE |
|--|---|---|
| | <p>which is in committed status to provide the funds for the purchase, including proceeds from Corporate Action events. The value of these committed transactions must be equal or higher than the value of the RvP settlement.</p> <p>If not committed and if the orders are for the same settlement date, Back-to-Back link the orders and they will move to commit status, or if they are on separate settlement dates, then commit to the two orders separately.</p> <p>If there is no pending On-market (Central Order Book or Report Only) or Off-market DvP settlement, enquire whether the Client is multi-banked. If so, Client to deposit funds (New-Cash) into the Cash Suspense Account.</p> <p>If the Client is not multi-banked or does not have New-Cash, the JSE to contact its JSE Equities Member and instruct them to voluntary reverse substitute the deal which will result in the cancellation of the old allegement and the generation of a new allegement to the Brokers Participant.</p> <p>If the JSE Equities Member is not with the Failed Participant can the Broker fund its cash account at a Survivor Participant? If so, commit to settlement.</p> <p>If the Broker is with the Failed-Participant or cannot fund its cash account, contact the JSE with a request to fund the Cash Suspense Account. If funded, commit to settlement. If the JSE cannot fund the Cash Suspense Account the settlement will fail</p> | <p>Member and instruct them to voluntary reverse substitute the deal.</p> <p>If the JSE Equities Member also banks with the Failed-Participant JSE to cover short cash on purchases (Money Lending & Borrowing) and take securities (and other securities) as collateral. Cash to be deposited to the Cash Suspense Account.</p> <p>On- Market Report Only transactions which have not been committed to and where there is no dependency on a Central Order Book trade will be cancelled by the JSE.</p> |

| | Action items for Failure Manager and Failed Participant | Action items for JSE |
|--|--|---|
| | <p>and the JSE needs to initiate Failed Trade Procedures</p> <p>For Report-Only transactions, if funding is not available the settlements will fail and the JSE will cancel the Report-Only transaction.</p> <p>Refer Equities Scenario 6a.</p> | <p>For Report-Only transactions, if funding is not available the settlements will fail and the JSE will cancel the Report-Only transaction.</p> <p>Refer Equities Scenario 6a.</p> |

Scenario 2: Actions where On-market, DvP or DFP, guaranteed transactions are on T+3 or T+4 and are un-committed.

Broker Proprietary and Controlled Clients transactions.

| | Broker Proprietary/Controlled Clients – DvP or DFP, uncommitted | |
|---|--|--|
| 1 | <p>If the Broker Proprietary or Controlled Client does not own sufficient securities ascertain whether there is an On-market (Central Order Book or Report Only) or Off-market RvP transaction, including a Corporate Action entitlement, settling on T+4 or on or before T+3 (as the case may be), in which case, if the orders are for the same settlement date, Back-to-Bank link the orders and they will move to commit status, or if they are on separate settlement dates, then commit to the two orders separately.</p> <p>For Broker Proprietary and Controlled Client trades, if no covering On- Market (Central Order Book or Report Only) or Off-market transactions exists, enquire whether the Broker or Client can borrow the securities? If yes, refer to Scenario 11 for New SLB loans.</p> <p>If the Controlled Client cannot borrow the securities enquire whether the Broker can do an SLB (if yes, refer Scenario 11) or owns the required securities in a proprietary capacity? If yes, commit to settlement, if not, the Broker will have to reverse the trade to its proprietary account.</p> <p>Now enquire whether the JSE can borrow the securities? If so, JSE to book the SLB, Back-to-Back link the two orders (which will move them to commit status) and settle.</p> <p>The JSE will take the cash as collateral against the securities loan. If the JSE</p> | <p>JSE to identify uncommitted DvP or DFP Broker Nett trades.</p> <p>Search for all DvP or DFP Broker Nett sales which have not been committed to and ascertain whether the Broker or Controlled Clients own sufficient securities. If so, commit to settlement.</p> <p>JSE to work out:-</p> <ul style="list-style-type: none"> ➤ Deals making up the Brokers Nett and breakdown into: Client / Proprietary / sales / purchases. ➤ For Controlled Clients are sufficient securities available including a current holding, a purchase settling on or before the sale or Corporate Action entitlements - if no securities transaction to be reversed to a Broker's Proprietary account. ➤ For Proprietary positions, if sufficient securities available including a current holding or a purchase settling on or before or Corporate Action entitlements. <p>JSE to do Securities Lending & Borrowing for short securities on sales and takes cash proceeds (and other proceeds or securities) as collateral. Cash/proceeds to be taken from the Cash Suspense Account.</p> |

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| | <p>cannot borrow the settlement will fail and the JSE needs to initiate Failed Trade Procedures.</p> <p>For Report-Only transactions, if securities are not available, the settlements will fail and the JSE will cancel the Report-Only transactions.</p> <p>Refer Equities Scenario 6b.</p> | <p>For Report-Only transactions, if securities are not available, the settlements will fail and the JSE will cancel the Report-Only transactions.</p> <p>Refer Equities Scenario 6b.</p> |
|--|--|---|

Scenario 3: Actions where On-market, DvP or DFP, guaranteed transactions are on T+3 or T+4 and are un-committed.

Non-controlled Client transactions.

| | Non-controlled Clients – DvP or DFP, uncommitted | |
|---|--|--|
| 1 | <p>Search for all DvP or DFP sales for Non-controlled Clients which have not been committed to and ascertain whether the Client owns sufficient securities. If yes, commit to settlement.</p> <p>If Client does not own securities, check to see if there is an On- Market (Central Order Book or Report Only) or Off-market RvP transaction for the same securities which has been committed to settle on T+4 or on or before T+3 (as the case may be), including a Corporate Action entitlement, and that these securities can be used to commit for settlement.</p> <p>If the orders are for the same settlement date, Back-to-Bank link the orders and they will move to commit status, or if they are on separate settlement dates, then commit to the two orders separately.</p> <p>If there is no covering On- Market (Central Order Book or Report Only) or Off-market transaction, enquire whether the Client can borrow securities, and if so refer to Scenario 11 for New SLB loans.</p> | <p>If Client does not have securities from a holding or a purchase or Corporate Action entitlement or an On- Market (Central Order Book or Report Only) or Off-market (e.g. cannot borrow the securities) the JSE to contact its JSE Equities Member and instruct them to voluntarily reverse substitute the deal. (Scenario 2 will be followed).</p> <p>Broker to use a proprietary securities holding (if available) or to do Securities Lending and Borrowing. If unable to do so the JSE to cover short securities on sales and takes cash proceeds (and other proceeds or securities) as collateral. Cash/proceeds to be taken from the Cash Suspense Account.</p> <p>If the JSE cannot borrow the settlement will fail and the JSE needs to initiate Failed Trade Procedures.</p> |

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| | <p>If the Client cannot borrow the securities the trade must be voluntary reverse substituted to the Broker and the JSE advised. JSE will follow Scenario 2.</p> <p>For Report-Only transactions, if securities are not available, the settlements will fail and the JSE will cancel the Report-Only transactions.</p> <p>Refer Equities Scenario 6c.</p> | <p>For Report-Only transactions, if securities are not available, the settlements will fail and the JSE will cancel the Report-Only transactions.</p> <p>Refer Equities scenario 6c.</p> |
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Scenario 4: Actions where On-market, DvP or DFP, guaranteed transactions are on T+3 or T+4 and are committed.

Broker Proprietary and Controlled Client transactions.

| | Broker Proprietary /Controlled Clients – DvP or DFP, committed | |
|---|--|--|
| 1 | <p>If Broker or Controlled Client does not own securities, check whether there are On-Market (Central Order Book or Report Only) or Off-market RvP transactions settling on T+4 or on or before T+3 (as the case may be), which are in committed status to provide the securities for the sale, including entitlements from Corporate Action events, in which case settlement will occur.</p> <p>If no covering On- Market (Central Order Book or Report Only) or Off-market transaction, enquire whether the Broker or Client has borrowed securities.</p> <p>If the Controlled Client could not borrow the securities, JSE to contact Broker and check whether the Broker can borrow or has proprietary securities.</p> <p>If SLB's were done enquire from the Broker, or ask Broker to enquire from the Controlled Client, whether there is New-Cash or securities available to lodge as collateral. If New-Cash is available the Broker or</p> | <p>JSE to identify such DvP or DFP committed trades.</p> <p>Search for all DvP or DFP Broker Nett sales which have been committed to and ascertain whether the Broker or Clients own sufficient securities, and if so, commit stays in place. (This is assumed since the settlement is in committed status).</p> <p>JSE to work out-</p> <ul style="list-style-type: none"> -Deals making up the Brokers nett and break down into: Client / Proprietary / sales / purchases. - For Controlled Clients sufficient securities available including a current holding, a purchase settling on or before the sale or Corporate Action entitlements - if no securities, transaction to be reversed to a Broker's Proprietary account. - For Proprietary positions, if sufficient securities available including a purchase settling on or before will cover the sale or |

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| <p>Controlled Client, as the case may be, must fund the Cash Suspense Account.</p> <p>If New-Cash or securities for collateral are not available the SLB will fail.</p> <p>If the Broker cannot borrow securities or does not have Proprietary position the Broker must voluntarily reverse substitute the trade to its Proprietary account.</p> <p>Hereafter contact the JSE to enquire whether they can borrow the securities.</p> <p>If not, the settlement will fail and the JSE needs to initiate Failed Trade Procedures.</p> <p>For Report-Only transactions, if securities are not available, the settlements will fail and the JSE will cancel the Report-Only transactions.</p> <p>Refer Equities Scenario 6d.</p> | <p>Corporate Action entitlements.</p> <p>JSE to do Securities Lending & Borrowing for short securities on sales and takes cash proceeds (and other proceeds or securities) as collateral. Cash/proceeds to be taken from the Cash Suspense Account.</p> <p>For Report-Only transactions, if securities are not available, the settlements will fail and the JSE will cancel the Report-Only transactions.</p> <p>Refer Equities Scenario 6d.</p> |
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Scenario 5: Actions where On-market, DvP or DFP, guaranteed transactions are on T+3 or T+4 and are committed.

Non-controlled Client transactions.

| | Non-controlled Clients – DvP or DFP, committed | |
|---|---|---|
| 1 | <p>Search for all DvP or DFP sales for Non-controlled Clients which have been committed to and ascertain whether the Client owns sufficient securities (this is assumed since the settlement is in committed status).</p> <p>If Non-controlled Client does not own securities, check whether there is an On-Market (Central Order Book or Report Only) or Off-market RvP transaction settling on T+4 or on or before T+3 (as the case may be), which is in committed status to provide the securities for the sale, including</p> | <p>If the Client does not have securities from a holding or a purchase or a Corporate Action entitlement or an On-Market (Central Order Book or Report Only) or Off-market transaction the JSE to contact its Equities Member and instruct them to voluntarily reverse substitute the deal. (Scenario 4 will be followed).</p> <p>The JSE Equities Member to borrow the securities. If unable to do so the JSE to cover the Securities Lending & Borrowing for short securities on sales and take cash proceeds (and other proceeds or</p> |

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| | <p>entitlements from Corporate Action events, in which case settlement will occur.</p> <p>If no On- Market (Central Order Book or Report Only) or Off-market settlements ascertain whether the Client borrowed the securities, and if so, enquire from the Client whether there is New-Cash or securities to lodge as collateral. Client to deposit New-Cash for collateral into Cash Suspense Account.</p> <p>If not the SLB will fail and the JSE must be advised and the trade voluntary reverse substituted to the Broker. JSE will follow Scenario 4.</p> <p>For Report-Only transactions, if securities are not available, the settlements will fail and the JSE will cancel the Report-Only transactions.</p> <p>Refer Equities scenario 6e.</p> | <p>securities) as collateral. Cash/proceeds to be transferred from the Cash Suspense Account.</p> <p>For Report-Only transactions, if securities are not available, the settlements will fail and the JSE will cancel the Report-Only transactions.</p> <p>Refer Equities scenario 6e.</p> |
| | | |
| | <p>NOTE</p> | <p>For all deposits or transfers to or from the Cash Suspense Account in respect of JSET Sweeps for Controlled Clients and Proprietary trades, the JSE to provide the Failure Manager with a detailed breakdown of the deposit or transfer, as the case may be.</p> |

For Scenario 6a to 6 e please refer to Addendum A for Decision Trees.

12.4 Off-market settlements: T+4 and T+3 = F+1 and F+2

Scenario 7 and 8.

| | Action item for Failure Manager |
|----|--|
| 1. | <p>Search for all Off-market transactions which are Free of Payment, i.e. RFP or DFP. For RFP settlements, commit to settle.</p> <p>For DFP settlements, ascertain which have already been committed to, and if the securities are available for settlement, these trades should settle.</p> <p>If the DFP settlement has not been committed to, ascertain whether there is an On-market (Central Order Book or Report Only transaction) or Off-market transaction settling on T+4 or on or before T+3 or a Corporate Action entitlement which will provide the securities, and if so commit to the two trades for settlement. If the two trades both have the same settlement date, then these can be Back-to-Back linked (which amounts to a commit) and the trades will be ready for settlement.</p> <p>If there is no other On- or Off-market transaction or Corporate Action entitlement settling, the Client should be contacted to ascertain whether an SLB can be done. If an SLB cannot be done, the settlement will fail.</p> <p>Follow the decision tree for Scenario 7 of Addendum A.</p> |
| 2. | <p>Search for all Off-market transactions which are Versus Payment, i.e. RvP or DvP. For RvP settlements, contact the Client to ascertain whether multi-banked or has New-Cash available to fund the Cash Suspense Account.</p> <p>If yes, deposit to be made by Client into Cash Suspense Account and settlement committed to.</p> <p>If multi-banked means the Client has funds and a Securities Account at another Surviving Participant or Secondary Participant, then Client to cancel instruction and send settlement instruction to alternative Surviving / Secondary Participant.</p> <p>Note: the statement “multi-banked” does not include the option of operating a SDA and having appointed a Secondary Participant. Simply having appointed a Secondary Participant does NOT mean that the Client necessarily has available cash in a cash settlement account at such Secondary Participant.</p> <p>If the Client is not multi-banked, search for any On-market (Central Order Book or Report Only transaction) or Off-market transaction settling on T+4 or on or before T+3 or Corporate Action entitlement which can provide cash, and if yes, commit to settlement.</p> <p>If no such transaction the settlement will fail.</p> |

| | |
|----|--|
| | Action item for Failure Manager |
| | Follow the decision tree for Scenario 8 of Addendum A . |
| | |
| 3. | <p>For DvP settlements, check whether the Client owns sufficient securities at the Failed Participant. If yes, commit to settlement. The cash will settle into the Cash Suspense Account.</p> <p>If no, ascertain whether there is an On-market (Central Order Book or Report Only transaction) or Off-market transaction which has been committed to settle on T+4 or on or before T+3 or Corporate Action entitlement which will provide the securities, and if so commit to the two trades for settlement. If the two trades both have the same settlement date, then these can be Back-to-Back linked (which amounts to a commit) and the trades will be ready for settlement.</p> <p>If not, contact Client and enquire whether an SLB can be done, with either New-Cash as collateral to be deposited directly with the lender (or Lending Desk as long as not with failed Bank) or securities collateral, and if so, book the SLB and commit to the DvP as well as the SLB.</p> <p>If an SLB cannot be done the settlement will fail.</p> <p>Follow the decision tree for Scenario 8 of Addendum A.</p> |

12.5 For Corporate Actions: T+4 and T+3 = F+1 and F+2

Scenario 9

| Action items for Failure Manager | |
|----------------------------------|--|
| 1. | <p>Search for all pending or upcoming Corporate Actions where the Issuer is paying away cash, e.g. cash dividend, etc. and determine whether the Issuer is a Client of the Failed Participant.</p> <p>If so, enquire whether the Issuer is multi-banked or can fund the Strate's bank account with New-Cash. If this can be done, Strate has the cash to process the event and the Corporate Action can proceed.</p> <p>Action item: Strate to route the cash proceeds from the Corporate Action for Clients of the Failed Participant to the Corporate Action Suspense Account.</p> <p>If the Issuer is not multi-banked or has no New-Cash advise the Issuer that the Corporate Action will fail as it has to be assumed that there will be no cash to pay the dividend. Strate will advise the JSE and all Participants that the Corporate Action will fail. This will be linked back to the commits for RvP's – see above scenarios.</p> <p>Refer to Scenario 9.</p> |
| 2. | <p>If Issuer is not a Client of the Failed Participant, Strate to route the cash payments for all Clients of the Failed Participant to the Corporate Action Suspense Account.</p> <p>The Clients entitled to these funds will be required to follow the prescribed claims procedure to claim their funds.</p> <p>Refer Scenario 9.</p> |
| 3. | <p>For Clients receiving a cash entitlement e.g. dividend:</p> <ul style="list-style-type: none"> - if the Client receiving the cash payment is a Client of the Failed Participant, Strate to route the cash receipts to the Corporate Action Suspense Account; - if the Client is not a Client of the Failed Participant, the Corporate Action can be processed as normal. <p>Refer Scenario 9.</p> |
| 4. | <p>Search for all Corporate Actions involving the issuing of securities against cash, e.g. a Rights Offer or an IPO, and determine whether the Issuer is a Client of the Failed Participant. If the Issuer is multi-banked, the Issuer must instruct Strate on which alternative bank details to use to direct the funds.</p> <p>If Issuer a Client of the Failed Participant, Strate to route the cash payments to the Issuer</p> |

| Action items for Failure Manager | |
|---|---|
| | <p>to the Cash Suspense Account. The Issuer may then draw the cash from the Cash Suspense Account for own trading or other Corporate Events in which case the Issuer must instruct the Failure Manager to transfer the cash from the Cash Suspense Account to the Corporate Action Suspense Account.</p> <p>If the Issuer is not a Client of the Failed Participant the Corporate Action can be processed as normal.</p> <p>Refer Scenario 9.</p> |
| 5. | <p>Search for all Corporate Actions involving the issuing of securities for cash and determine whether any subscribers are Clients (including JSE Equities Members) of the Failed Participant.</p> <p>If yes, enquire from Client whether they are multi banked or have New-Cash to fund the take-up or search for any proceeds as a result of any settlement which has been committed to settle on T+4 to fund the take-up, in which case the Client/subscriber must be contacted and asked whether such proceeds may be committed to the Corporate Action and an instruction obtained from the Client. If the Client is multi-banked or has New-Cash this must be deposited into the Cash Suspense Account.</p> <p>If no alternative cash is available the Corporate Action for this subscriber will fail, i.e. election to be amended.</p> <p>Refer Scenario 9.</p> |

12.6 Off-market settlements: Securities Lending and Borrowing: T+4 and T+3 = F+1 and F+2

In the event of the failure of a Bank-Participant (or Clearing Bank of a Non-Bank Participant) all cash collateral deposited with a securities lending desk (or lender directly) who is a Client of the Failed Bank-Participant or Failed Clearing Bank will be trapped. Securities collateral is however freely transferable. This implies that all unsettled returns of securities for a corresponding return of cash collateral should not be committed to or the existing commits uplifted as the cash collateral cannot be returned to the borrower.

If a borrower's cash collateral is trapped at the Failed Bank-Participant or Failed Clearing Bank, the borrower will not return the loan securities as the cash collateral will not be repaid and as the lender will also not have access to the cash collateral he/she will become a concurrent creditor of the Failed Bank-Participant or Failed Clearing Bank.

In the interest of on-going settlements it is imperative that lending desks (or lenders directly) who are Clients of the Failed Bank-Participant or Failed Clearing Bank continue to function after the failure. Such lending desks (or lenders directly) therefore need to open new cash accounts with a surviving bank. Thereafter all movements of cash collateral for new securities lending transactions should be routed to the new cash account. As long as the lending desk (or lender directly) remains a Client of the

Failed Bank-Participant or Failed Clearing Bank, it requires that all securities lending transactions after the date of failure be booked as Free of Payment – cash moves outside the system at the lending desk's or lenders new banker).

The following actions are to be undertaken by the Failure Manager:

| | Action items for Failure Manager |
|----|---|
| | |
| 1. | Search for all Clients of the Failed Bank-Participant or Failed Clearing Bank who are lending desks or direct lenders and request them to open a new bank account with a surviving bank. |
| | |
| 2. | Ensure that no cash collateral is paid to lending desks or direct lenders who are Clients of the Failed Bank-Participant or Failed Clearing Bank by ensuring that all new securities lending and borrowing transactions are booked Free of Payment and that cash collateral payments are made to the new bank account opened in 1) above. (No protection exists for cash collateral deposited at the Failed Bank-Participant or Failed Clearing Bank prior to the failure.) |
| | |
| 3. | Instruct and encourage all lenders and borrowers who are Clients of the lending desk of the Failed Participant to transfer both their securities to the new Securities Accounts and for New-Cash to cash accounts opened at a Survivor Participant. |
| | |
| | Scenario 10: Securities Lending - Existing loan returns |
| 1. | Search for all securities lending transactions where either the lender or borrower is a Client of a lending agent who is a Client of the Failed Bank-Participant or Failed Clearing Bank. For borrowers who have placed cash collateral, cancel any commits on such transactions and allow all uncommitted transactions to fail as the borrower cannot return securities for a repayment of cash collateral. If securities collateral has been placed the settlements can be committed to as securities are freely transferable. |
| | |
| 2. | If the lending agent or direct lender is not a Client of the Failed Bank- Participant or failed Clearing Bank i.e. the cash collateral is not trapped, the settlements can be committed to for settlement. |
| | |
| 3. | Follow Scenario 10 . |
| | |
| | Scenario 11: Securities Lending - New loans |

| | Action items for Failure Manager |
|----|--|
| 1. | All new securities lending transactions must only be conducted with lending desks or direct lenders that are not Clients of the Failed Bank- Participant or Failed Clearing Bank in respect of the Non-Bank Participant or have opened a new bank account with a surviving bank. |
| 2. | Follow Scenario 11 . |

12.7 On-market (Central Order Book or Report Only transactions) Settlements: T+2 and T+1

In respect of the above settlements the same procedures will apply as for T+4 and T+3 settlements with the exception that there will be fewer settlements already committed to. No Brokers Nett's would have been generated in respect of Broker Proprietary/Controlled Client settlements as the "Broker-nett" is only constituted at the end of T+2.

At this stage the JSE will have searched for all Brokers who are Clients of the Failed Participant and requested these Brokers to open new bank and Securities Accounts with Survivor Participants or for the broker who operates an SDA, to activate these accounts at the appointed Secondary Participant.

| | Action items for Failure Manager | Action items for JSE |
|----|----------------------------------|--|
| 1. | | JSE to follow-up and monitor opening of new cash and Securities Accounts with a Survivor Participant or Secondary Participant where applicable, for Brokers who were Clients of the Failed Participant and ensure that BDA is updated for these new account details as soon as they become available. This will ensure that the Broker's Nett is constituted to a Survivor Participant. |
| 2. | | JSE to monitor and encourage the prompt transfer of securities holdings by Members from the old to new Securities Accounts or SDAs, using the decision trees Portfolio Movement transactions or the bulk transfer for SDAs as per Strate Directive SA.9. Follow Scenario 12 . |
| 3. | | JSE to do an extract of all Clients who bank with the Failed Bank-Participant or Failed Clearing |

| | Action items for Failure Manager | Action items for JSE |
|----|--|--|
| | | <p>Bank in respect of a Non-Bank Participant where there are pending settlements and supply same to the applicable JSE Equities Member and request them to contact their Clients and enquire whether they are multi-banked.</p> <p>If these Clients are multi-banked, or operate an SDA and have appointed a Secondary Participant, the JSE Equities Member should request the details of such cash account and Securities Account at the alternative Participant / bank and load these into BDA. Settlement instructions for all new trades will be sent to the new Survivor Participant. The JSE's 007/008 process will be followed to verify the new account details.</p> <p>Trades on T+1 and T+2 will be reallocated to cancel the old settlement allegation and send new settlement allegation to the new bankers / Survivor Participant / Secondary Participant.</p> <p>If Clients are not multi-banked these Clients should be requested and encouraged to open new cash and SCA accounts with a Survivor Participant and bank as soon as is possible to ensure that settlements can continue. This must be done by EOD T+2 for any pending settlement orders.</p> <p>JSE Equities Member to update BDA as and when these details become available and follow the above process.</p> |
| | | |
| 4. | <p>For all Clients who confirm new account details and loaded into BDA obtain instructions to book Portfolio Movements transaction for the transfer of securities to the new service provider.</p> <p>For Clients who have existing Securities Accounts at a Survivor Participant,</p> | |

| | Action items for Failure Manager | Action items for JSE |
|----|--|---|
| | Account Transfer transactions will be booked. Follow Scenario 12 . | |
| | | |
| 5. | <p>Following the opening of new bank accounts by Clients and JSE Equities Members, the Failure Manager to obtain instructions from all such Clients and JSE Equities Members to transfer any balances in the Cash or Corporate Action Suspense Accounts to the new bank accounts after the required claims procedure has been followed.</p> <p>In addition, perform a search for the following for all Non-controlled Clients who are migrating to Surviving / Secondary Participants and have given instructions to transfer available securities and/or cash:</p> <ul style="list-style-type: none"> ➤ Uncertificated holdings with no pending settlements; ➤ Forward look for nett securities balance available per day for F+2 for each settlement cycle; ➤ Nett cash available in the Corporate Action or Cash Suspense Accounts (refer to claims procedures); <p>and load and commit to instructions to transfer these securities or cash balances to the Surviving Participant or Secondary Participant.</p> | |
| | | |
| 6. | | <p>For all settlements voluntary and compulsory reverse-substituted to the broker due to a lack of cash or securities, the JSE to fund the Cash Suspense Account or borrow the Securities if the broker is unable to do so.</p> <p>Should the JSE be unable or not willing to fund (<i>this option is available to the JSE</i>) the Cash Suspense Account the trade will fail and will be</p> |

| | Action items for Failure Manager | Action items for JSE |
|--|----------------------------------|--|
| | | <p>rolled or the JSE will initiate Failed Trade Procedures.</p> <p>For Report-Only transactions refer to scenario 6a-e of Addendum A.</p> |

13.FAILURE MANAGEMENT ACTIONS FOR BONDS – Sub-register and SDA models.

This chapter of the Failure Manual deals with the Failure Management Actions for Bond settlements which will be performed by the appointed Failure Manager in conjunction with the Failed Participant, the JSE and the Surviving Participants.

Guidance for the processing of the various settlement scenarios is provided in the form of decision trees. Explanatory notes or assumptions have been added to the decision trees to elaborate on certain actions where deemed necessary. Please refer to **Addendum B** for these decision trees, an index of which is provided below:

| Scenario number | Scenario | Addendum |
|-----------------|--|----------|
| Scenario 1 | JSE/IRC1 S=Failure Date Buyer is Client of Failed Participant Buyer has not sent instructions. Transaction on 16h30 S-1 list and unsettled. JSE IRC Market (Central Order Book /or Report Only Transactions). | B |
| Scenario 2 | JSE/IRC2 S=Failure Date Buyer is Client of Failed Participant Buyer has insufficient cash. Transaction on 16h30 S-1 list and unsettled. JSE IRC Market (Central Order Book /or Report Only Transactions). | B |
| Scenario 3 | JSE/IRC3 S=Failure Date Buyer is a Member of Failed Participant. Buyer has insufficient cash. Transaction on 16h30 S-1 list and unsettled. JSE IRC Market (Central Order Book /or Report Only Transactions). | B |
| Scenario 4 | JSE/IRC4 S=Failure Date Seller is Client of Failed Participant | B |

| Scenario number | Scenario | Addendum |
|-----------------|--|----------|
| | <p>Seller has not sent instructions.</p> <p>Transaction on 16h30 S-1 list and unsettled.</p> <p>JSE IRC Market (Central Order Book /or Report Only Transactions).</p> | |
| Scenario 5 | <p>JSE/IRC5</p> <p>S=Failure Date</p> <p>Seller is Client of Failed Participant.</p> <p>Seller has insufficient securities.</p> <p>Transaction on 16h30 S-1 list and unsettled.</p> <p>JSE IRC Market (Central Order Book /or Report Only Transactions).</p> | B |
| Scenario 6 | <p>JSE/IRC6</p> <p>S=Failure Date</p> <p>Seller is a Member of Failed Participant.</p> <p>Seller has insufficient securities.</p> <p>Transaction on 16h30 S-1 list and unsettled.</p> <p>JSE IRC Market (Central Order Book /or Report Only Transactions).</p> | B |
| Scenario 7 | <p>JSE / IRC7</p> <p>S= Failure Date for S-n transactions.</p> <p>Buyer (RVP) is Client of Failed Participant.</p> <p>RVP is uncommitted.</p> <p>JSE IRC Market (Central Order Book /or Report Only Transactions).</p> | B |
| Scenario 8 | <p>JSE / IRC8</p> <p>S= Failure Date for S-n transactions.</p> <p>Buyer (RVP) is Member of Failed Participant.</p> <p>RVP is uncommitted.</p> <p>JSE IRC Market (Central Order Book /or Report Only Transactions).</p> | B |
| Scenario 9 | <p>JSE / IRC9</p> <p>S= Failure Date for S-n transactions.</p> <p>Seller (DVP) is Client of Failed Participant.</p> <p>DVP is uncommitted.</p> | B |

| Scenario number | Scenario | Addendum |
|-----------------|---|----------|
| | JSE IRC Market (Central Order Book /or Report Only Transactions). | |
| | | |
| Scenario 10 | JSE / IRC10 S= Failure Date for S-n transactions. Seller (DVP) is Member of Failed Participant. DVP is uncommitted. JSE IRC Market (Central Order Book /or Report Only Transactions). | B |
| | | |
| Scenario 11 | Strate OTS Transactions (Off-market) S = Failure Date Buyer is Client of Failed Participant. Buyer has not sent Instructions. Transaction on 16h30 S-1 list and unsettled. | B |
| | | |
| Scenario 12 | Strate OTS Transactions (Off-market) S = Failure Date Buyer is Client of Failed Participant. Buyer has insufficient cash. Transaction on 16h30 S-1 list and unsettled. | B |
| | | |
| Scenario 13 | Strate OTS Transactions (Off-market) S = Failure Date Seller is Client of Failed Participant. Seller has not sent Instructions. Transaction on 16h30 S-1 list and unsettled. | B |
| | | |
| Scenario 14 | Strate OTS Transactions (Off-market) S = Failure Date Seller is Client of Failed Participant. Seller has insufficient securities. Transaction on 16h30 S-1 list and unsettled. | B |
| | | |
| Scenario 15 | Strate OTS Transactions (Off-market) S = Failure Date for S-n transactions. Buyer (RvP) is Client of Failed Participant. RvP is uncommitted. | B |

| Scenario number | Scenario | Addendum |
|-------------------------------------|--|----------|
| | | |
| Scenario 16 | Strate OTS Transactions (Off-market) S = Failure Date for S-n transactions. Seller (DvP) is Client of Failed Participant. DvP is uncommitted. | B |
| | | |
| Capital Events | | |
| Scenario 17 | Bonds: Capital Events S-n | B |
| | | |
| Securities Account Transfers | | |
| Scenario 18 | Bonds SLB/Central Depository (CD)Transfers Free of value | B |

The actions detailed in this chapter should be considered in the context of the Assumptions listed in Chapter 10.

13.1 Salient points of Bonds settlements:

Bond trades can be reported through one of the following two avenues:

- IRC Market (JSE); and
- Off-market transactions facilitated by Strate (OTS) and reported by the Clients' Participant.

13.1.1 IRC market

The IRC Rules for Bonds traded on the IRC Market state:

- The Client will be deemed to have accepted the transaction unless he notifies the Trading Member to the contrary by 12h00 on the business day after the original trade date.
- A Non-Member settled Client must provide settlement instructions to its Participant immediately upon acceptance of a transaction, but by no later than 12h00 on the business day after the original trade date.
- A Member-settled Client must by no later than 12h00 on the business day after the original trade date ensure that the Trading Member is in a position to settle the transaction on settlement day.
- A Non-Member settled Client must by no later than 16h30 on Settlement Date minus 1 (S-1) ensure and procure that his Participant is in a position to commit to settle the transaction on his behalf on the Settlement Date.

- A Trading Member must by no later than 16h30 on Settlement Date minus 1 (S-1) ensure that his Participant is in a position to commit to settle the transactions in respect of Member-settled Clients and the proprietary transactions of that Trading Member on the Settlement Date.
- A commitment by a Participant to settle a transaction in respect of a Member-settled Client, the proprietary transactions of a Trading Member and Non-Member settled Clients shall become unconditional as at 11h00 on the Settlement Date, unless a transaction is subject to an on-exclusion.
- At 11h00 on Settlement Date, if trade legs have not been committed to, SAFCOM, through the JSE Settlement Authority, becomes the lender of last resort as SAFCOM guarantees settlement of trades done on the Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes. The JSE Settlement Authority also takes actions with regards to Reported Transactions which have not been accepted by the Clearing Member for risk management purposes.
- IRC Market Settlement time lines for settlement instructions and commitments are as follows:

T+3(S) 07h00 – 11h00 =First Settlement Run (Nett settlement)

08h00 – Provisional Settlement Problem Lists. Move to IRC corrective window if necessary. Defer uncommitted transactions to next run.

07h00 - First Settlement Run Exclusion Window opened by Strate Ltd.

10h00 – Resolve knock-on effects of Trade exclusions.

10h 30 - Final commits to be in place for First Settlement Run

11h00 – First Settlement Run - Nett Settlement Run

11h30 – 13h30 =Same Day trading window

14h00 – Final commits for Second Settlement Run

14h30 - Gross Settlement Run (If Participants do not commit, second settlement will proceed and uncommitted trades will fail.)

S-1 13h00 – Provisional Settlement Problem Lists from Participants to JSE and Strate regarding any trades unable to settle.

16h30 – Updated Provisional Settlement Problem List from Participants to JSE and Strate of all trades still unable to settle.

13.1.2 Off-market (OTS)

- All Off-market (OTS) settlements are regulated by Strate. These transactions are reported to the Participant by the Client of the Participant. OTS transactions can have a significant knock-on impact on the IRC Market On-market trades. This will be borne in mind when the Failure Manager acts to resolve a problem.
- The transactions are booked on the Strate Bonds System by the Participant for matching and confirmation.

- The OTS transactions are settled by the Clients Participant and if the Participant fails, the transactions will form part of the Failed Participants' settlements on date of failure (F) which need to be managed.
- The Failed Participant has the ability to print "Settlement Schedules" from the Strate Bonds System which will confirm all transactions which have been reported for settlement for each future settlement date.
- The OTS market follows the same First and Second Settlement Run as the IRC Market.

13.1.3 SARB Repurchase and Reverse Repurchase Transactions

13.1.3.1 Background

The SARB acts as the Central Bank for the country and its banking institutions. It is the custodian of the statutory cash reserves which all registered banks are required to maintain. It also provides facilities for clearing and settlement of inter-bank obligations.

In 1998 the SARB implemented a system of repurchase transactions (repos) as the main instrument for managing liquidity in South Africa's money market. As the bankers' bank, the SARB, among other things, acts as 'lender of last resort'. The SARB is willing to meet any cash balance shortage experienced in the money market. When, for example, people are collectively borrowing more from the banks than they are investing, the banks also experience funding difficulties and they borrow money from the SARB, by way of a repurchase or 'repo' transaction. This means that the banks sell certain of their financial assets to the SARB and promise to repurchase the assets from the SARB within a certain time frame (reverse repo transaction).

The repurchase agreements entered into between the Reserve Bank and banks in South Africa are conducted on the basis of an outright buy-and-sell transaction, with full transfer of ownership of underlying assets.

The vast majority of "repo" transactions in the domestic market are referred to as buy/sell backs (or carries). The repurchase / reverse repurchase agreements entered into between the SARB and its counterparties are conducted where the cash taker (i.e. supplier or seller of securities) retains the right to any coupon payments. If a coupon payment relating to the securities involved in the specific repurchase transaction is made to the cash provider (i.e. the buyer of the securities), such coupon receipts are immediately paid over to the cash taker. So, the cash taker (i.e. the banks) retains the right to any coupon payments on securities used in longer-term reverse repo transactions. Securities offered for repurchase should not mature on or before the maturity date of the specific repurchase transaction.

As from 15 June 2009 all reverse repo transactions are settled according to the normal Bond settlement procedures and settle via the Strate Bonds system.

13.1.3.2 Repo transactions in the event of a failure

The SARB is responsible for bank regulation and supervision in South Africa. The purpose is to achieve a sound, efficient banking system in the interest of the depositors of banks and the economy as a whole. This function is performed by issuing banking licences to banking institutions, and monitoring their activities in terms of either the Banks Act, 1990 (Act No. 94 of 1990), or the Mutual Banks Act, 1993 (Act No. 124 of 1993).

As mentioned in Chapter 3 of this Failure Manual, the appointment of a curator to a bank is governed by the Banks Act.

In the event of a bank failure, the SARB, as the original cash provider under a specific repurchase transaction will not return the securities as the failed bank will be unable to provide the cash under the linked reverse repo transactions. This situation will constitute an event of default and will result in the cancellation of the reverse repo transaction by the SARB.

As such in the event of a failure event:

- It is assumed that the SARB will not enter into any new repo transactions with the failed bank; and
- It is assumed that the SARB will cancel any open reverse repo transactions, declare an event of default and will retain the original securities.

13.2 For settlements on Failure Date = F:

- a. All transactions for buyers and sellers who are Clients of the Failed Participant which were not on the S-1 16h30 updated Provisional Settlement Problem List from Participants to JSE and Strate of all trades still unable to settle, will settle on F, irrespective of the fact that the seller's proceeds from the settlement will be trapped in the Failed Participant.

This is based on the assumption that the SARB will manage settlement on date of failure. If the SARB manages the settlement and honours the cash obligations of the Failed Participant, then the trades will settle. However, the sellers' cash proceeds will be trapped and they will become a concurrent creditor of the Failed Participant.

- b. The procedures adopted to allow for the creation of a Cash Suspense Account can only commence when the account has been activated on failure date and become effective from FD+1.

Note:

1. The process for settling transactions entered into between JSE IRC Members who are Clients of the Failed Participant will be treated as set out in the decision trees for scenarios 1 to 10. (Addendum B).
2. The process followed for the settlement of OTS / Off-market Bonds transactions is the same as set out in the decision trees for scenarios 11 to 16 (Addendum B).

3. The process followed to handle Bonds Capital Events is set out in scenario 17 (Addendum B).
4. The process followed for transferring securities (i.e. SLB / CD Transfers) is set out in scenario 18 (Addendum B).

13.3 For settlements from S-1 IRC Market and OTS on S- n

13.3.1 Preparing for failure management.

The following actions need to be undertaken by Strate, JSE and the Participant Failure Crisis Committee in preparation for the failure management process detailed in this Failure Manual.

Note: In the Bonds sections of the Failure Manual reference tends to be made to a “Member” as opposed to “Authorised User” but as per the Glossary – these terms are used interchangeably.

| | Action items for Failure Manager (On- and Off-market transactions) | Action items for the IRC Market (On-market Transactions) |
|----|--|---|
| 1. | For actions to activate the Cash Suspense Account and Corporate Actions Suspense Account refer to Chapter 9. | Following the information release by the FSCF or the FSB, or notification via the Participant Failure Crisis Committee, disperse the relevant information to JSE IRC Members. |
| 2. | | <p>Communicate with Failed Participant and Failure Manager to identify all IRC Clients (including the JSE IRC Members that uses the Failed Participant) and request these Non-Member settled Clients and JSE IRC Members (for themselves and their Member-settled Clients) to open new cash and Security Accounts with one of the Surviving Participants or to activate such accounts with their Secondary Participant if SDA's are operated. All transactions from S-1 will be routed to the new Participant.</p> <p>Note – JSE IRC Member details to be updated in the Strate Bonds System.</p> |
| 3. | Run reports and obtain all information as detailed in Chapter 16. | Run reports and obtain all information as detailed in Chapter 16. |
| 4. | Failed Participant to lift all commits on | If there is no sale, New-Cash or Capital Event |

| | Action items for Failure Manager (On- and Off-market transactions) | Action items for the IRC Market (On-market Transactions) |
|----|--|--|
| | RvP transactions and recommit on a transaction by transaction basis if there is sales which releases sufficient cash (on the basis that the securities are there to cover the sale), New-Cash or Capital Event entitlements available. | entitlements available for a settlement, the JSE to instruct the reversal of outstanding obligations for affected JSE IRC Members. |
| | | |
| 5. | Failed Participant / Failure Manager to inform the JSE whether or not the Cash Suspense Account has been funded for a Clients transaction. | If the JSE has been informed that Clients Cash Account has not been funded the JSE to instruct the JSE IRC Member to effect equal and opposite transaction to cancel the trade. This will then fall upon the IRC Member to settle the position. If IRC Member is with Failed Participant follow the above processes. |
| | | |
| 6. | As per normal course of business the Failed Participant / Failure Manager to inform the JSE of any cash or securities movement issues and rectification thereof. | As per normal course of business the JSE to communicate frequently with the Failed Participant / Failure Manager regarding any cash or securities movement issues. |

13.4 JSE IRC MARKET – BONDS DECISION TREES

An explanation per decision tree is provided below. Please refer to Addendum B.

Scenario 1: Actions where the Buyer is a Client of the Failed Participant and has not sent instructions to commit to the transaction. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to JSE and Strate of all transactions still unable to settle. This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant where Buyer has not sent instructions | Action items for the JSE for the IRC Market |
|---|--|--|
| | | |
| 1 | Failed Participant to contact the Client to send instructions and notify the JSE. | JSE to contact the Member and request them to contact the Client to send instructions. |
| | | |

| | Action items for Failure Manager and Failed Participant where Buyer has not sent instructions | Action items for the JSE for the IRC Market |
|---|---|---|
| 2 | Failed Participant to commit to the transaction if the Client has sent instructions or alternatively if the JSE has given the Participant instructions to commit. | The JSE to give Failed Participant instructions to commit in instances where the Client does not send instructions. |

Scenario 2: Actions where the Buyer is a Client of the Failed Participant and has insufficient cash to commit to the transaction. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to JSE and Strate of all transactions still unable to settle. This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant where Buyer has insufficient cash | Action items for the JSE for the IRC Market |
|---|---|--|
| 1 | <p>Failure Manager and Failed Participant to confirm –</p> <ul style="list-style-type: none"> ➤ No cash available from the settlement of a sale (where the sale has available securities) ➤ No cash available from redemptions or coupon payments (Capital Events). <p>Note – If funds available from the above Failed Participant to commit to the purchase.</p> | JSE to contact the Member and request them to contact the Client to confirm if they have cash held with another bank (bank should be “Surviving Participant or Surviving Settlement Bank for non-Bank Participant”). |
| 2 | Failed Participant to contact Client and notify the JSE. | If cash available instruct Client to transfer funds to the existing settlement cash account and supply proof to the JSE and the Failure Manager. |
| 3 | If cash is available Failed Participant to commit to the transaction. | |

| | Action items for Failure Manager and Failed Participant where Buyer has insufficient cash | Action items for the JSE for the IRC Market |
|---|--|---|
| 4 | If no cash available, exclude from 1 st Settlement Run. | If there is no cash available the JSE has to initiate Failed Trade Procedures involving the “rolling of settlement” or “give up” process. |

Scenario 3: Actions where the Buyer is a Member of the Failed Participant and has insufficient cash to commit to the transaction. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to JSE and Strate of all transactions still unable to settle. This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant where Buyer is Member and has insufficient cash | Action items for the JSE for the IRC Market |
|---|---|--|
| 1 | <p>Failure Manager and Failed Participant to check and confirm –</p> <ul style="list-style-type: none"> ➤ No cash available from the settlement of a sale (where the sale has available securities) ➤ No cash available from redemptions or coupon payments (Capital Events). <p>Note: If funds available from the above, Failed Participant to commit to the purchase.</p> | JSE to contact the Member to confirm if they have cash held with another bank. |
| 2 | Failed Participant to contact the Member and notify the JSE. | If cash available instruct Member to transfer funds to the existing settlement cash account and supply proof to the JSE and Failure Manager. |
| 3 | If cash available Failed Participant to commit to the transaction. | |
| 4 | If no cash available, exclude from 1 st Settlement Run. | If there is no cash available, the JSE has to initiate Failed Trade Procedures involving the “rolling of settlement” or “give up” process. |

| | Action items for Failure Manager and Failed Participant where Buyer is Member and has insufficient cash | Action items for the JSE for the IRC Market |
|--|--|--|
| | | |

Scenario 4: Actions where the Seller is a Client of the Failed Participant and has not sent instructions. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to JSE and Strate of all transactions still unable to settle. This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant where Seller has not sent instructions | Action items for the JSE for the IRC Market |
|---|---|---|
| | | |
| 1 | Failed Participant to contact the Client to send instructions and notify the JSE. | JSE to contact the Member and request them to contact the Client to send instructions |
| | | |
| 2 | Failed Participant to commit to the transaction if the Client has sent instructions or alternatively if the JSE has given the Participant instructions to commit. | The JSE to give Failed Participant instructions to commit in instances where the Client does not send instructions. |

Scenario 5: Actions where the Seller is a Client of the Failed Participant and has insufficient securities. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to JSE and Strate of all transactions still unable to settle. This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant where Seller has insufficient securities | Action items for the JSE for the IRC Market |
|---|--|---|
| | | |
| 1 | Failed Participant to confirm that there are no securities available from the settlement of a purchase transaction. Note – If securities available from the | JSE to contact the Member and request them to contact the Client to establish where securities are coming from. This could include – |

| | Action items for Failure Manager and Failed Participant where Seller has insufficient securities | Action items for the JSE for the IRC Market |
|---|---|---|
| | above, Failed Participant to commit to the sale. | <ul style="list-style-type: none"> ➤ Corrective transaction(in corrective window) ➤ OTS transaction ➤ SLBSame day transaction |
| | | |
| 2 | Failed Participant to notify the JSE. | If a corrective transaction can be reported, JSE to open the corrective window, prior to the 1 st Settlement Run, to allow the booking of the transaction. |
| | | |
| 3 | Once Corrective transaction has been booked, the Failed Participant to commit to the sale and the Corrective transaction. | |
| | | |
| 4 | <p>If an OTS transaction can be reported, Strate to open the corrective window prior to the 1st Settlement Run.</p> <p>Once the OTS transaction has been booked, Failed Participant to commit to the sale and the OTS transaction.</p> | |
| | | |
| 5 | <p>If an SLB transaction can be reported, the applicable Participants to book CD Transfers.</p> <p>If SLB confirmed Failed Participant to book a CD transfer for the SLB settlement and commit to the sale.</p> | |
| | | |
| 6 | If the Member is booking a same day trade, the Failed Participant is to exclude the original transaction from the 1 st Settlement Run. | JSE to establish if the Member can book a same day trade. |
| | | |
| 7 | <p>Strate to open the same day window.</p> <p>If same day transaction to be booked – Failed Participant to –</p> <ul style="list-style-type: none"> ➤ Exclude the sale from the 1st | Member to report the same day transaction. |

| | Action items for Failure Manager and Failed Participant where Seller has insufficient securities | Action items for the JSE for the IRC Market |
|---|--|---|
| | Settlement Run ➤ Wait for the same day transaction to be booked and commit to both the sale and purchase in the 2 nd Settlement Run. | |
| 8 | If no securities available from the above, exclude from 1 st Settlement Run. | If there are no securities available the JSE has to initiate Failed Trade Procedures. |

Scenario 6: Actions where the Seller is a Member of the Failed Participant and has insufficient securities. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to JSE and Strate of all transactions still unable to settle. This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant where Seller is a Member and has insufficient securities | Action items for the JSE for the IRC Market |
|---|---|--|
| 1 | Failed Participant to confirm that there are no securities available from the settlement of a purchase transaction. Note – If securities available from the above, Failed Participant to commit to the sale. | JSE to contact the Member to establish where securities are coming from. This could include – ➤ Corrective transaction (in corrective window) ➤ SLB ➤ Same day transaction |
| 2 | Failed Participant to notify the JSE. | If a Corrective transaction can be reported, JSE to open the corrective window, prior to the 1 st Settlement Run, to allow the booking of the transaction. |
| 3 | Once Corrective transaction booked Failed Participant to commit to the sale | |

| | Action items for Failure Manager and Failed Participant where Seller is a Member and has insufficient securities | Action items for the JSE for the IRC Market |
|---|---|---|
| | and the Corrective transaction. | |
| | | |
| 5 | <p>If an SLB transaction can be reported, the applicable Participants to book CD Transfers.</p> <p>If SLB confirmed Failed Participant to book a CD transfer for the SLB settlement and commit to the sale.</p> | |
| | | |
| 6 | If the Member is booking a same day trade, the Failed Participant is to exclude the original transaction from the 1 st Settlement Run. | JSE to establish if the Member can book a same day transaction. |
| | | |
| 7 | <p>Strate to open the same day window.</p> <p>If same day transaction to be booked – Failed Participant to –</p> <ul style="list-style-type: none"> ➤ Exclude the sale from the 1st Settlement Run ➤ Wait for the same day transaction to be booked and commit to both the sale and purchase in the 2nd Settlement Run. | Member to report the same day transaction. |
| | | |
| 8 | If no securities available from the above, exclude from 1 st Settlement Run. | If there are no securities available the JSE has to initiate Failed Trade Procedures. |

Scenario 7: Actions where the Buyer (RvP) is a Client of the Failed Participant and the RvP is uncommitted. Settlement Date = Failure Date for S-n transactions.

This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant, Buyer is Client of Failed Participant | Action items for JSE |
|---|--|--|
| 1 | <p>Communicate with Failed Participant, Failure Manager and JSE to identify all IRC Members and Clients that use the Failed Participant and request them to open new cash and security accounts with a Surviving Participant or activate an SDA with their Secondary Participant.</p> <p>Where this is done - all trades from S-n will be routed to the new Participant.</p> | <p>JSE to contact Members to contact their Clients to get them, where possible, to open up new accounts with Surviving / Secondary Participants.</p> |
| 2 | <p>If Client or Member opens new accounts–</p> <ul style="list-style-type: none"> ➤ The newly appointed Participant will open, load and activate new UNEXcor cash and securities accounts. ➤ The newly appointed Participant to change 1st choice indicator and send the Failed Participant and the JSE the new UNEXcor securities account number. <p>Any outstanding transactions from S-n must be moved by the Failed Participant to the new Participant and new UNEXcor securities account.</p> <p>Failed Participant and new Participant to request CD Transfers for all unencumbered securities.</p> <p>The new Participant will take over all transaction management.</p> | <p>JSE to load the new UNEXcor account number on the IRC system.</p> |

| | Action items for Failure Manager and Failed Participant, Buyer is Client of Failed Participant | Action items for JSE |
|----|--|---|
| | | |
| 3 | | New trades booked by the IRC Members will automatically be generated to the new accounts. |
| | | |
| 4. | <p>Where new accounts are not opened Failed Participant and Failure Manager to</p> <ul style="list-style-type: none"> ➤ Check if Buyer has cash available from sales (Central Order Book or Report only transactions) settling on or before the purchase. ➤ If not, can New-Cash be deposited into the Cash Suspense Account? ➤ If not, can cash be obtained via a Repo transaction? ➤ If not, can cash be obtained from a Capital Event (this cash would be in the Corporate Action Suspense Account)? ➤ If not, can Trading Member fund the Cash Suspense Account? ➤ If not, can Clearing Member fund the Cash Suspense Account? (only those guaranteed by SAFCOM) ➤ If not, can SAFCOM fund the Cash Suspense Account? <p>If there is sufficient cash available via any of the above methods, once confirmed, commit to the transaction and it will settle. If not, the JSE will initiate Failed Trade Procedures.</p> | |
| | | |
| 5 | Failed Participant and Failure Manager to advise JSE of any transactions which cannot be committed to and reasons thereof. | If there is no cash available the JSE has to initiate Failed Trade Procedures. |

Scenario 8: Actions where the Buyer (RvP) is a Member of the Failed Participant and the RvP is uncommitted. Settlement Date = Failure Date for S-n transactions.

This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant, Buyer is Member and is Client of Failed Participant | Action items for JSE |
|---|--|--|
| 1 | <p>Communicate with Failed Participant, Failure Manager and JSE to identify all IRC Members that use the Failed Participant and request them to open new cash and securities accounts with the Surviving Participant or activate an SDA with the Secondary Participant.</p> <p>Where this is done - all trades from S-1 will be routed to the new Participant.</p> | <p>JSE to contact Members to get them to open up new accounts with Surviving / Secondary Participants.</p> |
| 2 | <p>If Member opens new accounts–</p> <ul style="list-style-type: none"> ➤ The newly appointed Participant will open, load and activate new UNEXcor cash and securities accounts. ➤ The newly appointed Participant to change 1st choice indicator and send the Failed Participant and the JSE the new UNEXcor securities account number. <p>Any outstanding transactions from S-n must be moved by the Failed Participant to the new Participant and new UNEXcor securities account.</p> <p>Failed Participant and new Participant to request CD Transfers for all unencumbered securities.</p> <p>The new Participant will take over all transaction management.</p> | <p>JSE to load the new UNEXcor account number on the IRC system.</p> |

| | Action items for Failure Manager and Failed Participant, Buyer is Member and is Client of Failed Participant | Action items for JSE |
|----|---|---|
| | | |
| 3 | | New trades booked by the IRC Members will automatically be generated to the new accounts. |
| | | |
| 4. | <p>Where new accounts are not opened Failed Participant and Failure Manager to</p> <ul style="list-style-type: none"> ➤ Check if Buyer (Member) has cash available from sales (Central Order Book or Report only transactions) settling on or before the purchase. ➤ If not, can New-Cash be deposited into the Cash Suspense Account? ➤ If not, can cash be obtained via a Repo transaction? ➤ If not, can cash be obtained from a Capital Event (this cash would be in the Corporate Action Suspense Account)? ➤ If not, can Clearing Member fund the Cash Suspense Account? (only those guaranteed by SAFCOM) ➤ If not, can SAFCOM fund the Cash Suspense Account? <p>If there is sufficient cash available via any of the above methods, once confirmed, commit to the transaction and it will settle. If not, the JSE will initiate Failed Trade Procedures.</p> | |
| | | |
| 5 | Failed Participant and Failure Manager to advise JSE of any transactions which cannot be committed to and reasons thereof. | If there is no cash available the JSE has to initiate Failed Trade Procedures . |

Scenario 9: Actions where the Seller (DvP) is a Client of the Failed Participant and the DvP is uncommitted. Settlement Date = Failure Date for S-n transactions.

This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant, Seller is Client of Failed Participant | Action items for JSE |
|---|--|--|
| 1 | <p>Failed Participant, Failure Manager and JSE to identify all IRC Members and Clients that use the Failed Participant and request them to open new cash and securities accounts with a Surviving Participant or activate an SDA with the Secondary Participant.</p> <p>Where this is done - all trades from S-1 will be routed to the new Participant.</p> | <p>JSE to contact Members to contact their Clients to get them, where possible, to open up new accounts with Surviving / Secondary Participants.</p> |
| 2 | <p>If Client or Member opens new accounts—</p> <ul style="list-style-type: none"> ➤ The newly appointed Participant will open, load and activate new UNEXcor cash and securities accounts. ➤ The newly appointed Participant to change 1st choice indicator and send the Failed Participant and the JSE the new UNEXcor securities account number. <p>Any outstanding transactions from S-n must be moved by the Failed Participant to the new Participant and new UNEXcor securities account.</p> <p>Failed Participant and new Participant to request CD Transfers for all unencumbered securities.</p> <p>The new Participant will take over all transaction management.</p> | <p>JSE to load the new UNEXcor account number on the IRC system.</p> |

| | Action items for Failure Manager and Failed Participant, Seller is Client of Failed Participant | Action items for JSE |
|----|---|--|
| 3. | <p>Where new accounts are not opened and positions moved per 2 above, Failed Participant and Failure Manager to-</p> <ul style="list-style-type: none"> ➤ Check if Seller has securities available from purchase (Central Order Book or Report only transactions) settling on or before the sale that can provide the securities. Note: Make sure there are no issues with the purchases i.e. failed trades or moving positions from previous cycles. ➤ If not, notify the Client of the options available to source securities such as: ➤ Can Member book a transaction to source the securities? ➤ If not, can an OTS transaction be booked by the applicable Participants? ➤ If not, can an SLB transaction be booked by the applicable Participants? ➤ If not, can the Trading Member source securities? ➤ If not, can the Clearing Member source securities? <p>If there are sufficient securities available via any of the above methods –</p> <ul style="list-style-type: none"> ➤ Commit to the trade ➤ Ensure that settlement proceeds are swept to the Cash Suspense Account <p>If not, the JSE will initiate Failed Trade Procedures.</p> | <p>If there are not sufficient securities available the JSE has to initiate Failed Trade Procedures.</p> |

Scenario 10: Actions where the Seller (DvP) is a Member of the Failed Participant and the DvP is uncommitted. Settlement Date = Failure Date for S-n transactions.

This includes Central Order Book or Report Only transactions which have been accepted by the Clearing Member for risk management purposes as well as normal Reported Only transactions.

| | Action items for Failure Manager and Failed Participant, Seller is Member of Failed Participant | Action items for JSE |
|---|---|---|
| 1 | <p>Communicate with Failed Participant, Failure Manager and JSE to identify all IRC Members that use the Failed Participant and request them to open new cash and securities accounts with a Surviving Participant or activate an SDA with the Secondary Participant.</p> <p>Where this is done - all trades from S-1 will be routed to the new Participant.</p> | <p>JSE to contact Members to get them, where possible, to open up new accounts with Surviving / Secondary Participants.</p> |
| 2 | <p>If Member opens new accounts--</p> <ul style="list-style-type: none"> ➤ The newly appointed Participant will open, load and activate new UNEXcor cash and securities accounts. ➤ The newly appointed Participant to change 1st choice indicator and send the Failed Participant and the JSE the new UNEXcor securities account number. <p>Any outstanding transactions from S-n must be moved by the Failed Participant to the new Participant and new UNEXcor securities account.</p> <p>Failed Participant and new Participant to request CD Transfers for all unencumbered securities.</p> | <p>JSE to load the new UNEXcor account number on the IRC system.</p> |

| | Action items for Failure Manager and Failed Participant, Seller is Member of Failed Participant | Action items for JSE |
|----|--|--|
| | The new Participant will take over all transaction management. | |
| | | |
| 3. | <p>Where new accounts are not opened and positions moved per 2 above Failed Participant and Failure Manager to-</p> <ul style="list-style-type: none"> ➤ Check if Seller (Member) has securities available from purchase (Central Order Book or Report only transactions) settling on or before the sale that can provide the securities. Note: Make sure there are no issues with the purchases i.e. failed trades or moving positions from previous cycles. ➤ If not, notify the Member of the options available to source securities such as: ➤ Can Member book a transaction to source the securities? ➤ If not, can an SLB transaction be booked by the applicable Participants? ➤ If not, can the Clearing Member source securities? <p>If there are sufficient securities available via any of the above methods –</p> <ul style="list-style-type: none"> ➤ Commit to the trade ➤ Ensure that settlement proceeds are swept to the Cash Suspense Account <p>If not, the JSE will initiate Failed Trade Procedures.</p> | <p>If there are not sufficient securities available the JSE has to initiate Failed Trade Procedures.</p> |

13.5 STRATE OTS TRANSACTIONS – BONDS DECISION TREES

Scenario 11: Actions where the Buyer is a Client of the Failed Participant and has not sent instructions to commit to the transaction. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to Strate of all transactions still unable to settle.

| | Action items for Failure Manager and Failed Participant where Buyer has not sent instructions and the Seller is querying the unmatched transaction | Action items for the JSE for the IRC Market |
|---|---|--|
| | | |
| 1 | Failed Participant to contact the Client to send instructions. | |
| | | |
| 2 | Failure Participant to commit to the transaction if the Client has sent instructions. | |

Scenario 12: Actions where the Buyer is a Client of the Failed Participant and has insufficient cash to commit to the transaction. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to Strate of all transactions still unable to settle.

| | Action items for Failure Manager and Failed Participant where Buyer has insufficient cash | Action items for the JSE for the IRC Market |
|---|---|--|
| | | |
| 1 | <p>Failure Manager and Failed Participant to confirm –</p> <ul style="list-style-type: none"> ➤ No cash available from the settlement of a sale (where the sale has available securities) ➤ No cash available from redemptions or coupon payments (Capital Events). <p>Note: If funds available from the above Failing Participant to commit to the purchase.</p> | |
| | | |
| 2 | Failed Participant to contact Client and determine if the Client is multi-banked | |

| | Action items for Failure Manager and Failed Participant where Buyer has insufficient cash | Action items for the JSE for the IRC Market |
|---|--|--|
| | <p>and has sufficient cash to cover the purchase.</p> <p>If yes, the Client is to deposit the cash into the existing settlement cash account and supply proof to the Failed Participant / Failure Manager.</p> <p>Failed Participant to commit to the transaction.</p> | |
| 4 | <p>If no cash available, exclude from 1st Settlement Run.</p> <p>The transaction will fail.</p> | |

Scenario 13: Actions where the Seller is a Client of the Failed Participant and has not sent instructions. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to Strate of all transactions still unable to settle.

| | Action items for Failure Manager and Failed Participant where Seller has not sent instructions | Action items for the JSE for the IRC Market |
|---|---|--|
| | | |
| 1 | Failed Participant to contact the Client to send instructions and notify the Failure Manager. | |
| | | |
| 2 | Failed Participant to commit to the transaction if the Client has sent instructions. | |

Scenario 14: Actions where the Seller is a Client of the Failed Participant and has insufficient securities. Settlement Date = Failure Date.

Transactions that were on the S-1 16h30 updated Provisional Settlement Problem List from Participants to Strate of all transactions still unable to settle.

| | Action items for Failure Manager and Failed Participant where Seller has insufficient securities | Action items for the JSE for the IRC Market |
|---|--|--|
| | | |
| 1 | <p>Failed Participant to confirm that there are no securities available from the settlement of a purchase transaction.</p> <p>Note: If securities available from the above, Failed Participant to commit to the sale.</p> | |
| | | |
| 2 | <p>Failed Participant to notify the Failure Manager and to contact the Client to determine if the Client can source securities.</p> <p>➤ If the client cannot source securities, Failed Participant to exclude transaction from 1st Settlement Run.</p> <p>The transaction will fail.</p> | |
| | | |
| 3 | <p>Can the Failed Participant book a Corrective transaction for the Client to source the securities?</p> <p>➤ If yes, Strate to open the corrective window prior to the 1st Settlement Run to report this transaction and the Failed Participant to commit.</p> <p>➤ If no, can an On-market transaction be booked to source securities?</p> <p>➤ If yes, JSE to open corrective window prior to 1st Settlement Run to report this transaction and the Failed Participant to commit.</p> | |

| | Action items for Failure Manager and Failed Participant where Seller has insufficient securities | Action items for the JSE for the IRC Market |
|---|--|--|
| | <ul style="list-style-type: none"> ➤ If no, can an SLB transaction be booked by the applicable Participants? ➤ If yes, applicable Participants to book CD Transfers. ➤ If no, can the Failed Participant book a same-day trade? ➤ If yes, the Failed Participant to exclude the transaction from 1st Settlement Run. ➤ Strate to open the same day window. <p>If same day transaction to be booked. Failed Participant to –</p> <ul style="list-style-type: none"> ➤ Exclude the sale from the 1st Settlement Run ➤ Wait for the same day transaction to be booked and commit to both the sale and purchase in the 2nd Settlement Run. | |
| 8 | <p>If no securities available from the above, exclude from 1st Settlement Run. Transaction will fail.</p> | |

Scenario 15: Actions where the Buyer (RvP) is a Client of the Failed Participant and the RvP is uncommitted. Settlement Date = Failure Date for S-n transactions.

| | Action items for Failure Manager and Failed Participant, Buyer is Client of Failed Participant | Action items for JSE |
|---|--|-----------------------------|
| 1 | <p>Communicate with Failed Participant, Failure Manager to identify all Clients that use the Failed Participant and request them to open new cash and securities accounts with a Surviving Participant or activate an SDA with their Secondary</p> | |

| | | |
|----|--|--|
| | <p>Participant.</p> <p>Where this is done - all trades from S-1 will be routed to the new Participant.</p> | |
| | | |
| 2 | <p>If Client opens new accounts–</p> <ul style="list-style-type: none"> ➤ The newly appointed Participant will open, load and activate new UNEXcor cash and securities accounts. ➤ The newly appointed Participant to change 1st choice indicator and send the Failed Participant the new UNEXcor securities account number. <p>Any outstanding transactions from S-n must be moved by the Failed Participant to the new Participant and new UNEXcor securities account.</p> <p>Failed Participant and new Participant to request CD Transfers for all unencumbered securities.</p> <p>The new Participant will take over all transaction management.</p> | |
| | | |
| 3. | <p>Where new accounts are not opened Failed Participant and Failure Manager to</p> <ul style="list-style-type: none"> ➤ Check if Buyer has cash available from sales settling on or before the purchase. ➤ If not, can New-Cash be deposited into the Cash Suspense Account? ➤ If not, can cash be obtained via a Repo transaction? ➤ If not, can cash be obtained from a Capital Event (this cash would be in the Corporate Action Suspense Account)? <p>If there is sufficient cash available via any</p> | |

| | | |
|---|---|--|
| | of the above methods, once confirmed, commit to the transaction and it will settle. | |
| | | |
| 4 | If there is no cash available the transaction will fail. | |

Scenario 16: Actions where the Seller (DvP) is a Client of the Failed Participant and the DvP is uncommitted. Settlement Date = Failure Date for S-n transactions.

| | Action items for Failure Manager and Failed Participant, Seller is Client of Failed Participant | Action items for JSE |
|---|--|-----------------------------|
| | | |
| 1 | <p>Failed Participant and Failure Manager to identify all Clients that use the Failed Participant and request them to open new cash and securities accounts with a Surviving Participant or activate an SDA with their Secondary Participant.</p> <p>Where this is done - all trades from S-1 will be routed to the new Participant.</p> | |
| | | |
| 2 | <p>If Client opens new accounts–</p> <ul style="list-style-type: none"> ➤ The newly appointed Participant will open, load and activate new UNEXcor cash and securities accounts. ➤ The newly appointed Participant to change 1st choice indicator and send the Failed Participant the new UNEXcor securities account number. ➤ Any outstanding transactions from S-n must be moved by the Failed Participant to the new Participant and new UNEXcor securities account. ➤ Failed Participant and new Participant to request CD Transfers for all unencumbered securities. <p>The new Participant will take over all</p> | |

| | Action items for Failure Manager and Failed Participant, Seller is Client of Failed Participant | Action items for JSE |
|----|--|-----------------------------|
| | transaction management. | |
| | | |
| 3. | <p>Where new accounts are not opened and positions moved per 2 above Failed Participant and Failure Manager to-</p> <ul style="list-style-type: none"> ➤ Check if Client has securities available from purchase settling on or before the sale that can provide the securities. Note: Make sure there are no issues with the purchases i.e. failed trades or moving positions from previous cycles. <p>If not, notify the Client of the options available to source securities such as:</p> <ul style="list-style-type: none"> ➤ Can an On-market transaction be booked by the applicable Participants? ➤ Can an SLB transaction be booked by the applicable Participants? <p>If there are sufficient securities available via any of the above methods –</p> <ul style="list-style-type: none"> ➤ Commit to the trade ➤ Ensure that settlement proceeds are swept to the Cash Suspense Account <p>If not, the transaction will fail.</p> | |

13.6 OTHER BONDS DECISION TREES

Scenario 17: Bonds Capital Events S-n

| | Action items for Failure Manager and Failed Participant. |
|---|--|
| 1 | <p>For Capital Events where there is a payment of cash, e.g. interest or capital repayment, is the Issuer with the Failed Participant?</p> <ul style="list-style-type: none"> ➤ If yes, is the Issuer multi-banked and can New-Cash be transferred to Strate's Banker then the Issuer must fund Strate's bank account in order for Strate to disperse the |

| | Action items for Failure Manager and Failed Participant. |
|---|--|
| | <p>proceeds to Participants. The Capital Event can be processed.</p> <ul style="list-style-type: none"> ➤ If no, assume that there is no cash to be dispersed, and the Capital Event fails. <p>If the Issuer is not with the Failed Participant, there is no impact to the standard Capital Event processing.</p> |
| 2 | <p>For Capital Events where there is a payment of Cash, e.g. interest or capital repayment, is the Investor a Client of the Failed Participant?</p> <ul style="list-style-type: none"> ➤ If yes, Strate will re-route the cash entitlement to the Corporate Actions Suspense Account from F+1 onwards and the Capital Event can be processed, ➤ If no, there is no impact to the standard Capital Event Processing |

Scenario 18: Bonds SLB/Central Depository (CD) Transfers

| | Action items for Failure Manager and Failed Participant. |
|---|---|
| 1 | <p>For RfP CD Transfer transactions:</p> <ul style="list-style-type: none"> ➤ If transactions are captured and matched, the securities will be received into the Client's account. ➤ If not, amend the transaction details, recapture and match in order to receive securities. |
| 2 | <p>For DfP CD Transfer transactions:</p> <ul style="list-style-type: none"> ➤ If the securities are unencumbered and available, capture and match the transactions to transfer the securities. ➤ If there are no securities, do not capture the CD Transfer. |

14. FAILURE MANAGEMENT ACTIONS FOR MONEY MARKET SECURITIES

This chapter deals with the Failure Management Actions which will be performed by the Failure Manager in conjunction with the Failed Participant in respect of Money Market securities.

Guidance for processing of various settlement scenarios is provided in the form of decision trees. Explanatory notes or assumptions have been added to the decision trees to elaborate on certain actions where deemed necessary. Refer to **Addendum C** for these decision trees, an index of which is provided below:

| Scenario number | Scenario | Addendum |
|-----------------|--|----------|
| Scenario 1 | F and F+n / Money Market - DVP – Failed Participant = Full Bank Participant | C |
| Scenario 2 | F and F+n / Money Market – RVP – Failed Participant = Full Bank Participant | C |
| Scenario 3 | F and F+n / Money Market - DVP– Failed Participant = Full Non-Bank Participant | C |
| Scenario 4 | F and F+n / Money Market - RVP – Failed Participant = Full Non-Bank Participant | C |
| Scenario 5 | F and F+n / Money Market - DVP– Failed Participant = Corporate Bank Participant | C |
| Scenario 6 | F and F+n / Money Market – RVP – Failed Participant = Corporate Bank Participant | C |
| Scenario 7 | F and F+n / Money Market - DVP– Failed Participant = Corporate Non-Bank Participant | C |
| Scenario 8 | F and F+n / Money Market – RVP – Failed Participant = Corporate Non-Bank Participant | C |
| | Capital Events | |
| Scenario 9 | Money Market Capital Events - F and F+n | C |
| | Securities Account Transfers | |

| Scenario number | Scenario | Addendum |
|-----------------|--|----------|
| Scenario 10 | Free of value: For all Money Market securities the transfer is done via a Portfolio Movement transaction | C |

14.1 Background to Money Markets – Strate Money Market Settlement System

All electronic Money Market securities are issued, traded and settled electronically, real-time and on a gross principal-to-principal basis in the Strate Money Market Settlement System (MMSS). Money Market Capital Events are settled electronically. Executed Money Market securities trades are reported by traders, either directly or through an intermediary, to the Money Market “Electronic Trade Matching Engine (ETME)” for bulk matching and bi-lateral allocation of underlying trades to the bulk reported. Each bi-laterally allocated trade is moved to the integrated settlement functionality of the Strate MMSS.

All Money Market trades in the electronic Money Market environment are Off-market trades because no formal Money Market Exchange currently exists. Money Market securities are electronically assigned an ISIN by the National Numbering Agency (“NNA”), (i.e. a role performed by the JSE), which is recorded by the NNA and in the Strate MMSS before the security can be traded.

All free of payment trades, pledges and release pledges as well as Portfolio Movement type transactions, either within or between Participants, are reported to the ETME for matching prior to processing in the MMSS.

Strate Money Market transactions settle gross and the majority of transactions settle on a T+0 basis although some trades / settlements can be forward dated.

Due to the manner in which Money Market transactions are concluded, no trades or settlements are anticipated if the buyer does not have sufficient cash or credit facilities (i.e. funds) available.

Any allegements for matched trades in the MMSS will be automatically failed and cancelled by the MMSS during the End of Day procedures in the MMSS on the settlement day.

14.2 Types of Participants in the Money Market

There are different categories of Participants in the electronic Money Market settlement environment, namely:

- a) Full Bank Participant
- b) Full Non-Bank Participant
- c) Corporate Bank Participant
- d) Corporate Non-Bank Participant

| | |
|---|--|
| <i>Full Participant (Bank and Non-Bank):</i> | is a person that opens SOR accounts for itself and its Clients; and Administers securities held in its “own” and its Clients name in its “own” and its Clients SOR Securities Accounts. |
| <i>Corporate Participant (Bank and Non-Bank):</i> | exclusively administers Securities held in its own name in its own SOR Securities Account. |

Only Strate Participants are permitted to maintain Securities Accounts on behalf of themselves or their Clients, in the Securities Ownership Register (SOR) in the MMSS at the CSD.

The Strate Money Market Handbook contains detailed information pertaining to, *inter alia*:

- a) Participant and Business Partner roles;
- b) Money Market issuing, trading, settlement and Capital Events; and
- c) An explanation of the SOR.

14.3 Procedures for Failure of a Full Participant and Corporate Participant

The solution provided for the handling of Money Market settlements in the event of a Failed Full Participant and a Failed Corporate Participant has been provided in the Money Market decision trees. Explanatory notes or assumptions have been added to the decision trees to elaborate on certain actions where deemed necessary. Refer to **Addendum C** for these decision trees.

The failure procedures detailed in this chapter will be explained separately for each category of participation.

14.4 Reserving of Securities

One key procedure or functionality adopted in the Strate MMSS is the reserving or “locking of securities” i.e. once trades have matched in the ETME and have been committed to by a Participant, the Strate MMSS will automatically move the securities from the Sellers “Free-Balance” in its SOR account to the Sellers “Reserve-Balance” in its SOR account. Upon confirmation of the cash settlement, the simultaneous, irrevocable movement of securities from the Sellers Reserve Balance to the Buyers Free-Balance of securities takes place.

It must be noted in a failure scenario that, should the Buyer not have New-Cash in order to pay for his purchase of securities, the securities will be locked in the Seller’s Free-Balance of its SOR account which will only be “released” at the end of day when the trade is automatically failed and cancelled by the Strate in the MMSS.

However, the Seller may want to trade with an alternative party in such circumstances which may have New-Cash or alternatively, does not bank with the Failed Participant or failed Settlement Bank. In such a scenario the Participant of the Buyer and the Participant of the Seller (i.e. both Participants) would

have to approach the Strate Helpdesk and request that the securities, currently locked in the initial transaction pending confirmation of the settlement of cash, be “unlocked” intra-day.

The following procedure is prescribed if the parties wish to “unlock” securities intra-day:

- a) Both Participants are to send a written “Request to Cancel and Unlock” to the Strate Helpdesk. (The Participants need to include the relevant Strate reference numbers (referred to in the MMSS system as the UTRN and BAN number/s) of the trade they wish to cancel);
- b) The Strate Helpdesk will ensure that:
 - the same UTRN and BAN/(s) is/are requested by both Participants in their “Request to Cancel and Unlock”;
 - the Strate Custody and Settlement Division processes the cancellation on BAN/(s) level using a MMSS back-office panel; and
 - a status intimation MT 548 message will be sent by the MMSS to both Participants who will have to inform the traders (its Clients).

The effect of the cancellation is that the securities will be “unlocked” and the bilaterally allocated trade/(s) will move into a cancelled status in the Strate MMSS.

14.5 Sale and Buy back transactions

Where a Client of a Failed Participant chooses to source securities required for a DvP or DFP trade, the option exists for them to enter into a “Sale and Buy-Back” type transaction. It must be noted that the Client of the Failed Participant would have their cash trapped and unless they have New-Cash, would not find a counterparty who would be willing to enter into a Sale and Buy-Back trade with them anyway.

If they can provide New-Cash, then this would be a possible solution to obtain securities.

Another possible solution would only be if the counterparty to the Sale and Buy-Back trade was willing to accept other securities with similar characteristics, as an alternative to cash.

The decision trees that follow, include a Sale and Buy-Back transaction as a solution for sourcing securities, but would have to take the above into account.

14.6 Actions for Money Market Settlements on F and F+n

Refer to **Addendum C** for the decision trees pertaining to Money Market settlements.

| | Action items for Failure Manager - Full Bank Participant | Action items for Failure Manager - Full Non-Bank Participant |
|----|---|---|
| 1. | Ensure that the Cash Suspense Account has been activated. | Ensure that the Settlement Bank of the Failed Participant is notified of the failure and will continue taking instructions from the Insolvency Administrator and Failure Manager. |

| | Action items for Failure Manager - Full Bank Participant | Action items for Failure Manager - Full Non-Bank Participant |
|----|---|--|
| | | |
| 2. | Notify all Money Market Participants (Full and Corporate) of the Full Bank Participant failure – in terms of the Participant Failure Crisis Committee's terms of reference. | Notify all Money Market Participants (Full and Corporate) of the Full Non-Bank Participant failure – in terms of the Participant Failure Crisis Committee's terms of reference. |
| | | |
| 3. | Run reports and obtain all information as detailed in Chapter 16. | Run reports and obtain all information as detailed in Chapter 16. |
| | | |
| | Scenario 1. Trades for own institution account (DvP) | Scenario 3. Trades for own institution account (DvP) |
| | | |
| 4. | <p>If the trader traded for the Participants own institution's account, determine if the trade is for securities issued by the Failed Participant's own institution or if the securities are issued by external Issuers.</p> <ul style="list-style-type: none"> ➤ Sales in own issued securities may be executed if the purchaser decides to honour the transaction. If the trade is honoured, the Insolvency Administrator will attach the cash proceeds. ➤ Sales in securities issued by another Issuer will be honoured (subject to such securities being available) and the cash proceeds from this sale will be attached by the Insolvency Administrator (i.e. Curator). | <p>If the trader traded for the Participants own institution's account, determine if the trade is for securities issued by the Failed Participant's own institution or if the securities are issued by external Issuers.</p> <ul style="list-style-type: none"> ➤ Sales in own issued securities may be executed if the purchaser decides to honour the transaction. If the trade is honoured, the Insolvency Administrator will attach the cash proceeds notwithstanding that such cash will settle to the Participant's Settlement Bank. ➤ Sales in securities issued by another Issuer will be honoured (subject to such securities being available) and the cash proceeds from this sale will be attached by the Insolvency Administrator (i.e. liquidator). |
| | | |
| 5. | <p>The Failure Manager must monitor that securities sold by the Failed Participants for its own account are available before the securities can be moved from the Participants "own" SOR Free-Balance to the SOR Reserve-Balance in the MMSS.</p> <ul style="list-style-type: none"> ➤ If the securities are not available, | <p>The Failure Manager must monitor that securities sold by the Failed Participants for its own account are available before the securities can be moved from the Participants "own" SOR Free-Balance to the SOR Reserve-Balance in the MMSS.</p> <ul style="list-style-type: none"> ➤ If the securities are not available, determine |

| | Action items for Failure Manager - Full Bank Participant | Action items for Failure Manager - Full Non-Bank Participant |
|----|---|---|
| | <p>determine if there are other securities from trades settling that can provide the securities.</p> <ul style="list-style-type: none"> ➤ If the securities are not available from other trades, source the securities from a Sale and Buy-Back transaction; or ➤ If the securities cannot be sourced from the above avenues, the trade will fail. | <p>if there is other securities from trades settling that can provide the securities.</p> <ul style="list-style-type: none"> ➤ If the securities are not available from other trades, source the securities from a Sale and Buy-Back transaction; or ➤ If the securities cannot be sourced from the above avenues, the trade will fail. |
| 6. | If the securities are available for delivery, commit. | If the securities are available for delivery, commit. |
| 7. | The cash proceeds received will be diverted to the Cash Suspense Account and will be attached by the Insolvency Administrator. | The cash proceeds received will be paid to the Failed Participant's Settlement Bank and will be attached by the Insolvency Administrator. |
| | Scenario 1.Trade for Clients account (DvP) | Scenario 3.Trade for Clients account (DvP) |
| 8. | <p>The Failure Manager must monitor that securities sold by the Failed Participants' Clients are available before the securities can be moved from the Clients SOR Free-Balance to the SOR Reserve-Balance in the MMSS.</p> <ul style="list-style-type: none"> ➤ If the securities are not available, determine if there are other trades settling that can provide the securities; ➤ If the securities are not available from other trades, source the securities from a Sale and Buy-Back transaction; or ➤ If the securities cannot be sourced from the above avenues, the trade will fail. | <p>The Failure Manager must monitor that securities sold by the Failed Participants' Clients are available before the securities can be moved from the Clients SOR Free-Balance to the SOR Reserve-Balance in the MMSS.</p> <ul style="list-style-type: none"> ➤ If the securities are not available, determine if there are trades settling that can provide the securities; ➤ If the securities are not available from other trades, source the securities from a Sale and Buy-Back transaction; or ➤ If the securities cannot be sourced from the above avenues, the trade will fail. |
| 9. | If the securities are available for delivery, commit. | If the securities are available for delivery, commit. |

| | Action items for Failure Manager - Full Bank Participant | Action items for Failure Manager - Full Non-Bank Participant |
|-----|--|--|
| 10. | The cash proceeds will be diverted to the Cash Suspense Account as the Failed Participant is the Clients' Settlement Bank. | Cash proceeds will be received by the Full Non-Bank Participant's Settlement Bank. |
| | | |
| | Action items for Failure Manager - Full Bank Participant | Action items for Failure Manager - Full Non-Bank Participant |
| | | |
| | Scenario 2.Trades for own account (RVP) | Scenario 4.Trade for own account (RVP) |
| | | |
| 1. | The Insolvency Administrator (i.e. Curator) will not allow new purchase transactions by the Failed Participant institution. Similarly, transactions for the Participants institution's own account, entered into prior to the failure, will fail. | The Insolvency Administrator (i.e. liquidator) will not allow new purchase transactions by the Failed Participant institution. Similarly, transactions for the Participants institution's own account, entered into prior to the failure, will fail. |
| | | |
| 2. | Any request from the seller to unlock reserved securities must follow the procedures as set out in par 14.4 above. This will allow the counterparty to have access to its securities should it wish to sell them to an alternative buyer. | Any request from the seller to unlock reserved securities must follow the procedures as set out in par 14.4 above. This will allow the counterparty to have access to its securities should it wish to sell them to an alternative buyer. |
| | | |
| | Scenario 2.Trades for Client account (RVP) | Scenario 4.Trades for Client account (RVP) |
| | | |
| 3. | Where a Client of the Failed Participant entered into a purchase transaction, the Failure Manager has to determine if: <ul style="list-style-type: none"> ➤ The Client will have to make New-Cash available for the purchase. ➤ If the Client does not supply New-Cash, the Failure Manager has to determine if New-Cash will be available from other sales; | Where a Client of the Failed Participant entered into a purchase transaction; <ul style="list-style-type: none"> ➤ The Failure Manager instructs the Full Non-Bank Participant's Settling Bank to settle the transaction. ➤ If the Client does not have funding available, the Failure Manager has to determine if cash will be available from other sales; or |

| | Action items for Failure Manager - Full Bank Participant | Action items for Failure Manager - Full Non-Bank Participant |
|----|---|--|
| | <ul style="list-style-type: none"> ➤ If cash is not available from other sales the Failure Manager must determine if cash can be made available from a Sale and Buy-Back transaction; or ➤ If New-Cash is still not available, the sale will fail. ➤ Where New-Cash is available, the cash must be deposited into the Cash Suspense Account. ➤ Commit to the transaction. ➤ Transfer cash from Cash Suspense Account for settlement of the trade. | <ul style="list-style-type: none"> ➤ If funding is not available from other sales the Failure Manager must determine if cash can be made available from a Sale and Buy-Back transaction. ➤ If funding is not available, the sale will fail. |
| 4 | Any request from the seller to unlock reserved securities must follow the procedures as set out in par 14.4 above. This will allow the counterparty to have access to its securities should it wish to sell them to an alternative buyer. | Any request from the seller to unlock reserved securities must follow the procedures as set out in par 14.4 above. This will allow the counterparty to have access to its securities should it wish to sell them to an alternative buyer. |
| | Scenario 5. Action items for Failure Manager – Corporate Bank Participant (DvP) | Scenario 7. Action items for Failure Manager – Corporate Non-Bank Participant (DvP) |
| 1. | <p>If the trader traded for the Participants own account, determine if the trade is for securities issued by the Failed Participant's own institution or if the securities are issued by an external Issuer.</p> <ul style="list-style-type: none"> ➤ Sales in own issued securities may be executed if the purchaser decides to honour the transaction otherwise it will fail. If the trade is honoured, the cash proceeds will be attached by the Insolvency Administrator (i.e. Curator). ➤ Sales in securities issued by another Issuer will be honoured. The | <p>If the trader traded for the Participants own account, determine if the trade is for securities issued by the Failed Participant's own institution or if the securities are issued by an external Issuer.</p> <ul style="list-style-type: none"> ➤ Sales in own issued securities may be executed if the purchaser decides to honour the otherwise it will fail If the trade is honoured, the cash proceeds will be attached by the Insolvency Administrator (i.e. liquidator). ➤ Sales in securities issued by another Issuer will be honoured as cash will be received. |

| | Action items for Failure Manager - Full Bank Participant | Action items for Failure Manager - Full Non-Bank Participant |
|----|---|---|
| | Insolvency Administrator will attach the cash. | The Insolvency Administrator will attach the cash. |
| | | |
| 2. | <ul style="list-style-type: none"> ➤ The Failure Manager must monitor that securities sold by the Failed Participant for its own account are available. Trades by Corporate Participants are reported pre-committed. If the counterparty's Participant committed, the trade will settle. ➤ If the securities are not available, determine if there are other trades settling that can provide the securities. If the securities cannot be sourced, the trade will fail. | <ul style="list-style-type: none"> ➤ The Failure Manager must monitor that securities sold by the Failed Participant for its own account are available. Trades by Corporate Participants are reported pre-committed. If the counterparty's Participant committed, the trade will settle. ➤ If the securities are not available, determine if there are other trades settling that can provide the securities. If the securities cannot be sourced, the trade will fail. |
| | | |
| 3. | Cash received from a settlement will be attached by the Insolvency Administrator. | Cash received from the settlement will be attached by the Insolvency Administrator. |
| | | |
| | Scenario 6. Action items for Failure Manager – Corporate Bank Participant (RvP) | Scenario 8. Action items for Failure Manager – Corporate Non-Bank Participant (RvP) |
| | | |
| 1. | The Insolvency Administrator (i.e. Curator) will not allow any purchase of securities. | The Insolvency Administrator (i.e. liquidator) will not allow any purchase of securities. |
| | | |
| 2. | Any requests to unlock reserved securities have to be processed according to the procedures as set out in par 14.4 above. This will allow the counterparty to have access to its securities should it wish to sell them to an alternative buyer. | Any requests to unlock reserved securities have to be processed according to the procedures as set out in par 14.4 above. This will allow the counterparty to have access to its securities should it wish to sell them to an alternative buyer. |
| | | |
| | Action items for Failure Manager – Full Bank and Corporate Bank Participant | Action items for Failure Manager – Full Non-Bank and Corporate Non-Bank Participant |
| | | |
| | Sale and Buy-back transactions | Sale and Buy-back transactions |

| | Action items for Failure Manager - Full Bank Participant | Action items for Failure Manager - Full Non-Bank Participant |
|---|---|--|
| 1 | <p>Outstanding Sale and Buy-Back transactions on date of failure have to be identified as the forward leg of the transaction will be an unsettled transaction.</p> <ul style="list-style-type: none"> ➤ If the Failed Full or Corporate Bank Participant is the seller of securities for its own account, the same process will be followed as per the DvP scenarios for Full and Corporate Banks. ➤ If the Failed Full or Corporate Bank is the purchaser of the securities (either for their own account or Client account) the same process as for the RvP scenarios will be followed. <p>Note: The parties to the transaction may also choose to cancel this forward leg, re-transact elsewhere (subject to available cash and securities) and link this to the original leg.</p> | <p>Outstanding Sale and Buy-Back transactions on date of failure have to be identified as the forward leg of the transaction will be an unsettled transaction.</p> <ul style="list-style-type: none"> ➤ If the Failed Full or Corporate Non-Bank Participant is the seller of securities for own account, the same process will be followed as per the DvP scenarios for Full and Corporate Non-Bank Participants. ➤ If the Failed Full or Corporate Non-Bank is the purchaser of the securities (for their own account or Client account) the same process as for the RvP scenarios will be followed. <p>Note: The parties to the transaction may also choose to cancel this forward leg, re-transact elsewhere (subject to available cash and securities) and link this to the original leg.</p> |
| | | |
| | Action items for Failure Manager- Capital Event | Action items for Failure Manager- Capital Event |
| 2 | <p>Any Capital Event due, will be processed at the close of business on the day before Payment Date (Reconciliation Date), for payment the following day.</p> <ul style="list-style-type: none"> ➤ If the Issuer of the securities for the Capital Event uses the Failed Participant institution's Settling Bank, determine if New-Cash for the Capital Event has been received. ➤ If New-Cash has been received in the Corporate Action Suspense Account, disbursement for the beneficial Clients can be processed. | <p>Any Capital Event due, will be processed the evening processed at the close of business on the day before Payment Date (Reconciliation Date) for payment the following day.</p> <ul style="list-style-type: none"> ➤ If the Failed Full Non-Bank Participant and its Clients is/are a receiver of a Capital Event proceeds, the cash for disbursement will be transferred to the Settlement Bank of the Participant and the Clients. ➤ Cash received from the settlement of Capital Events for the Failed Non-Bank Participant will be attached by the Insolvency Administrator; however, cash |

| | Action items for Failure Manager - Full Bank Participant | Action items for Failure Manager - Full Non-Bank Participant |
|---|--|---|
| | <ul style="list-style-type: none"> ➤ If no New-Cash has been received, payment of the Capital Event will fail. ➤ If the receiver of the Capital Event uses the Failed Participant's institution's Settling Bank, the cash receivable by these Clients will be transferred to the Corporate Action Suspense Account. ➤ The Failed Participant will distribute the entitlements across all the SOR accounts of its Clients. | <p>received for its Clients would not be trapped.</p> <ul style="list-style-type: none"> ➤ Where a Failed Non-Bank Participant, acted as Issuer Agent to its Clients which are Issuers, its Client's cash to be used to fund Capital Events would not be trapped and the Capital Event can be processed. |
| 3 | If the failed Full Bank Participants Clients are recipients of a Capital Event, the funds will be diverted to Corporate Actions Suspense Account. | If the failed Full Non-Bank Participants Clients are recipients of a Capital Event, the funds will be deposited with the Non-Bank Participants Settlement Bank as per normal. |
| | | |
| | Money Market Portfolio Movement | |
| | | |
| 1 | <p>Note:</p> <p>Where Clients securities are to be moved from the Failed Full Bank or Full Non-Bank Participant to a surviving Participant, see Scenario 10 of Addendum C.</p> <p>For all Money Market securities the transfer is done via a Portfolio Movement type transaction which must be reported through the ETME.</p> | Refer to Scenario 10 for the decision tree applicable to Money Market Portfolio Movement transactions. |

15. THE PROCEDURE FOR THE TRANSFER OF CLIENT SECURITIES

This chapter sets out the procedures to be followed in case a Full Participant (Bank and Non-Bank) fails and Client Securities Accounts and/or Segregated Depository Accounts need to be transferred to a Survivor Participant, Authorised User or Secondary Participant where applicable.

Refer to the applicable Addendum for the Scenario / decision tree for the transfer of Client securities.

| Scenario | Addendum |
|--|-----------------|
| 1. Equities – Portfolio Movements | A – Scenario 12 |
| 2. Bonds – CD Transfers | B – Scenario 18 |
| 3. Money Markets- SOR Accounts – Portfolio Movements | C – Scenario 10 |

15.1 Strate Rules applicable to the transfer of a Clients' Securities Account from one Participant to another Participant / service provider

The definition of a Portfolio Movement transaction in terms of Strate Directive SC.2 is:

The term “portfolio movement” refers to instances where there is no change in beneficial ownership and includes all Strate approved uncertificated securities in the Client's portfolio. When the underlying Client chooses to change service providers the portfolio movements may take place between:

- Participant to Participant,
- Broker to Broker,
- Asset Manager to Asset Manager,
- Global Custodian to Global Custodian
- or a combination thereof.

Where Clients' Equity holdings are transferred from one Participant to another Participant, it is done by reporting a Portfolio Movement type transaction.

The transfer of a Clients' Bonds from one Participant to another Participant is done through processing a Central Depository Transfer (CD Transfer).

Where Clients' Money Market securities are transferred from one Participant to another it is done by reporting a Portfolio Movement type transaction. The Securities Ownership Register will be amended to reflect the Clients' Participant acting on his behalf.

The Strate Rules provide for the actions to be taken in an event of a termination of a Participant.

In terms of Rule 3 the following apply:

3.12 Upon termination of participation:

3.12.1 Securities Accounts must be transferred in accordance with Rules 3.10.2, 3.10.3 and 3.11.1.2 and shall remain active within the CSD notwithstanding any appointment or decision of an Insolvency Administrator, and all transactions or events in respect of such

Securities Accounts must be completed in terms of the Act, Rules and Directives; Any action so taken by the CSD pursuant to the Act, Rules and Directives, is binding upon an Insolvency Administrator and is not capable of being reversed or rescinded by such Insolvency Administrator;

3.10.2 A Participant, its Insolvency Administrator or other lawful agent must, upon notification of the Participant's termination, transfer all Securities Accounts to other Participants in accordance with Client instructions in terms of Rule 5.6.2.9, the Client Mandate, Rules and Directives.

3.10.3 Where a Client has not provided a Participant with the instructions referred to in 3.10.2 within 30 days of the Participant, its Insolvency Administrator or other lawful agent giving notice to the Client of its termination in terms of Rule 5.7.7, the Participant, its Insolvency Administrator or other lawful agent shall transfer the Client's Securities Account to another willing Participant in its discretion and advise the Client of the details of the receiving Participant.

In terms of Rule 5 the following apply:

5.6.2 Where a Client's Securities Account has been transferred to a new Participant pursuant to Rule 3.10.3, the mandate must be signed with the new Participant within 90 (ninety) calendar days of such transfer, failing which the mandate between the Client and the terminated Participant would prevail.

5.6.3.9 the Client must, following notification of termination of its Participant in terms of Rule 5.7.7, inform the Participant, its Insolvency Administrator or other lawful agent to which Participant the Client's Securities Account shall be transferred within 30 days of the Client receiving such notification; and

5.7.7 Clients are advised in writing within 3 (three) Business Days by the Participant, its Insolvency Administrator or other lawful agent of any suspension, restriction or termination of its participation, or of it being placed under interim management in terms of the Rules. Such advice shall include a reference to the Client's obligation to advise the Participant, its Insolvency Administrator or other lawful agent to which Participant the Client's Securities Account shall be transferred within 30 (thirty) calendar days of the Client receiving such notification, failing which Rule 3.10.3 would apply.

15.2 Process to transfer Client Securities Accounts

The transfer of Client Securities Accounts from a Failed Participant to a Survivor Participant or an Authorised User, and/or of a Clients Segregated Depository Account from the failed Primary Participant to an appointed Secondary Participant, will be overseen by the Participant Failure Crisis Committee (refer to Chapter 5 for more information on this Committee) and Failure Manager but will be undertaken by the Failed Participant upon receiving a request from the Client. The Secondary Participant will instruct the CSD in respect of Segregated Depository Accounts.

Clients with unsettled (F+1 and F+2) Equities trades will have to be identified by the Failed Participant. Where F+1 and F+2 sale trades are committed to, the securities cannot be transferred to a Survivor Participant, Authorised User or Secondary Participant and must be held to honour the transaction. (Alternatively, the trade must be uncommitted, cancelled and a new instruction must be sent to the new Participant or will be part of the brokers nett if the Client has chosen to become a Controlled Client (JSE) or Member-Settled Client (JSE IRC Market).) Priority will be allocated to Clients opening new securities and cash accounts with a Survivor Participant, Authorised User or Secondary Participant and to transfer securities required for pending settlement.

It remains the responsibility of the Client to ensure that a new Securities Account and Cash Settlement Account are opened and the appointed Authorised User (for trading purposes) and the Failed Participant are notified of the new account details. Where the Client has chosen to operate a Segregated Depository Account, these details will already be in place if they have chosen to pre-appoint a Secondary Participant.

Where the Failed Participant is a Non-Bank Participant, its Clearing / Settling Bank would still be able to perform the cash settlements (as the cash is not affected by the Non-Bank Participant failure) and the Failure Manager, in conjunction with the Insolvency Administrator, will be able to transfer Clients' Securities Accounts when instructed to do so.

All Client Security Account transfers i.e. Portfolio Movements or CD Transfers are free of value.

15.3 Transfer of Client Securities Accounts from the Failed Participant to a Survivor Participant, Authorised User or Secondary Participant

All securities holdings will be migrated (at current balances) to the accepting Survivor Participant, Authorised User or Secondary Participant who assumes responsibility for the holdings transferred to them. These trades will be reported as Portfolio Movement or CD Transfer transactions. Any historic imbalances / queries remain an issue between the Failed Participant and their Client.

15.4 Transfer of Client SDA's from the Failed Primary Participant to an appointed Secondary Participant

In terms of CSD Rule 6.13.7.1 “... in the event of an Insolvency proceeding against a Client's Primary Participant, the CSD must, upon instruction from the Secondary Participant,....., move the unencumbered Securities..... to the Secondary Participant.”

Strate Directive SA.9 details the account administration procedures in the event of an Insolvency Proceeding where a Client has chosen to operate a Segregated Depository Account.

In terms of section 5 of this Directive, the following obligations are stipulated:

5.1 Client Obligations

5.1.1 *In the event of an Insolvency Proceeding against a Client's Primary Participant, where a Secondary Participant has been appointed, the Client must send a written instruction to its Secondary Participant to activate such Client's Segregated Depository Account(s) in place of the Primary Participant. The Client must send a copy of this instruction to the Primary Participant.*

5.1.2 *The Client may appoint a new Secondary Participant on the date the new Primary Participant commences administration of a Segregated Depository Account.*

5.2 Secondary Participant Obligations

5.2.2 *The Secondary Participant must:*

5.2.2.1 *confirm to the CSD in writing, with a copy sent to the Primary Participant that it will act as administrator of the Segregated Depository Account(s);*

5.2.2.2 *open, or instruct the CSD to open, Segregated Depository Accounts as a Primary Participant in accordance with 3.1 to 3.4;*

5.2.2.3 *instruct the CSD to move all unencumbered Securities to the Segregated Depository Accounts referred to in 5.2.2.2.*

5.2.2.4 *reconcile Securities holdings and positions with its Client, the CSD and the Primary Participant.*

5.3 Primary Participant Obligation

5.3 *In the event of an Insolvency Proceeding against a Primary Participant, such Primary Participant must reconcile Securities holdings and positions with its Client, the Secondary Participant and the CSD.*

In the event of an insolvency proceeding, the affected Clients, appointed Secondary Participant/s and Failed Primary Participant, will be required to perform the functions as stipulated in Directive SA.9.

15.4.1 Migrating securities in Segregated Depository Accounts.

In terms of CSD Rule 6.13.7.2 the movement of securities held in the SDAs from the Primary Participant to the Secondary Participant, does not constitute a change in ownership. As such for both Equities and Bonds, unencumbered securities will be migrated in the following manner:

Equities:

The CSD, having sight of the SDAs including the securities held per ISIN, will process a bulk movement of reconciled, unencumbered securities from the SDA opened by the Primary Participant to the SDA opened by the Secondary Participant. Any subsequent securities which become available to transfer will then be migrated by reporting Portfolio Movement type transactions as per Scenario 12 of Addendum A.

Bonds:

The CSD, having sight of the SDAs including the securities held per ISIN, will process a bulk movement of reconciled, unencumbered securities from the SDA opened by the Primary Participant to the SDA opened by the Secondary Participant. Any subsequent securities which become available to transfer will then be migrated by reporting CD Transfers as per Scenario 18 of Addendum B.

15.5 Points for consideration

15.5.1 Know Your Client (KYC) Implications.

A temporary relaxation of the Financial Intelligence Centre Act (FICA) requirements for cash accounts will not be allowed by Banks but for custody accounts, it may be required and would have to be sought by each new service provider, i.e. Surviving Participants, Authorised User or Secondary Participant. This concession relates to the Participant/s and or Members who are taking on new Clients and will not have had the opportunity of being able to review and accept the accuracy of the compliance process followed by the terminated Participant in terms of their "Know Your Client" obligations.

A Client Mandate concession in terms of the Strate Rules has been included as part of the approved Rules. Rule 5.6.2 states *"Where a Client's Securities Account has been transferred to a new Participant pursuant to Rule 3.10.3, the mandate must be signed with the new Participant within 90 (ninety) calendar days of such transfer, failing which the mandate between the Client and the terminated Participant would prevail."*

15.6. Dematerialisation and Rematerialisation Instructions

As stated above, securities are ring-fenced and freely transferable. Any pending dematerialisation order would have to be settled and allocated to the Central Securities Account of the Failed Participant and corresponding Client Securities Account or Segregated Depository Account. The increased dematerialised balance of securities is then free to be transferred to a Survivor Participant, Authorised User or Secondary Participant as the new custodian.

Similarly, rematerialisation orders would have to be settled and the corresponding reduction in the dematerialised balance of the Clients Securities Account or Segregated Depository Account would have to be processed before a transfer of securities is affected i.e. dematerialised securities would have to be held back to honour the rematerialisation order. The nett dematerialised balance is transferred to a Survivor Participant, Authorised User or Secondary Participant as the new custodian.

15.7 Pledge

In terms of the Strate Rules on pledge, pledged securities may not be transferred without the written permission of the Pledgee.

With reference to the transferring of securities following the termination of participation, it must be noted that obtaining the “authority” from the Pledgee in a failure event may be a delayed process.

It is envisaged that the Pledgee would be notified of the failed Participants’ status and that securities which were “blocked / flagged” as pledged would be transferred and the blocking / flagging will be placed on the securities in the records of the new custodian.

While there may be a preference for a quick migration process, the initial reluctance to automatically “move” the pledged securities without the concurrence of the Pledgee was due to:

- 1) The Failed Participant had undertaken (by signing a pledge agreement) not to release the securities without the consent of the Pledgee.
- 2) The Pledgee in many instances could in fact be the Failed Participant, where such Participant, as a bank, has extended credit to the Client.
- 3) The contractual nature of the pledge arrangement may require replacement contracts, and perhaps the payment of monies owed prior to the release of any pledge, etc. A requirement for the Pledgee’s consent would enable a replacement tripartite contract (usually an addendum) to be signed by the replacement Participant.
- 4) The pledge agreement may cater for the movement of pledged securities from a Failed Participant to a replacement Participant, with the replacement Participant taking on the obligations of the Failed Participant.

While the Project Stakeholders appreciate the desire to speed things up in the event of a Participant failure, there are several urgent matters that can be dealt with in stages: within a few hours, then days and then weeks (to illustrate: unsettled transactions, then the movement of unencumbered securities, then the gradual movement of encumbered securities).

The Project Stakeholders believe that they should not sanction a rushed process, but rather take into account all persons’ (including Pledgees’) legal rights. In the absence of clarity from the market whether or not pledge agreements would in all cases make provision for the block movement of encumbered securities to a replacement Participant, the Pledgee’s consent is required prior to movement of flagged (pledged) securities from a Failed Participant.

15.7.1 Portfolio Movement (PM) trades for Equities on T+4 = F+1. Refer to Scenario 12 of Addendum A.

| | Action items for Failed Participant and Survivor Participant or JSE Equities Member | Action items for Clients |
|----|---|---|
| 1. | <p>Search for all uncommitted RFP/DFP Equity Portfolio Movement transactions.</p> <p>For RFP settlements, commit to settle. This would be an action for the Survivor Participant (or Secondary Participant in respect of SDAs) with whom the new Securities Account is being opened or the Member taking on the new Client as a Controlled Client.</p> <p>For DFP settlements which have been committed to, leave to settle. (Assume securities are available to transfer).</p> <p>For DFP settlements which have not been committed to investigate if there is an RvP or RFP settling to provide securities, if available commit to settle.</p> <p>For DFP settlements which have not been committed to due to lack of instruction or securities – contact the Client and request an instruction for the correct quantity of securities. If not received the settlement will fail.</p> | <p>Note that this is a continuous action on Participants as it is expected Clients will send Portfolio Movement instructions in large volumes once they are made aware that their appointed Participant has failed.</p> <p>There may be panic in the market and resources be strained and as a result these instructions will only be processed on a “best-effort-basis”.</p> |
| | | |

15.7.2 Transfer of Bonds via a Central Depository Transfer (Scenario 18 of Addendum B)

| | Action items for Failed Participant and Survivor Participant or Member | Action items for Clients |
|----|---|--|
| 1. | <p>Search for all Bond RFP/DFP CD transfer instructions.</p> <p>For RFP CD transfer instructions, capture and match transaction which will move securities. This would be an action for the new Survivor Participant (or Secondary Participant in respect</p> | <p>Note that this is a continuous action on Participants as it is expected Clients will send CD transfer instructions in large volumes once they are made aware that their appointed Participant has failed.</p> <p>There may be panic in the market and</p> |

| | Action items for Failed Participant and Survivor Participant or Member | Action items for Clients |
|--|--|--|
| | <p>of SDAs) taking on the new Client or the Member taking on a new Client as a Member-Settled Client.</p> <p>For DFP CD transfer settlements capture and match transactions which will move securities (assume securities are available to transfer).</p> <p>For CD transfer settlements which have not been captured and matched due to lack of instruction or securities:</p> <p>Is there another trade settling on T+2 that can provide the securities?</p> <ul style="list-style-type: none"> - If securities from one of the above are available, capture and match the CD transfer transaction. - If not available the securities will not move. | <p>resources be strained and as a result these instructions will only be processed on a “best-effort-basis”.</p> |

15.7.3 Transfer of Money Market Securities via a Portfolio Transfer (Scenario 10 of Addendum C)

| | Action items for Failed Participant and Survivor Participants | Action items for Clients |
|----|--|---|
| 1. | <p>Search for all Money Market securities Portfolio Movement RFP/DFP transactions.</p> <p>For RFP Portfolio Movement settlements, commit to settle. – This would be an action for the new Survivor Participant taking on the new Client.</p> <p>For DFP Portfolio Movement settlements which have been committed to, leave to settle.</p> <p>For DFP settlements which have not been committed to due to lack of instruction or securities :</p> <ul style="list-style-type: none"> - Is there another trade settling on F or F+n that can provide the securities? - If securities from one of the above are available, commit. If securities are not available, the settlement will fail. | <p>Note that this is a continuous action on Participants as it is expected Clients will send Portfolio Movement instructions in large volumes once they are made aware that their appointed Participant has failed.</p> <p>There may be panic in the market and resources be strained and as a result these instructions will only be processed on a “best-effort-basis”.</p> |

16. INFORMATION REQUIRED FOR FAILURE MANAGEMENT

The solution provided by this Failure Manual for the management of the failure of a Participant is dependent on the timeous availability of information which is relevant, accurate and in a format which can be used by all persons involved in the management of the Participant failure.

The reporting requirements for Strate, the JSE and the Failed Participant are detailed below:

16.1 Reporting and information requirements for Failed Participant

Below is information on some of the reports the Failure Manager would expect should be available in order to manage the business of the Failed Participant. This is not a complete list.

16.1.1 Dematerialisation and Rematerialisation (including Removals Orders).

The Failed Participant would have to be able to produce an extract from their system (report file) which lists all open demat and remat orders, per market. These transactions must be settled so that the nett securities balance of a Client can be migrated to a new service provider. See chapter 15 above.

16.1.2 Pledged positions

The Failed Participant would have to be able to produce an extract from their system (report file) of all Client Securities Accounts and Segregated Depository Accounts reflecting pledged positions. See chapter 15 above.

16.1.3 Open orders

The Failed Participant would have to generate a variety of reports at Client level to confirm the status of each and every order (and transaction type) per market (i.e. Equities, Bonds and Money Market) so that each can be processed in accordance with the decision trees contained in this manual.

16.2 Reporting and information requirements of Strate

16.2.1 Bond settlements

- Settlement Schedules for both the IRC and OTS systems.
- Scrip Holdings Report per Participant.

16.2.2 Equities

| Report reference | Report name |
|------------------|--|
| RDKC001 | STATEMENT OF HOLDINGS |
| RDKC002 | STATEMENT OF CUSTODY TRANSACTIONS |
| RDOA119 | COUNTER ORDER REPORT |
| RPBD030 | REPORT ON CUSTODY AND MONEY A/CS |
| RPKR020 | REPORT ON CUSTODY RECONCILIATION |
| RPOA301 | SUMMARY REPORT FOR STRATE |
| RPOA302 | PENDING DEMAT AND REMAT SUMMARY REPORT |
| RPOA401 | REPORT ON SAME DAY ORDERS |
| RPOA402 | REPORT ON LATE REPORTED ORDERS |
| RPOP001 | PYMT ADVICE REPORT FOR BACK OFFICE |
| RPOP002 | PYMT INSTR. REPORT FOR BACK OFFICE |
| RPOA900 | EVENT DRIVEN REPORT |

16.2.3 Corporate Actions

Equities:

In the case of a Participant failure, the Strate Equity Corporate Actions department will have the necessary information available on hand (snapshot will be taken from SAFIRES) which will allow Strate to process events with minimal to no interruption.

Strate Equities Corporate Actions department would however require the new banking details for the Corporate Actions Suspense Account into which dividends/cash proceeds are to be paid into. This is an MFA change and once the department are notified, the change will be affected immediately. The department might be required to bounce the ICOMMS (connectivity between Strate and the market) but this process can be managed internally.

Strate will further communicate this change to their bankers so that payment from their end is also made into the new account.

Bonds:

If a Participant fails, all the Bond Corporate Action related reports that the Strate Bonds Corporate Actions department need for interest and redemption payments are available internally from the Bond CSD system. As with Equities, the department will need the Corporate Actions Suspense Account number into which funds can be paid for the Clients of the Failed Participant

Similarly, if Strate's banker fails, Strate will have to have another account at another bank into which funds can be paid by the Issuers for interest and redemption payments.

16.3 Reporting and information requirements of the JSE – generated internally

16.3.1 "Outstanding settlements" for the Failed Participant broken down into the following categories:-

- Per Trade Date
- Per Trade Type (settlement group)
- Per security
- Per Broker
- Per Non-controlled Clients account
- Per Brokers Nett

And be split between:-

- Committed and non-committed
- Purchases and sales

And include:-

- Quantity
- Consideration
- Non-controlled Clients names and contact details

16.3.2 "Outstanding deals" for Controlled Clients broken down into the following categories:-

- Per Broker
- Per Trade Type (settlement group)
- Per Trade Date
- Per security

And be split between:-

- Purchases and sales

And include:-

- Quantity
- Consideration
- Clients names and contact details

- Available securities on Controlled Clients Account or from covered purchases settling on or before the sale
- Available cash on JSE Trustees or from covered sales settling on or before the purchase

16.3.3 "Outstanding deals" for Proprietary accounts broken down into the following categories:-

- Per Broker
- Per Trade Type
- Per Trade Date
- Per security

And be split between:-

- Purchases and sales

And include:-

- Quantity
- Consideration
- Available securities on Proprietary Account or from covered purchases settling on or before the sale
- Available cash from covered sales settling on or before the purchase

16.3.4 "Margin Held Report"–which must be broken down per Member under the Failed Participant. This includes:-

- SWIFT instructions that have been sent to the banks to refund margin.
- SWIFT instructions that have been sent to the banks to call for margin.

16.4 Reporting and information requirements of the JSE – generated externally

Strate or the Failed Participant will have to be able to generate the following for the JSE:

16.4.1 "Off-markets" for Non-controlled Clients and Brokers "aNett's" linked to On-market (Central Order Books and Report Only) settlement orders broken down into the following categories:-

- Off-markets
- Securities Lending and Borrowing
- Collateral Returns
- Account Transfers
- Portfolio Movements

And include:-

- Quantity
- Consideration
- Clients names and contact details
- Available securities