

**ASSESSMENT REPORT  
ON THE OBSERVANCE  
OF THE PRINCIPLES FOR  
FINANCIAL MARKET  
INFRASTRUCTURES  
BY  
STRATE PROPRIETARY LIMITED**

## 1. Executive Summary

In April 2012, the Committee on Payment and Market Infrastructures (“CPMI”) and the Technical Committee of the International Organization of Securities Commission (“IOSCO”) published the Principles for Financial Market infrastructures (“PFMIs”). These are high-level principles which set minimum recommended standards for the operations of Financial Market Infrastructures (“FMIs”), namely, Central Securities Depositories (“CSDs”), Securities Settlement Systems (“SSSs”), Central Counterparties (“CCPs”), Payment Systems (“PSs”) and Trade Repositories (“TRs”). FMIs are expected to undertake periodic self-assessments to gauge their level of observance with the relevant principles.

In December of 2021, the Financial Sector Conduct Authority (“FSCA”), Prudential Authority (“PA”) and the South African Reserve Bank (SARB) (collectively referred to as “the Authorities”) directed Strate Proprietary Limited (“Strate”), in some instances referred to as (“the FMI”), to complete a self-assessment against the PFMIs. Strate is a licensed Central Securities Depository (“CSD”) and an Associated Clearing House (“ACH”) in terms of the Financial Markets Act, 2012 (Act no. 19 of 2012) (“FMA”). Strate is also authorized to perform the functions of a Payment Clearing House System Operator (“PCHSO”) in the National Payment System under the National Payment System Act, 1998 (Act no. 78 of 1998) (“NPSA”).

In April 2022, the Authorities received Strate’s self-assessment covering all principles relevant to it as a CSD, ACH and PCHSO. The analysis of Strate’s self-assessment was concluded by the PA and FSCA. The National Payment System Department (NPSD) of the SARB withdrew from the analysis of Strate’s self-assessment. Its reason was that it currently only conducts oversight of the payment system financial market infrastructures (PS FMIs) and not supervision (this could change moving forward after the establishment of the supervisory unit in May 2023).

Six (6) of the twenty-four (24) principles have been identified as not being applicable to Strate. These include principles 5, 6, 10, 14, 20, and 24. The reasons are as follows:

Principle 5	Collateral	Strate does not use collateral to manage its participants’ credit exposures.
Principle 6	Margin	This principle relates to margin for CCPs and therefore is not applicable to Strate.
Principle 10	Physical Deliveries	Strate does not have obligations relating to delivery of physical instruments and

		commodities. Strate provides CSD and settlement services for dematerialised securities.
Principle 14	Segregation and Portability	This principle applies to the CCPs and is not applicable to Strate.
Principle 20	FMI Links	Currently deemed to be non-applicable as per the definition of the FMI links in the PFMI.
Principle 24	Disclosure of market data by Trade Repositories	This principle deals with the disclosure of market data by trade repositories and is not applicable to Strate as a CSD.

The report focuses on the principles listed below:

- Principle 1- Legal Basis
- Principle 2- Governance
- Principle 3- Risk Management Framework
- Principle 4- Credit Risk
- Principle 7- Liquidity Risk
- Principle 8- Settlement Finality
- Principle 9- Money Settlements
- Principle 11- Central Securities Depositories
- Principle 12- Exchange of Value Settlement Systems
- Principle 13- Participant Default Rules and Procedures
- Principle 15- General Business Risk
- Principle 16- Custody and Investment Risk
- Principle 17- Operational Risk
- Principle 18- Access Participation Requirements
- Principle 19- Tiered Participation Arrangements
- Principle 21- Efficiency and Effectiveness
- Principle 22- Communication Procedures and Standards
- Principle 23- Disclosure of Rule, Key Procedures and Market Data

The table below lists the summary of ratings.

<b>Principle</b>		<b>Rating</b>
Principle 1	Legal Basis	Observed
Principle 2	Governance	Observed
Principle 3	Risk Management Framework	Observed
Principle 4	Credit Risk	Observed
Principle 5	Collateral	Principle not applicable to a CSD
Principle 6	Margin	Principle not applicable to Strate because of its operating model.
Principle 7	Liquidity Risk	Observed
Principle 8	Settlement Finality	Observed
Principle 9	Money Settlements	Observed
Principle 10	Physical Deliveries	Principle not applicable to Strate because of its operating model.
Principle 11	Central Securities Depositories	Observed
Principle 12	Exchange of Value Settlement Systems	Observed
Principle 13	Participant Default Rules and Procedures	Partially Observed
Principle 14	Segregation and Portability	Principle not applicable to Strate as a CSD
Principle 15	General Business Risk	Observed
Principle 16	Custody and Investment Risks	Observed
Principle 17	Operational Risk	Observed
Principle 18	Access and Participation Requirements	Observed
Principle 19	Tiered Participation Arrangements	Observed
Principle 20	FMI Links	Principle currently not applicable to Strate
Principle 21	Efficiency and Effectiveness	Observed
Principle 22	Communication Procedures and Standards	Observed
Principle 23	Disclosure of Rules, Key Procedures and Market Data	Observed

Principle 24	Disclosure of Market Data by Trade Repositories	Principle not applicable to a CSD
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The table below highlights follow-up actions/recommendations for Strate, which have been identified as a consequence of the assessment. It is recommended that Strate provides its views and work on remediating issues identified.

Principle		Recommendations /Observations
Principle 1	Legal Basis	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 2	Governance	<ul style="list-style-type: none"> <li>• Strate should consider whether re-electing independent members to the Board of Directors ("the Board"), after a reasonable determined threshold has been surpassed, is appropriate. Strate should identify and state what this reasonable threshold should be.</li> <li>• Strate should also consider reviewing the maximum tenure periods of the Board members to avoid any impediment to sound governance. This should be considered from an international best practice perspective as well.</li> </ul>
Principle 3	Risk Management Framework	<ul style="list-style-type: none"> <li>• Strate should ensure annual reviews of risk policies and frameworks.</li> </ul>
Principle 4	Credit Risk	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 7	Liquidity Risk	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 8	Settlement Finality	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 9	Money Settlements	<ul style="list-style-type: none"> <li>• None</li> </ul>

Principle 11	Central Securities Depositories	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 12	Settlement System	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 13	Participant Default Rules and Procedures	<ul style="list-style-type: none"> <li>• Strate should perform a comprehensive default scenario exercise with participants.</li> </ul>
Principle 15	General Business Risk	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 16	Custody and Investment Risks	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 17	Operational Risk	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 18	Access and Participation Requirements	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 19	Tiered Participation Arrangements	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 21	Efficiency and Effectiveness	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 22	Communication Procedures and Standards	<ul style="list-style-type: none"> <li>• None</li> </ul>
Principle 23	Disclosure of Rules, Key Procedures and Market Data	<ul style="list-style-type: none"> <li>• None</li> </ul>

## 2. Purpose of the report

This report serves to provide results of the Authorities' review of Strate's self-assessment and to confirm the FMI's ongoing observance of the PFMI's issued by CPMI-IOSCO.

## 3. Methodology of assessment

The overall approach followed by the Authorities consisted of an assessment of observance with the CPMI-IOSCO Principles based on responses provided by Strate. The CPMI-IOSCO rating scale was utilised to rate the level of compliance of Strate with the PFMI's following the self-assessment by Strate utilising the same rating scale. The rating scale takes into account the issues of concern and the magnitude of risk urgency, and is as follows:

Rating	Definition
<b>Observed</b>	The FMI observes the principle. Any identified gaps and shortcomings are not issues of concern and are minor, manageable and of a nature that could be addressed in the normal course of business.
<b>Broadly Observed</b>	The FMI broadly observes the principle. One or more issues of concern have been identified that the FMI is encouraged to address and follow up to better manage risks or improve operations. The FMI should pursue such improvements in a defined timeline.
<b>Partially Observed</b>	The FMI partly observes the principle. The assessment has identified one or more issues of concern that could become serious if not addressed in a timely manner. The FMI should accord a high priority to address these issues.
<b>Not Observed</b>	The FMI does not observe the principle. The assessment has identified one or more serious issues of concern that warrant immediate action. Therefore, the FMI must accord the highest priority to address these issues in a timely manner.
<b>Not Applicable</b>	The principle does not pertain to the type of FMI being assessed because of the particular legal, institutional, structural, or other characteristics of the FMI.

For each principle assessed, there were specific documents (e.g. policies, standard operating procedures, references to rules and directives) provided by Strate in support of the assessment and, where necessary, supplementary material was requested from the FMI in support of its responses to the self-assessment.

#### 4. Overview of Strate's services

Strate offers services as a CSD and ACH in terms of the FMA. Its services as a PCHSO are offered under the NPSA.

In addition to the services it renders as a CSD, ACH and PCHSO, Strate also offers the following additional services (out of scope for the assessment), namely:

- Collateral services- serving the financial markets by seamlessly connecting givers and receivers of collateral through a central collateral platform.
- Integration services- using global and industry leading technology to digitally connect critical players in the financial market ecosystem.
- The electronic matching and settlement of unlisted bonds; and
- The reporting of off-market transactions to the FSCA in terms of section 25 of the FMA.

## **5. Rating of Strate's Self-Assessment and Findings**

The table below captures the main findings and overall ratings as a result of the Authorities assessment:

**Principle 1- Legal Basis**

<b>Principle 1- Legal Basis</b>				
<b>An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions</b>				
<b>Rating: Observed</b>				
<b>Overall comment:</b> This principle requires an FMI to have sound legal basis for its activities. Strate has provided evidence that it has sound legal basis for its activities.				
<b>Key Consideration</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendations</b>
<b>Key Consideration 1.</b> The legal basis should provide a high degree of certainty for each material aspect of an FMI’s activities in all relevant jurisdictions.	Strate is licensed as both a Central Securities Depository (CSD) and Associated Clearing House (ACH) in terms of the Financial Markets Act as well as a Payment Clearing House System Operator (PSO) under the National Payment System Act. These licences allow Strate to perform the functions defined in the referenced legislation within South Africa.  The Insolvency Act, 1936 (s35A) and the National Payment System Act, 1998 (s5) bring further legal certainty regarding finality of settlement upon	<b>Observed</b>	<b>None</b>	<b>None</b>

	insolvency and for the settlement of a cash leg of a transaction, respectively.			
<b>Key Consideration 2.</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendations</b>
An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.	<p>Strate has Rules and Directives which are a product of a consultative process.</p> <p>A special Board Committee, the Regulatory and Supervisory Committee has the power to approve new, or amend existing, Directives and acts as a 'gatekeeper' for amendments to Strate Rules.</p> <p>Strate Rules are subject to the final approval of the FSCA at all times. Any new rules, or changes to the existing rules, are approved by the FSCA before implementation.</p> <p>Strate's Legal team is tasked with ensuring that the Strate Rules, the Strate Directives and all other supporting documentation remain consistent with the relevant laws and regulations at all times.</p>	<b>Observed</b>		<b>None</b>

<b>Key Consideration 3.</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendations</b>
<p>An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.</p>	<p>Legal basis for Strate's activities and the licenced functions is articulated in the FMA.</p> <p>In terms of s 35(6) of the FMA, the Strate Rules and Directives are binding on Participants and others. Industry standards and market protocols are captured in Directives, where necessary.</p> <p>Strate's Rules and Directives are a product of consultative process between Strate and its stakeholders. This helps ensures that Strate's legal basis for its activities is understandable to its stakeholders.</p>	<b>Observed</b>	<b>None</b>	<b>None</b>
<b>Key Consideration 4.</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendations</b>
<p>An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules</p>	<p>Strate currently only operates in South Africa and its rules, procedures and contracts are enforceable in South Africa, even in insolvency.</p> <p>South African rules, procedures and contracts are only enforceable in other jurisdictions, if expressly arranged in contracts. Strate makes use of internal</p>	<b>Observed</b>	<b>None</b>	<b>None</b>

and procedures will not be voided, reversed, or subject to stays.	legal expertise to ensure such aspects as enforceability of all rules, procedures and contracts. In need, external guidance is sought.			
<b>Key Consideration 5.</b> An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.	<b>Assessment of Key Consideration</b> Strate currently only conducts business in South Africa. Strate applies normal conflict-of-law provisions in all its contracts.	<b>Rating</b> <b>Observed</b>	<b>Findings</b> <b>None</b>	<b>Recommendation</b> <b>None</b>

## Principle 2- Governance

Principle 2- Governance				
<b>An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.</b>				
<b>Rating: Observed</b>				
<b>Overall comment:</b> This principle requires an FMI to demonstrate that it has governance arrangements that promote safety and efficiency of an FMI and support the stability of the broader financial system. Strate has demonstrated that it observes this principle.				
<b>Key Consideration</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>

<p><b>Key consideration 1:</b> An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.</p>	<p>Strate has developed robust settlement models in each market (through the use of Simultaneous, Final and Irrevocable Delivery vs Payment, high levels of Straight Through Processing and compliance with ISO15022 messaging standards) as well as the implementation of highly efficient Corporate Actions and settlement processes which have eliminated claims in the market.</p> <p>With effect from October 2019, Strate uses a single technology platform to settle all security types (equities, bonds and money market). These were historically settled using 3 different settlement systems. This move has enabled higher levels of standardisation, improved efficiencies, including potential possible cost savings across the 3 markets.</p> <p>The introduction of Segregated Depository Accounts has directly sought to address safety concerns for</p>	<p><b>Observed</b></p>	<p><b>None</b></p>	<p><b>None</b></p>
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	<p>the underlying investor in the current wholesale market model. Strate is, however, holding model agnostic in that it accommodates both retail and wholesale holdings models.</p> <p>Strate has been an integral part of the move to introduce a shorter settlement timeline across various exchanges (between T+0 and T+3) in line with international best practice</p>			
<p><b>Key Consideration 2:</b> An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.</p>	<p><b>Assessment of Key Consideration</b> Strate has adopted the King IV Code of Good Corporate Governance (a globally recognised Code). The Memorandum of Incorporation serves as the basis for the governance arrangements under which the Board operates.</p> <p>The Board operates under a comprehensive Board Charter that sets out the duties and responsibilities of the Board (and its various committees) in detail. The Board has delegated certain responsibilities to management in terms of the Delegation of Authority</p>	<p><b>Rating</b> <b>Observed</b></p>	<p><b>Findings</b> <b>None</b></p>	<p><b>Recommendation</b></p>

	<p>Framework, while certain matters are specifically reserved for the Board.</p> <p>Strate Rules are subject to the final approval of the FSCA at all times. Any new rules, or changes to the existing rules, must be approved by the FSCA, before implementation.</p> <p>Strate's governance arrangements (the Board and subcommittees), are available on its website and are accessible to all stakeholders of Strate including the Authorities. Further the Authorities can ask for further details from Strate, should there be a need.</p>			
<p><b>Key Consideration 3.</b> The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and</p>	<p><b>Assessment of Key Consideration</b> Strate has recognised that Section 66(1) of the Companies Act requires the Board to manage and direct the business and affairs of Strate.</p> <p>King IV Code of Governance further states that the Board's primary governance role and responsibilities are to (a) steer and set strategic direction; (b) approve policy and</p>	<p><b>Rating</b> <b>Observed</b></p>	<p><b>Findings</b></p>	<p><b>Recommendations</b> None</p>

<p>manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.</p>	<p>planning; (c) oversee and monitor implementation by management; and (d) ensure accountability. These roles and responsibilities are clearly documented and defined in detail in the Board Charter which is subject to annual review by the Board.</p> <p>Strate has conflict of interest policy which is reviewed and approved by the Board annually.</p>			
<p><b>Key Consideration 4.</b> The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).</p>	<p><b>Assessment of Key Consideration</b> Section 4 of the Board Charter defines the roles and responsibilities of the Board. The Board has constituted and delegated authority to the Remuneration, Nominations and Social &amp; Ethics Committee (REMNUMSEC) to provide oversight over the process of nominating, electing and appointing Members of the Board. The Committee ensures that the Board has appropriate mix of knowledge, skills and experience, including the business, commercial</p>	<p><b>Ratings</b> <b>Observed</b></p>	<p><b>Findings</b> <b>None</b></p>	<p><b>Recommendations</b> Strate should consider whether re-electing independent members to the board, after a reasonable determined threshold has been surpassed, is appropriate. Strate should identify and state what this reasonable threshold should be. Strate should also consider reviewing the maximum tenure periods of Board members to avoid any</p>

	<p>and industry experience needed to govern Strate.</p> <p>Strate’s Memorandum of Incorporation states that the Board of Directors must comprise a mix of executive and non-executive board members, with the majority of non-executive board members being independent.</p>			<p>impediment to sound governance. This should be considered from an international best practice perspective as well.</p>
<b>Key consideration 5:</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
<p>The roles and responsibilities of management should be clearly specified. An FMI’s management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.</p>	<p>Strate relies on the Delegation of Authority Framework which sets out the matters that are specifically reserved for the Board and those that have been delegated to Management.</p> <p>Strate employs a robust recruitment and selection process for all staff. Senior Management appointments are made by the Chief Executive Officer in consultation with the Board.</p> <p>All prospective candidates are subjected to appropriate background checks to assess relevant qualifications and experience, before</p>	<b>Observed</b>	<b>None</b>	<b>None</b>

	a formal offer of employment is made.			
<b>Key consideration 6:</b>	Assessment of Key Consideration	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
The board should establish a clear, documented risk management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk management and internal control functions have sufficient authority, independence, resources, and access to the board.	Strate has a Risk Management Framework that has been documented and is reviewed on an annual basis by the Audit and Risk Committee. The Risk Management Framework identifies those risks applicable to Strate and sets acceptable risk tolerances which are also reviewed and approved by the Board annually. The Risk Policy and Risk Management Framework are subject to annual review by the Board.	<b>Observed</b>	<b>None</b>	<b>None</b>
	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>

<p><b>Key consideration 7:</b> The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public</p>	<p>Strate engages stakeholders and their interests are considered during the drafting and approval of the Rules and Directives. One of the ways of ensuring that interests of stakeholders are addressed at Board and Board Committees levels is to have Strate participants represented at this level.</p> <p>Participants' representation at the governance structures is determined by the specific skillsets and the needs of the governance structures from time to time. Given the structure of the Board, which comprises a majority of independent, non-executive members, the onus of addressing potential conflicts between the stakeholders and Strate itself are considered at Board level.</p> <p>To the extent necessary, stakeholders have the right to approach the FSCA (or even the Competition authorities) should they believe that such conflicts (should they arise) are not being appropriately addressed.</p>	<p><b>Observed</b></p>	<p>None</p>	<p><b>None</b></p>
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### Principle 3: Framework for the comprehensive management of risks

Principle 3: Framework for the comprehensive management of risks			
An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.			
Rating: Observed			
<b>Overall Comment:</b> Strate has a Risk Policy and Risk Management Framework that sets out the procedures to identify, measure and monitor the risks that the Strate is exposed to. Strate utilises the four lines of defence model as part of its risk management process and has a combined assurance approach to risk management which includes the internal and external auditors together with the risk management division.			
Key Consideration	Assessment of Key Consideration	Rating	Recommendation
<b>Key Consideration 1:</b> An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.	Strate has identified 4 core categories of risk: Business Risks, Financial Risk, Legal and Compliance Risk, Operational Risks. The Risk Policy and Risk Management Framework set out the policy and procedures used by Strate to identify, measure, monitor and manage the risks of the FMI. Internal, external auditors and other assurance providers provide assurance regarding the effectiveness of these policies and procedures, and the controls that have been implemented to mitigate against the risks borne by the FMI.	Observed	Strate should ensure annual reviews of risk policies and frameworks.
<b>Key Consideration 2:</b> An FMI should provide	Section 8 of the Strate Rules stipulates that Participants must implement and	Observed	None.

<p>incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.</p>	<p>maintain adequate risk management policies, processes and procedures. Failure to comply with this requirement could result in punitive measures (and even penalties) being imposed as outlined in the Directives. The Strate Rules and Directives are binding on not only the Participants but also their clients.</p>		
<p><b>Key Consideration 3:</b> An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk management tools to address these risks.</p>	<p>As part of the quarterly risk profile review, changes in risks borne by or posed to other entities are considered. The changing environment and market practices are addressed regularly at an executive level as well as through a variety of engagements with Regulators, market participants, Issuers and other Stakeholders, in order to identify potential emerging risks and the likely impact thereof on the FMI and its stakeholders.</p> <p>Appropriate post-mortem evaluations are conducted on each incident encountered to ensure that these controls are functioning as they are intended to and, to the extent necessary, enhancements are considered and implemented.</p>	<p><b>Observed</b></p>	<p>None.</p>

<p><b>Key Consideration 4:</b>  An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.</p>	<p>Normal (on-going) risk and threat assessments are undertaken in terms of the Risk Policy to identify those areas that could impact on Strate’s ability to perform its critical operations. Over the years, detailed real-time monitoring systems have been developed to detect disruptions to the environment, both in respect of the operating of Strate’s own systems as well as with regard to the interfaces to external systems/environments.</p> <p>Strate utilised the draft Joint Standard requirements for recovery plans for Market Infrastructures issued by the FSCA and PA to develop a Recovery Plan for the FMI. This plan was finalised and approved by the Strate Board in 2021. The plan has also been submitted to the Regulators and is subject to annual review. Once the draft Joint Standard has been finalised, Strate will review its plan to ensure that the plan remains aligned to the Joint Standard once it is finalised.</p> <p>Strate currently maintains sufficient cash reserves to sustain its operations for an</p>	<p><b>Observed</b></p>	
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	extended period. These funds have been segregated and are not available for normal business activities.		
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#### Principle 4: Credit Risk

Principle 4: Credit risk			
<p>An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.</p>			
<b>Rating: Observed</b>			
<p><b>Overall Comment:</b> Strate utilises a delivery versus payment settlement model and therefore Participants carry the credit risk exposure against their own clients. Strate’s credit risk exposure is minimised given that it does not interpose itself between counterparties in the settlement transaction.</p>			
Key Consideration	Assessment of Key Consideration	Rating	Recommendation
<p><b>Key Consideration 1:</b> An FMI should establish a robust framework to manage its credit exposures to</p>	<p>Credit risk forms part of the normal risk assessments. Participants are obliged to pay all outstanding debts to Strate within 30 days of been invoiced. Strate does not assume credit exposure in respect of</p>	<b>Observed</b>	None.

<p>its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.</p>	<p>individual transactions other than the actual fee for settling a transaction.</p> <p>Strate does not interpose itself between counterparties in the settlement transaction and therefore does not assume any credit risk exposure to its Participants in respect of clearing or settlement services.</p> <p>Where the Strate Trust Account is used, Strate does not, and will not, advance credit to an Issuer. No funds are distributed by Strate until the Issuer has deposited the necessary funds into the Trust Account, and these funds have been cleared for onward distribution.</p>		
<p><b>Key Consideration 2:</b> An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.</p>	<p>All instances where Strate may be liable under any of its services is managed by the Finance Division or the Corporate Actions Department. There is a debtors' age analysis of just over 30 days with negligible bad debt provisions over time.</p> <p>Strate has developed a robust DvP settlement model for the SA market which operates across all markets. The participants, acting on behalf of the</p>	<b>Observed</b>	None.

	<p>underlying clients, effectively underwrite the pending settlement and Strate ensures that it only advances for settlement those transactions for which such commitments have been received from parties acting on behalf of both buyer and seller. Under this model the participants carry the credit risk exposure against their own clients in accordance with normal banking practice.</p>		
<p><b>Key Consideration 3:</b> A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its</p>	<p>Strate does not assume direct exposure to its participants in terms of its current payment and Securities Settlement System (SSS) obligations. Liquidity exposures in respect of securities are fully mitigated by Strate who will not advance a securities settlement obligation unless the securities themselves are sufficient and available in the Strate system.</p> <p>Independent of Strate, a Bank is required to hold appropriate liquid asset reserves to cover its commitments in the market while it is also obliged to reserve against credit lines, thus providing assurance regarding the management of payment obligations. The biggest threat to the SSS is thus the failure of a Bank.</p>	<p><b>Observed</b></p>	

<p>participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system</p>			
<p><b>Key Consideration 4:</b> A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on</p>	<p>Not applicable</p>	<p><b>Not applicable</b></p>	

<p>collateral and Principle 6 on margin).</p> <p>In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions.</p> <p>All other CCPs should maintain additional</p>			
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<p>financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions.</p> <p>In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.</p>			
<p><b>Key Consideration 5:</b> A CCP should</p>	<p>Not applicable</p>	<p><b>Not applicable</b></p>	

<p>determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis,</p>			
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<p>a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants'</p>			
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<p>increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.</p>			
<p><b>Key Consideration 6:</b> In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding</p>	<p>Not applicable</p>	<p><b>Not applicable</b></p>	

<p>and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.</p>			
<p><b>Key Consideration 7:</b> An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity</p>	<p>Not applicable</p>	<p>Not applicable</p>	

<p>providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.</p>			
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### Principle 7: Liquidity Risk

Principle 7: Liquidity risk			
<p>An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.</p>			
<p><b>Rating: Observed</b></p>			
<p><b>Overall Comment:</b> Cash liquidity risk within the South African market is managed by the settlement banks and monitored by the SARB. Liquidity risk is borne by the banking system rather than Strate. Participants are exposed to liquidity risk in respect of securities settlement.</p>			
Key Consideration	Assessment of Key Consideration	Rating	Recommendation

<p><b>Key Consideration 1:</b> An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.</p>	<p>Strate has established a robust framework to measure, monitor and manage the settlement risks to which the market is exposed.</p> <p>One of the key elements of this framework is the management of the liquidity risks that may be faced by a participant in the system. Due to the specific nature of the SA market, Strate, is not directly exposed to cash liquidity risks and does not function as an intermediary in the payment system. Strate calculates the payment obligations due by individual settling banks in respect of the settlement obligations of that bank and is mandated by these banks to submit their Settlement Instructions directly to SAMOS. A settling bank is obliged to fund its settlement obligations at the SARB within 30 minutes of having received a valid instruction. As these instructions are submitted real-time, the onus is on the bank to ensure that it maintains sufficient liquidity / assets in the National Payment System to meet these obligations during the day.</p>	<p><b>Observed</b></p>	<p>None.</p>
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<p><b>Key Consideration 2:</b> An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.</p>	<p>Strate has in place applications which generate projected cash obligations on committed settlements until settlement day and these are monitored by Strate to identify and investigate large/unusual values to ensure minimal disruption or settlement delays.</p> <p>Strate's role in the settlement model is to ensure that Participants and the SARB have sufficient information to assist in the planning and monitoring of liquidity obligations throughout the settlement cycle.</p>	<p><b>Observed</b></p>	<p>None.</p>
<p><b>Key Consideration 3:</b> A payment system or Securities Settlement System (SSS), including one employing a Deferred Net Settlement (DNS) mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday</p>	<p>The primary responsibility for the management of cash liquidity rests with the NPS Department. The Securities Settlement Systems PCH's are only some of the payment streams being managed by the NPSD.</p> <p>The SSS provides assurance that, at an individual transaction level, the CSD Participant, and by association, the settling bank is required to consciously consider its possible settlement obligation and, only once satisfied at an individual client level, to then undertake to settle each individual</p>	<p>Not rated, the reason being that the key consideration relates to functions of NPSD. The NPSD withdrew from the process and opted to conduct its separate assessment exercise</p>	

<p>settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.</p>	<p>transaction. This is then rolled up into an overall net settlement obligation on the part of each Participant which is required to be managed within the payment system.</p>		
<p><b>Key Consideration 4 :</b> A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide</p>	<p>Not applicable</p>	<p><b>Not applicable</b></p>	

<p>range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the</p>			
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<p>largest aggregate payment obligation to the CCP in extreme but plausible market conditions.</p>			
<p><b>Key Consideration 5:</b> For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in</p>	<p>Not applicable</p>	<p><b>Not applicable</b></p>	

<p>extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.</p>			
<p><b>Key Consideration 6:</b> An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be</p>	<p>Not applicable</p>	<p><b>Not applicable</b></p>	

<p>saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.</p>			
<p><b>Key Consideration 7:</b> An FMI should obtain a high degree of confidence, through</p>	<p>Not applicable</p>	<p><b>Not applicable</b></p>	

<p>rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid</p>			
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resources at a liquidity provider.			
<b>Key Consideration 8:</b> An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.	Not applicable	<b>Not applicable</b>	
<b>Key Consideration 9:</b> An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity	Not applicable	<b>Not applicable</b>	

<p>risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI</p>			
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<p>(such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.</p>			
<p><b>Key Consideration 10:</b> An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its</p>	<p>Not applicable</p>	<p><b>Not applicable</b></p>	

<p>participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.</p>			
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### Principle 8: Settlement Finality

<p><b>Principle 8: Settlement finality</b></p>
<p><b>An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.</b></p>
<p><b>Rating: Observed</b></p>
<p><b>Overall Comment:</b> Settlement applied is Delivery versus Payment and takes place on settlement date. Transfer of ownership is final, irrevocable and unconditional.</p>

Key Consideration	Assessment of Key Consideration	Rating	Recommendation
<p><b>Key Consideration 1:</b> An FMI's rules and procedures should clearly define the point at which settlement is final.</p>	<p>Strate Rules includes the unconditional commitment on the part of a CSD Participant to settle transactions whereas its Directives expands into contractual commitments as determined by agreed operational timelines, including aspects of irrevocability and settlement finality.</p> <p>Settlement is performed using Delivery versus Payment and takes place on settlement date. Transfer of ownership is final, irrevocable and unconditional. Ownership is final notwithstanding any fraud, illegality or insolvency.</p> <p>Strate will not initiate settlement until it has satisfied itself that the relevant securities are freely available and that the bank acting on behalf of the buyer has irrevocably undertaken to meet the payment obligation in SAMOS.</p> <p>Cash settlement is irrevocable in terms of the National Payment System Act and the securities leg is irrevocable in terms of the Financial Markets Act.</p>	<p><b>Observed</b></p>	<p>None.</p>

<p><b>Key Consideration 2:</b> An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. A Large-value payment systems ("LVPS") or SSS should consider adopting Real-Time Gross Settlement or multiple-batch processing during the settlement day.</p>	<p>As a result of technical difficulties having been experienced in the past, it was necessary for the cash settlement to take place the following business day. These transfers were, however, backdated to ensure that the cash recipient was not prejudiced. This was done in terms of a Business Continuity Process (BCP) agreed with the Central Bank and the affected commercial banks and does not impede upon the irrevocability of the Delivery vs Payment process. As a consequence of these events, Strate, in collaboration with the NPS of the SARB and the settling banks, has refined the BCPs to allow settlement to continue beyond the interbank square-off processes within the National Payment System (NPS), thus avoiding the need to process cash settlements the following business day.</p>	<p><b>Observed</b></p>	
<p><b>Key Consideration 3:</b> An FMI should clearly define the point after which unsettled payments, transfer instructions, or other</p>	<p>In terms of the securities settlement instructions, Strate determines the point in time when individual transactions become irrevocably binding on CSD Participants, as set out in Strate rules and directives.</p>	<p><b>Observed</b></p>	<p>None.</p>

<p>obligations may not be revoked by a participant.</p>	<p>Prior to the point of irrevocable contractual commitment, the party reporting the transaction to Strate may withdraw the instruction. From the point of contractual commitment, however, revocation may only occur as set out in law.</p> <p>The Strate Directives deal in more detail with contractual commitments as determined by agreed operational timelines.</p>		
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### Principle 9: Money Settlement

<p><b>Principle 9: Money settlements</b></p>
<p><b>An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.</b></p>
<p><b>Rating: Observed</b></p>
<p><b>Overall Comment:</b> Money settlements are processed via the Central Bank Real Time Gross Settlement System on an irrevocable basis. Strate settles in ZAR only.</p>

Key Consideration	Assessment of Key Consideration	Rating	Recommendation
<p><b>Key Consideration 1:</b> An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.</p>	<p>Money settlements are processed via the Central Bank Real Time Gross Settlement System on an irrevocable basis. Strate settles in ZAR only.</p>	<p><b>Observed</b></p>	<p>None.</p>
<p><b>Key Consideration 2:</b> If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.</p>	<p>Not applicable.</p>	<p><b>Not applicable.</b></p>	<p>None.</p>
<p><b>Key Consideration 3:</b> If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to</p>	<p>Not applicable.</p>	<p><b>Not applicable.</b></p>	<p>None.</p>

<p>strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.</p>			
<p><b>Key Consideration 4:</b> If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.</p>	<p>Money settlement takes place at a central bank level between approved Settling Banks.</p>	<p><b>Not applicable</b></p>	<p>None.</p>
<p><b>Key Consideration 5:</b> An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of</p>	<p>There are no legal agreements between Strate and the settlement banks however there is an undertaking on the part of the individual settlement banks to fulfil the obligations of their underlying clients.</p>	<p><b>Not rated</b></p>	

<p>individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.</p>	<p>Strate is appointed by the Payment Association of South Africa (PASA) as a Payment Clearing House System Operator (PCH SO) and both Strate and the various banks that form part of the particular Payment Clearing House are bound by the Settlement Rules of the PCH. These rules cover the arrangements between the banks as they pertain to the movement of money between banks and, internally within each bank, to the underlying clients.</p>		
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### Principle 11: Central Securities Depositories

Principle 11: Central Securities Depositories				
<p><b>A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry</b></p>				
<p><b>Rating: Observed</b></p>				
<p><b>Overall comment:</b> Strate’s rules, procedures and systems are adequate to ensure the integrity of securities issues and safekeeping and transfer of securities. Some of measures used to ensure integrity of securities include Strate acting on authenticated instruction.</p>				
Key Consideration	Assessment of Key Consideration	Rating	Findings	Recommendation

<p><b>Key consideration 1:</b> A CSD should have appropriate rules, procedures, and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.</p>	<p>Strate has the following measures in place to safeguard the rights of securities issuers and holders as well as to prevent the unauthorised creation or deletion of securities:</p> <ul style="list-style-type: none"> <li>- Strate Rules stipulate that entries must correctly reflect the rights of securities issuers.</li> <li>- Strate acts only on proper authenticated instructions.</li> <li>- Participants are required to take security measures to avoid unauthorised access, alteration, destruction or disclosure of client information or records.</li> <li>- Strate's own systems are User Identity/Password controlled; this applies to both internal and external users.</li> <li>- Strate balances on a daily basis with its Participants and Issuers. Balancing takes place daily, weekly or in accordance with pre-determined arrangements made with the Participant/Issuer.</li> <li>- Strate's Rules do not permit debit balances of securities at either CSD or Participant level.</li> </ul>	<p><b>Observed</b></p>	<p><b>None</b></p>	<p><b>None</b></p>
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	- Controls pertaining to the opening and maintenance of client securities account are mandated in the Rules.			
<b>Key Consideration 2:</b> A CSD should prohibit overdrafts and debit balances in securities accounts.	<b>Assessment of Key Consideration</b> Strate does not allow debit positions and its system monitors any infringements with settlement being interrupted should the potential for a negative balance be detected. Only once the projected negative balance has been addressed and resolved, will settlement proceed.  The following activities are also performed to protect against the creation of a negative balance:  - Daily reconciliation. - Auditing of Strate and Participant records. - Supervision and monitoring (alert management system)	<b>Rating</b> <b>Observed</b>	<b>Findings</b> <b>None</b>	<b>Recommendation</b> <b>None</b>
<b>Key Consideration 3:</b> A CSD should maintain securities in	<b>Assessment of Key Consideration</b> Equity and Bond securities are now only issued and maintained in dematerialised	<b>Rating</b> <b>Observed</b>	<b>Findings</b> <b>None</b>	<b>Recommendation</b> <b>None</b>

<p>an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities.</p>	<p>form. All securities are required to be in dematerialised form in order for a transaction to be settled within the CSD.</p>			
<p><b>Key Consideration 4:</b> A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.</p>	<p><b>Assessment of Key Consideration</b></p> <p>Strate has Bankers Blanket Bond and Fidelity Insurance cover to protect its participants (and the market) against misappropriation, destruction or theft of securities by Strate staff.</p> <p>In addition, the Strate Rules prescribe that each participant carry appropriate insurance cover to protect its own clients.</p> <p>To combat possible implications of misappropriation, destruction or theft of securities at Participant level, Strate has issued loss sharing rules in terms of the <b>Financial Markets Act</b> (section 35(2)(x)(iii)) that will apply in insolvency proceedings.</p>	<p><b>Rating</b></p> <p><b>Observed</b></p>	<p><b>Findings</b></p> <p><b>None</b></p>	<p><b>Recommendation</b></p> <p><b>None</b></p>

	These are contained in s16.5.1 of the Strate Rules.			
<b>Key Consideration 5:</b> A CSD should employ a robust system that ensures segregation between the CSD's own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.	<b>Assessment of Key Consideration</b> In terms of s6.2.2.3 of the Strate Rules, the Participant is obliged to segregate their proprietary holdings from their clients' holdings. Monitoring of this forms part of the ambit of Strate Supervision and features in both onsite and independent assurance activities.	<b>Rating</b> <b>Observed</b>	<b>Findings</b> <b>None</b>	<b>Recommendation</b> <b>None</b>

Key consideration 6:	Assessment of Key Consideration	Rating	Findings	Recommendation
<p>A CSD should identify, measure, monitor, and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.</p>	<p>The Risk Policy and Risk Management Framework (approved by the Board) assists Strate in identifying, measuring, monitoring and managing the risk associated with all its current (and proposed future) activities.</p> <p>Each new business proposal requires a formal risk assessment which forms part of the business case presented to the Board (via the Audit and Risk Committee) before a new service/product stream can be introduced.</p> <p>Strate does not take on credit or liquidity risk arising from settlement activities</p>	<b>Observed</b>	<b>None</b>	<b>None</b>

**Principle 12: Exchange-of-value Settlement System**

<b>Principle 12: Exchange-of-value settlement systems</b>
<p><b>If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other</b></p>
<b>Rating: Observed</b>
<p><b>Overall Comment:</b> Strate has an effective mechanism of ensuring that the principle risk is eliminated in every transaction by ensuring that final settlement only occurs when both cash and securities are available for settlement prior to the actual settlement instruction being triggered.</p>

Key Consideration	Assessment of Key Consideration	Rating	Recommendation
<p><b>Key Consideration 1:</b> An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.</p>	<p>Strate eliminates principle risk with the use of simultaneous, final and irrevocable delivery versus payment processes. Strate provides oversight of settlement processes to ensure both cash and securities are available for settlement.</p> <p>Strate only transfers the securities in the CSD system for settlement once it receives confirmation from the SARB that there has been a cash movement. Commitment to pay cash by the nominated settling bank and commitment for the delivery of the securities by the nominated CSD Participant are included in net calculation for settlement.</p>	<p><b>Observed</b></p>	<p>None.</p>

**Principle 13- Participant-Default Rules and Procedures**

**Principle 13: Participant default rules and procedures**

**Participant default rules and procedures-** An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

**Rating: Partially Observed**

**Overall comment:** Strate is deemed to have adequate provisions in its rules and directives to deal with default situations and ensure that it takes timely action to contain losses and liquidity pressures and continue to meet its obligations. However, Strate should conduct an appropriate exercise for testing and review of its default procedures with market participants.

Key consideration 1: An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.	Assessment of Key Consideration	Rating	Findings	Recommendation
	<p>Strate’s Rules and Directives provide specific guidance with regard to the identification and reporting of operational defaults.</p> <p>With regards to financial default, the Strate Rules define what would constitute an "Insolvency Proceeding" which would result in the termination of participation. This is more fully explained in s16 of the Strate Rules.</p> <p>With regards to operational default, Directive SA.10, for example, stipulates specific reporting</p>	<b>Observed</b>		

	<p>requirements which must be followed by participants in the event of technical or operational difficulties which could, potentially, lead to operational default.</p> <p>Strate's Crisis Management Plan and Participant Failure Manual detail, inter alia, the operational procedures to control the orderly wind-down of a Participant in the event of an Insolvency Proceeding.</p>			
<p><b>Key consideration 2:</b> An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.</p>	<p><b>Assessment of Key Consideration</b></p> <p>Strate through its Rules/Directive and Participant Failure Manual has measures to implement its default rules and procedures.</p> <p>Strate has internal plans that clearly delineate the roles and responsibilities for addressing a default. An example in this regard includes the Crisis Management Plan which clearly sets out roles and responsibilities for addressing instances of default.</p>	<p><b>Rating</b></p> <p><b>Observed</b></p>	<p><b>Findings</b></p> <p><b>None</b></p>	<p><b>Recommendation</b></p> <p><b>None</b></p>

<b>Key consideration 3:</b> An FMI should publicly disclose key aspects of its default rules and procedures.	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
	Strate publishes its Rules, which include default rules, on its website as well as other data files.	<b>Observed</b>	<b>None</b>	<b>None</b>
<b>Key consideration 4:</b> An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.	<b>Assessment of Key Consideration</b>	<b>Rating</b>		<b>Recommendation</b>
	The pandemic period (commencing in March 2020) significantly impacted the ability of the market to structure and facilitate an effective simulation exercise. However, Strate conducted, during November 2021, an internal Simulation Exercise to validate the effectiveness of the processes and procedures outlined in the Participant Failure Manual and its supporting decision trees.	<b>Partially Observed</b>		Strate should conduct an appropriate exercise for testing and review of its default procedures with market participants.

### Principle 15: General Business Risk

#### Principle 15: General business risk

**An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.**

**Rating: Observed**

**Overall comment:** Strate has Risk Management Framework which enables it to identify, monitor and manage its business risks. The Risk Management Framework is subject to regular review, by among others, the Board and its Audit and Risk Committee to ensure its effectiveness. Strate also retains sufficient capital and cash in order to continue operations as a going concern, even in stress conditions.

<b>Key Consideration</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
<b>Key Consideration 1:</b> An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.	Strate has a comprehensive Risk Management Framework which has been implemented and entrenched across the company. It is subjected to on-going review at all levels within Strate to ensure that all known and potential new risks are timeously assessed and, where necessary, actioned appropriately.	<b>Observed</b>	<b>None</b>	<b>None</b>
<b>Key Consideration 2:</b> An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a	<b>Assessment of Key Consideration</b>		<b>Findings</b>	<b>Recommendations</b>
	Given the specific risk profile of Strate and the legislative limitation on liabilities contained in section 72 of the Financial Markets Act (which		<b>None</b>	<b>None</b>

<p>going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.</p>	<p>applies to Strate) the calculation of minimum cash reserves has been based on the operating requirements of the FMI, also taking into account potential Business and Credit Risk exposures.</p> <p>In addition, Strate has comprehensive insurance for specific loss events, including Cyber liability. Should a loss deplete minimum cash reserves, surplus funds and/or insurance, shareholders would be approached.</p> <p>Strate does, however, maintain a minimum of, at least, 6 months' worth of cash to support its operational expenditure in the event of an economic downturn. Its current cash reserves substantially exceed this limit and, given also, the legal protection provided under</p>			
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	<p>Section 72 (as mentioned above) the likelihood of recourse to the FMI is significantly reduced.</p> <p>Given the specific risk profile of Strate and the legislative limitation (see above) on liabilities for the performance of its obligations as outlined in the Financial Markets Act, the calculation of minimum cash reserves has been based on the operating requirements of Strate. Strate’s Audit and Risk Committee reviews the minimum cash reserve requirement on an ongoing basis (calculated quarterly and adjusted as necessary). This quantum is also considered sufficient to fund the winding down of the CSD operations should this ever be necessary.</p>			
<p><b>Key Consideration 3:</b> An FMI should maintain a viable</p>	<p><b>Assessment of Key Consideration</b></p>	<p><b>Rating</b></p>	<p><b>Findings</b></p>	<p><b>Recommendations</b></p>

<p>recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.</p>	<p>Strate has prepared a Recovery Plan in line with the draft Joint Standard requirements for recovery plans for Market Infrastructures issued by the FSCA and PA. The Plan has been reviewed by the Audit and Risk Committee and approved by the Board. The Plan has been submitted to the Regulators.</p> <p>Additionally, Strate has developed a Strategic Financial Framework and Capital Management Plan that is used by the Board and Executive Management to monitor specified KRIs in a way that ensures early warning of identified scenarios that could stress the CSD.</p> <p>Strate will review and update its Recovery Plan to accommodate any</p>	<p><b>Observed</b></p>	<p><b>None</b></p>	
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	<p>amendments that may have been made during the finalisation of the Joint Standard.</p> <p>The infrastructure required to support the activities of the CSD is owned by Strate and given the extensive integration of the CSD systems with those of the Exchanges, the various CSD Participants and the SA Reserve Bank, initial resolution would, almost certainly, involve the continued use of the existing infrastructure for an extended period of time. To this end, the cash reserves that are available to the CSD (and have been set aside to cover such an event) are considered more than adequate.</p>			
<b>Key Consideration 4:</b> Assets held to cover general business	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>

<p>risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.</p>	<p>Strate’s Investment Policy dictates that reserve funds be held primarily in cash / near cash assets and dispersed between a number of qualifying banks.</p> <p>This largely eliminates the potential for any loss of value, even in adverse market conditions.</p> <p>The net assets of Strate are, at all times, kept primarily in the form of cash / near cash and all funds are available to Strate Management within 24 hours, thus reducing any potential liquidity issues. This requirement is reviewed by the Board annually.</p>	<p><b>Observed</b></p>	<p><b>None</b></p>	<p><b>None</b></p>
<p><b>Key Consideration 5:</b> An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board</p>	<p><b>Assessment of Key Consideration</b></p> <p>Should it be necessary, the primary source of additional capital would come in the form of a capital call against the shareholders of Strate as</p>	<p><b>Rating</b></p> <p><b>Observed</b></p>	<p><b>Findings</b></p> <p><b>None</b></p>	<p><b>Recommendations</b></p> <p><b>None</b></p>

of directors and updated regularly.	outlined in the Memorandum of Incorporation.  Strate does also have the power to borrow from third parties should a need arise.			
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### Principle 16: Custody and Investment Risks

Principle 16: Custody and investment risks				
<b>An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.</b>				
<b>Rating: Observed</b>				
<b>Overall comment:</b> Strate invests its own cash assets with licensed and prudentially regulated South African banks. Funds are held in cash or near cash assets in order to access these funds timeously. Strate does not hold third party funds in the business of the CSD. This enables Strate to safeguard its assets and those of its participants.				
Key Considerations	Assessment of Key Consideration	Rating	Findings	Recommendations
<b>Key Consideration 1:</b> An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal	Strate holds its cash with registered banks.  These banks are prudentially regulated by the SARB. The FSCA regulates the conduct of South African banks.	<b>Observed</b>	<b>None</b>	<b>None</b>

controls that fully protect these assets.				
<b>Key Consideration 2:</b> An FMI should have prompt access to its assets and the assets provided by participants, when required.	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
	Strate has only cash or near cash assets. These assets are held at various registered banks.  In the event of a default of one bank, Strate is of the view that cash reserves at other banks will be adequate to enable it to provide critical services.		<b>None</b>	<b>None</b>
<b>Key Consideration 3:</b> An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
	Strate does not hold securities assets. Should it ever hold securities, these would be held by one of the approved Participants which are subject to supervisory oversight by STRATE Supervision.	<b>Observed</b>	<b>None</b>	<b>None</b>
<b>Key Consideration 4:</b> An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
	Strate has investment policy which is reviewed by the Audit and Risk Committee and approved by the board.  The Investment Policy dictates that all assets be held with an entity carrying a predetermined minimum rating from a	<b>Observed</b>	<b>None</b>	<b>None</b>

<p>secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.</p>	<p>recognised rating agency. Speculative assets are not permitted and the policy requires a distribution of assets across a number of recognised/qualified institutions. The policy is subject to annual review.</p>			
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**Principle 17: Operational Risks**

<b>Principle 17: Operational risks</b>				
<p><b>An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI’s obligations, including in the event of a wide-scale or major disruption.</b></p>				
<b>Rating: Observed</b>				
<p><b>Overall comment:</b> Strate has Risk Management Framework which is implemented across the organization to identify sources of operational risk. Staff have clear duties and responsibilities in respect of risk management and the executive leadership is responsible for risk identification and mitigation on ongoing basis. Strate has a risk management framework and risk policy that establishes direction in terms of operational risk management. Operational objectives are defined in the performance management metrics of the organisation and are reviewed and approved by the Board on an annual basis.</p>				
<b>Key Consideration</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>

<p><b>Key Consideration 1:</b> An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.</p>	<p>Strate has developed and implemented a comprehensive Risk Management Framework across the organisation. Clear duties and responsibilities have been identified at all staff levels and individual responsibilities in respect of risk management are captured and measured in staff performance management structures.</p> <p>The Strate Executive Committee is responsible for overseeing the process of risk identification on an on-going basis and has identified three core areas of operational risk management, viz</p> <ul style="list-style-type: none"> <li>- the Change Advisory Board (CAB);</li> <li>- the Cyber and Data Security Board (CDSB); and,</li> <li>- the Procurement Board (PB) that assist in ensuring the effective execution of these duties.</li> </ul>	<p><b>Observed</b></p>	<p><b>None</b></p>	<p><b>None</b></p>

	<p>The Risk Management Framework is subject to review by the Audit and Risk Committee and the Board of State on an annual basis.</p> <p>State considers (amongst other things):-</p> <ul style="list-style-type: none"> <li>• Adherence to business and/or control processes;</li> <li>• Safeguarding of assets;</li> <li>• Legal (contract, delictual, criminal liability and regulatory compliance);</li> <li>• Business disruption (including Disaster Recovery / Business Continuity Planning);</li> <li>• Communication;</li> <li>• Cyber and,</li> <li>• Fraud;</li> </ul> <p>as primary sources of operational risk.</p> <p>In terms of the defined Risk Management Framework, State has a comprehensive risk identification and management process involving all staff that has</p>			
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	<p>been developed to assist in the identification and, ultimately, management of these risks. To the extent that risks are identified, they are assessed for their impact on State and, to the extent manageable by State itself, appropriate mitigation is put in place.</p> <p>A particular focus on single points of failure has, historically, identified areas that have since been addressed and regular testing (specifically Business Continuity Plan/Disaster Recovery) focuses on ensuring that appropriate resilience is in place for the FMI to perform its duties even in times of distress.</p> <p>No single points of failure requiring attention have, currently, been identified.</p> <p>The State Risk Policy and associated Risk Management Framework provide the primary</p>			
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	<p>source of direction for operational risk management. This is augmented by processes and procedures for the execution of daily operating tasks. Particular focus has been given to the classification of systems and services to ensure that the appropriate attention is given to core systems.</p> <p>The CAB oversees all systems-related changes and enhancements. The deployment of a new system or service or the implementation of any system changes / enhancements requires sign-off from the CDSB to ensure that the proposed change do not, in any way, weaken the organisational defenses from an information security perspective.</p> <p>The PB ensures that the engagement of 3<sup>rd</sup> parties is done in an objective manner, taking into account an assessment of their ability (people, processes and</p>			
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	<p>technology) to deliver the services for which they are being contracted.</p> <p>Separate Policy and Process libraries are maintained on a central, online document repository, SharePoint to ensure that these are readily available to all staff at all times. The risk management software tool used by Strate provides a database of all key controls identified across the company and is subject to on-going review and enhancement.</p> <p>Strate oversees the appropriate implementation of operational processes and procedures through a variety of mechanisms which include:-</p> <ul style="list-style-type: none"> <li>• a comprehensive framework of combined assurance involving internal and external auditors and other independent assurance providers;</li> <li>• an independent (but internal) process assurance function</li> </ul>			
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	<p>which monitors adherence to approved policies, processes and procedures</p> <ul style="list-style-type: none"> <li>• the CAB which oversees all system changes and enhancements as well as the implementation of new systems;</li> <li>• the CDSB which oversees all Information Security related aspects of business. This includes assessing all changes to the State network environment (from a cyber resilience / security perspective) prior to the changes being authorised by the CAB</li> <li>• the PB which oversees the initial vetting of all proposed vendors to ensure that they are fully competent to provide the services being expected of them.</li> </ul> <p>In addition, State has clearly defined the segregation of duties across all business units and</p>			
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	<p>employs best practice logical access controls across all systems.</p> <p>The State Risk Policy and associated Risk Management Framework have been based on the ISO 31000 Risk Management standard and is continually reviewed in the light of relevant national and international interactions (including industry specific interactions with members of America's Securities Depositories Association (ACSDA), Africa and Middle East Depositories Association (AMEDA) and the World Forum of CSDs).</p> <p>State has an overarching plan to ensure that the right people with integrity are hired and retained by the FMI. This commences with a focused / risk-based recruitment process, detailed on-going training and a development plan for each staff member as well as clearly defined retention policies and incentive schemes. Staff turnover</p>			
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	<p>figures are reported to the REMNOMSEC as part of management feedback at each meeting and are monitored and evaluated to ensure that no undesirable trends are developing.</p> <p>All processes and procedures have been designed to ensure appropriate segregation of duties in those areas that could, potentially, expose Strate to fraud. This includes such things as the complete separation of Strate and Strate Supervision (as more fully explained in the Confidentiality Firewalls Manual) and the requirement for all affected staff to sign (and comply with) our Declaration Policy regarding trading activities.</p> <p>The change management and project management policies and processes have been specifically designed and implemented at Strate to minimise the possibility of any conflict in the implementation of</p>			
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	<p>major projects etc. Strate has formally adopted Prince II methodology for the management of projects and the Executive Committee is accountable to ensure the effective management of projects. System changes and enhancements are controlled via the CAB which comprises the relevant Heads of business units from across the company.</p> <p>All implementation plans are reviewed and assessed for their potential impact on existing operations and, in need, appropriate risk mitigation plans are developed and implemented to minimise the risk of disruption to existing systems.</p>			
<p><b>Key Consideration 2.</b> An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational</p>	<p><b>Assessment of Key Consideration</b></p>	<p><b>Rating</b></p>	<p><b>Findings</b></p>	<p><b>Recommendation</b></p>
	<p>As outlined in the Risk Policy and Risk Management Framework, the Board is responsible for the total process of risk management within</p>	<p><b>Observed</b></p>	<p><b>None</b></p>	<p><b>None</b></p>

<p>risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.</p>	<p>Strate. The Audit and Risk Committee has been specifically tasked (as outlined in its Terms of Reference) to oversee the efforts of management in the integration and monitoring of risk in respect of the day-to-day activities of the FMI.</p> <p>A Risk Report (compiled in accordance with the Risk Management Framework) is presented to the Strate Audit and Risk Committee on a quarterly basis for review and endorsement. This is then tabled at the Board for further evaluation. The Risk Policy and Risk Management Framework are reviewed by the Board on an annual basis.</p> <p>The nature and construct of Strate's business ensures that core system controls are effectively tested on a daily basis through normal operations. This also applies to operational policies and procedures which require on-going adherence if Strate is to perform its function</p>			
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	<p>correctly. Strate also completes formal testing of systems, operational policies and procedures in conjunction with its Participants and relevant third parties (e.g. the Exchanges and the National Payment System department of the Central Bank) bi-annually. Strate is also actively involved in testing scheduled by other parties during the course of the year.</p> <p>Strate employs a three (3) year, risk-based, rolling Internal Audit Plan which is designed to cover all key areas of operation of Strate within a three (3) year period. This means that certain aspects of the operations of Strate are covered by Internal Audit annually, some bi-annually and others once every three (3) years. Provision is also made for special purpose reviews to be commissioned and undertaken under the authority of the Audit and Risk Committee and / or the Regulatory and Supervisory Committee.</p>			
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<b>Key Consideration 3:</b> An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
	<p>As outlined in the Risk Policy and Risk Management Framework, the Board is responsible for the total process of risk management within Strate. The Audit and Risk Committee which has been specifically tasked (as outlined in its Terms of Reference) to oversee the efforts of management in the integration and monitoring of risk in respect of the day-to-day activities of the FMI.</p> <p>A Risk Report (compiled in accordance with the Risk Management Framework) is presented to the Strate Audit and Risk Committee on a quarterly basis for review and endorsement. This is then tabled at the Board for further evaluation. The Risk Policy and Risk Management Framework are reviewed by the Board on an annual basis.</p>	<b>Observed</b>	<b>None</b>	<b>None</b>

	<p>The nature and construct of Strate’s business ensures that core system controls are effectively tested on a daily basis through normal operations. This also applies to operational policies and procedures which require on-going adherence if Strate is to perform its function correctly. Strate also completes formal testing of systems, operational policies and procedures in conjunction with its Participants and relevant third parties (e.g. the Exchanges and the National Payment System department of the Central Bank) bi-annually. Strate is also actively involved in testing scheduled by other parties during the course of the year.</p> <p>Strate employs a three (3) year, risk-based, rolling Internal Audit Plan which is designed to cover all key areas of operation of Strate within a three (3) year period. This means that certain aspects of the operations of Strate are covered by</p>			
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	Internal Audit annually, some bi-annually and others once every three (3) years. Provision is also made for special purpose reviews to be commissioned and undertaken under the authority of the Audit and Risk Committee and / or the Regulatory and Supervisory Committee.			
<b>Key Consideration 4:</b> An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendations</b>
	The CAB monitors systems scalability and capacity on a weekly basis with projected trends also being monitored. Automated alerts have been implemented across certain systems to activate "early warning" should identified parameters be breached thereby giving State sufficient time to address identified constraints timeously.  An IT Governance Report (which provides an overview of the health of the IT environment) is also	<b>Observed</b>	<b>None</b>	<b>None</b>

	<p>presented to the Audit and Risk Committee twice a year.</p> <p>Capacity is managed on a daily basis. Various monitoring tools have been deployed to provide real-time monitoring of these key elements while others (that do not require real-time monitoring) are measured weekly, monthly, quarterly, etc. as necessary. The IT Dashboard also provides early warning of potential capacity constraints and allows management to take the necessary remedial action timeously.</p>			
<b>Key Consideration 5:</b> An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendations</b>
	A comprehensive Information Security Management System (comprising a suite of policies, processes and procedures) has been developed and is continually reviewed / revised to ensure that it remains aligned to current legislation and relevant to the	<b>Observed</b>	<b>None</b>	<b>None</b>

	<p>operations of Strate. This is overseen by the CDSB that takes direct responsibility for the operational management of potential information security threats to Strate.</p> <p>On-going monitoring of vulnerabilities takes place and appropriate professional services have also been employed (as necessary) to test for such vulnerabilities on a regular basis.</p> <p>Strate has a comprehensive structure of policies, processes and controls in place to address physical security. In addition, physical access controls (which include security guards, an electronic access control system throughout the building (incorporating single-access doors, biometric scanning and CCTV monitoring at our data centres) have been deployed.</p> <p>Environment monitoring equipment has also been deployed in both</p>			
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	<p>Data Centres to further protect these environments. An incident log is maintained for each and every breach / attempted breach with each incident being reviewed to ensure that it has not highlighted a potential weakness.</p> <p>In addition to the controls and/or procedures detailed above, Strate has also deployed appropriate Data Loss Prevention (or information protection) solutions across the company. These include such things as data encryption, port monitoring and the implementation of appropriate segregation of duties.</p> <p>All data held (and processed) by Strate is evaluated against pre-defined criteria and is appropriately classified. The controls environment applicable to confidential and/or private data is assessed and, where, appropriate, independently audited to ensure that the controls are effective.</p>			
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	<p>Strate employs 24/7 monitoring of its network and network traffic by the SOC.</p> <p>The Information Security Management System has been based on international standards and adapted to cover the real issues in the South African market. The policies, processes and controls which underpin this system are subject to regular review and, in line with the overall internal audit planning, appropriate independent review for conformity to best practice standards.</p>			
<b>Key Consideration 6:</b> An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
	Strate has evaluated and agreed Recovery Time and Recovery Point Objectives for each of its systems and services. These are tested at regular intervals to ensure that they are achievable.	<b>Observed</b>	<b>None</b>	<b>None</b>

<p>designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.</p>	<p>Strate (both as a CSD and as a Payments Clearing House (PCH) System Operator) is subjected to specific testing requirements which are within the defined Recovery Time Objectives for all key systems. All Recovery Time and Point objectives have been established to ensure that settlement would still take place prior to end of day.</p> <p>Appropriate continuity plans have also been developed with key stakeholders to ensure that even in the event of core system disruptions the necessary arrangements can be made to appropriately manage settlement difficulties.</p> <p>Strate has defined the Recovery Point Objective as "point of failure" for all major systems (which effectively precludes any data loss) and this is tested as part of its annual test plan. Appropriate real-time data mirroring has been implemented to ensure this.</p>			
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	<p>Reconciliation procedures have, however, also been agreed with Participants as a precaution. The Crisis Management Plan addresses this issue directly and sets out the management structure used in crisis management situations as well as clearly defined escalation procedures for the Crisis Management Committee and the Financial Sector Contingency Forum.</p> <p>Strate has a fully functioning alternate (Disaster Recovery) site which has high levels of automated fail-over embedded. The capabilities and capacity of the secondary site is reviewed on a regular basis to ensure its suitability.</p> <p>The location of this site was subjected to a formal assessment prior to its establishment to evaluate a number of key considerations (separate power grid, telephony and data separation, multiple</p>			
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	<p>access routes, appropriate physical security etc) which ensure that it has its own, distinct, risk profile.</p> <p>Throughout the recent Pandemic period Strate has operated at an effective 100% remote capability which provides a high level of assurance that this represents a very viable, alternate, resilience solution. The secondary site is maintained for the additional flexibility that this continues to offer Strate.</p> <p>To the extent necessary, appropriate manual procedures have been identified and documented to ensure business continuity.</p> <p>The time-criticality of processing represents a key consideration in the overall Disaster Recovery / Business Continuity Planning capabilities of Strate. Regular tests are undertaken.</p>			
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	<p>Since 2013, Strate has, with other market stakeholders, been involved in an annual simulation exercise, each focussing on a particular area of resilience. These have included Participant default, member default at an Exchange and multiple cyber attack scenarios. In 2017, and as a consequence of a problematic system implementation that severely disrupted the market, the Strate Board elected to use this incident (and the subsequent remedial actions which spanned throughout 2018) as well as the preparation for the major market implementations in 2019 (the replacement of the equity settlement platform) as opportunities to actively validate all BC and contingency arrangements.</p> <p>Given the constraints of the pandemic, Strate elected to conduct an internal simulation exercise, involving the failure of a CSD Participant, in November 2021.</p>			
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	<p>Strate conducts certain of its tests in isolation (this would include the testing of fail-over of its own infrastructure) and, at least twice a year, with a wider audience including the Exchanges, the SA Reserve Bank (NPSD), all its Participants and even selected Business Partners.</p> <p>In addition to these scheduled, tests, additional tests are conducted when systems are changed / upgraded to ensure that redundancy plans still function after such an implementation. Strate also supports the Exchanges, the NPSD and the CSD Participants when they engage in their own tests during the course of the year.</p>			
<p><b>Key Consideration 7:</b> An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In</p>	<p><b>Assessment of Key Consideration</b></p> <p>Strate's Business Continuity Planning / Disaster Recovery capabilities have been developed using both direct and indirect</p>	<p><b>Rating</b></p> <p><b>Observed</b></p>	<p><b>Findings</b></p> <p><b>None</b></p>	<p><b>Recommendation</b></p> <p><b>None</b></p>

<p>addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.</p>	<p>threats as triggers. Their continued relevance is measured at each test to ensure that they still fulfil the requirements of the market.</p> <p>Given the particular challenges that South Africa faces with the National Power grid, Strate has equipped each staff member with a reserve power unit that enables staff to continue working, even when experiencing localised power failures.</p> <p>All services that have been outsourced would not be considered to have a critical impact on services should they be disrupted or discontinued.</p> <p><sup>1</sup>In the case of Mitigate, in particular, it has been acknowledged that it would take about 3 months to transition to a new service provider and for them to be operationally effective. In the</p>			
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	<p>interim, Strate resources would adopt a heightened alert state and continue to monitor all services internally until this safety net can be replaced.</p> <p>Strate does not, currently, have any FMI links in place. That notwithstanding, Strate does carefully monitor the risks that it poses, or may be exposed to, from other entities (including the Exchanges, the NPS environment and organisations such as Clearstream) with whom it interacts in the execution of its duties in the market.</p> <p>All tests are coordinated with all stakeholders in the market.</p>			
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**Principle 18: Access and Participation Requirements**

**Principle 18: Access and participation requirements**

**An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access**

<b>Rating: Observed</b>				
<b>Overall comment:</b> Strate is deemed to have objective, fair and risk-based access criteria to its infrastructure. The details of access to its infrastructure are captured in the Rules and Directives which are publicly available, including on its website.				
<b>Key Consideration</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
<b>Key Consideration 1:</b> An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements	Strate Rules provide for fair access by participants to its services. Criteria for access is captured in the Rules and Directives, which are publicly available on Strate website. Access to Strate's services is also in line with FMA, sec 35(b) and 35(g)	<b>Observed</b>	<b>None</b>	<b>None</b>
<b>Key Consideration 2:</b> An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements	<b>Assessment of Key Consideration</b> Strate's access requirements, as captured in its Rules and Directives, meet requirements of the FMA as well as objects of the FMA. As a result, its access criteria are deemed to be adequate to ensure its safety and efficiency.	<b>Rating</b> <b>Observed</b>	<b>Findings</b> <b>None</b>	<b>Recommendation</b> <b>None</b>

that have the least-restrictive impact on access that circumstances permit.				
<p><b>Key Consideration 3:</b> An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.</p>	<p><b>Assessment of Key Consideration</b></p> <p>Strate has established Supervision Division - whose responsibility it is to monitor compliance by Participants with the Financial Markets Act, the Strate Rules and Directives.</p> <p>Regarding the suspension and orderly exit of participants, Strate's Rules provide details and requirements.</p> <p>Regarding cases of insolvency, Strate has a detailed Participant Failure Manual it uses to handle the operational aspects of the exit of a Participant.</p>	<p><b>Rating</b></p> <p><b>Observed</b></p>	<p><b>Findings</b></p> <p><b>None</b></p>	<p><b>Recommendation</b></p> <p><b>None</b></p>

**Principle 19- Tiered Participation Arrangements**

**Principle 19: Tiered participation arrangements**

**Tiered Participation Arrangements- An FMI should identify, monitor and manage the material risks to the FMI arising from tiered participation arrangements.**

**Rating: Observed**

**Overall comment:** Strate gathers client information from its Participants. The information gathered enables Strate to have insight about ownership trends and ownership risks that could occur. The extent to which a client could affect the ability of its CSD Participant to perform its duties is monitored through Strate Supervision to ensure that concentration risks are avoided.

Key Consideration	Assessment of Key Consideration	Rating	Findings	Recommendation

<p><b>Key Consideration 1:</b> An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.</p>	<p>In terms of Section 35(6) of the Financial Markets Act, clients of Participants are bound by the Strate Rules and Directives.</p> <p>Strate gathers client information from its Participants (and all authorised Nominees that operate in the Strate environment) in the form of Beneficial Download (or BND) files. These files provide Strate with clear insight into ownership records and the ability to identify specific concentration risks.</p> <p>The extent to which a client could affect the ability of their CSD Participant to perform their duties is monitored through Strate Supervision (which seeks to satisfy itself that an appointed CSD Participant does not expose the market as a whole to any particular concentration risks (i.e., a single client that could represent too great a share of that particular CSD Participants' business or one that could require a CSD Participant to</p>	<p><b>Observed</b></p>	<p><b>None</b></p>	<p><b>None</b></p>
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	commit itself beyond its means at any given point in time).			
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<p><b>Key Consideration 2:</b> An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.</p>	<p><b>Assessment of Key Consideration</b></p>	<p><b>Rating</b></p>	<p><b>Findings</b></p>	<p><b>Recommendation</b></p>
	<p>The ability of participants and their clients to fulfil their specific obligations timeously could be affected by changes in operating model of Strate and timelines in local market.</p> <p>Each operational (or procedural) change Strate introduces within the market is workshopped with the market stakeholders (and they, in turn, with their clients) to ensure that any revisions (e.g., to timelines) are achievable.</p> <p>Strate also engages in direct engagement with select clients of the CSD Participants in preparation for a large system implementation.</p>	<p><b>Observed</b></p>	<p><b>None</b></p>	<p><b>None</b></p>
<p><b>Key Consideration 3:</b> An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants</p>	<p><b>Assessment of Key Consideration</b></p>	<p><b>Rating</b></p>	<p><b>Findings</b></p>	<p><b>Recommendation</b></p>
	<p>Strate monitors the capacity of individual participants to support their client base and look for potential concentration risks that</p>	<p><b>Observed</b></p>	<p><b>None</b></p>	<p><b>None</b></p>

<p>whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.</p>	<p>might arise from a client (of a particular CSD Participant) that could present unduly large volumes or high values of transactions that might, otherwise, be considered undesirable for a CSD Participant to manage.</p> <p>Issues identified in the monitoring process are addressed with the particular Participant to understand the mechanisms that they have put in place to mitigate the risk(s) identified.</p> <p>Issues identified while monitoring participants are addressed with the particular Participant to understand the mechanisms that they have put in place to mitigate the risk(s) identified.</p>			
<p><b>Key Consideration 4:</b> An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.</p>	<p><b>Assessment of Key Consideration</b></p>	<p><b>Rating</b></p>	<p><b>Findings</b></p>	<p><b>Recommendation</b></p>

	The extent to which any action (or inaction) of a client of a CSD Participant could have been identified as a source of risk to Strate is closely managed. All disruptions are monitored to understand the causes and any client related issues are addressed with the CSD Participant. Where necessary, follow-up actions are initiated with the CSD Participant and its client.	<b>Observed</b>	<b>None</b>	<b>None</b>
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### Principle 21- Efficiency and Effectiveness

<b>Principle 21- Efficiency and effectiveness</b>				
<b>An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.</b>				
<b>Rating: Observed</b>				
<b>Overall comment:</b> Strate has adopted a consultative approach to design of its systems. This ensures that solutions benefit from the inputs of the stakeholders. This collaborative approach enables Strate to meet the needs of its stakeholders effectively:				
<b>Key Consideration</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendations</b>
<b>Key consideration 1:</b> An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to the choice of a clearing and settlement	Strate has adopted a consultative approach to design and ensure the effectiveness of its systems and technologies.	<b>Observed</b>	<b>None</b>	<b>None</b>

arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.	Market solutions are workshopped, debated, designed and signed off (before development commences) by all affected stakeholders.			
<b>Key consideration 2:</b> An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.	<b>Assessment of Key Consideration</b>  Strate strives to achieve the objects of the Financial Markets Act in section 2.  Strate also sets organizational goals which are approved and monitored by the board	<b>Rating</b>  <b>Observed</b>	<b>Findings</b>  <b>None</b>	<b>Recommendations</b>  <b>None</b>
<b>Key consideration 3:</b> An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.	<b>Assessment of Key Consideration</b>  Strate's operations are reviewed on on-going basis to ensure that Strate is able to perform its functions as a CSD.  The Board and Board Committee reporting takes place quarterly, half-yearly and annually (as appropriate) and in accordance with the annual workplan of each committee. These reports enable	<b>Rating</b>  <b>Observed</b>	<b>Findings</b>  <b>None</b>	<b>Recommendations</b>  <b>None</b>

	the board and its committees to review the work of Strate and ensure that Strate is run efficiently and effectively.			
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### Principle 22: Communication Procedures and Standards

Principle 22: Communication procedures and standards				
An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.				
Rating: Observed				
Overall comment: Strate utilises internationally accepted communication procedures and standards to facilitate its business activities and services. It also allows participants to choose communication systems.				
Key Consideration	Assessment of Key Consideration	Rating	Findings	Recommendations
<b>Key consideration 1:</b> An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.	Strate allows participants to choose communication procedures and currently supports SWIFT, dedicated secure line and Virtual Private Network options to all who connect to its systems.  All communication channels are subject to closed user group rules with appropriate authentication.	Observed	None	None

**Principle 23- Disclosure of Rules, Key Procedures and Market Data**

<b>Principle 23: Disclosure of rules, key procedures and market data</b>				
<b>Disclosure of rules, key procedures, and market data- An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.</b>				
<b>Rating: Observed</b>				
<b>Overall comment:</b> Strate’s Rules and Directives are available on its website. Other information such as settlement data is available publicly and upon request. This is deemed sufficient to enable participants to have accurate understanding of risks and material costs they are likely to incur by participating in Strate.				
<b>Key Consideration</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
<b>Key Consideration 1:</b> An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.	The FMI’s Rules and directives do make provision for a variety of non-routine, such loss sharing procedures, disaster recovery or Business continuity. Other procedures are also specified in the Participant Failure Manual for certain defined events.  Drafts of all new Rules and Directives (and changes to existing ones) are disclosed to Participants and market stakeholders affected by such Rules and procedures through market workshops,	<b>Observed</b>	<b>None</b>	<b>None</b>

	<p>committees, forums and conferences during the review process.</p> <p>All FMI Rules and Directives are readily available on the FMI's website and are accessible to the public (<a href="http://www.strate.co.za/rules%20regulations">www.strate.co.za/rules%20regulations</a>). The FMI Rules are also published in the Government Gazette.</p>			
<b>Key consideration 2:</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
<p>An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.</p>	<p>Strate's Rules and Directives provide a clear description of the operations (e.g., operational windows, capital events, fines, fees, clients mandate, etc.) They further provide a clear description of the operations (e.g., operational windows, capital events, fines, fees, clients mandate, etc.) Strate discloses its system's design and operational requirements to Participants / users on request.</p> <p>Any stakeholders utilising (or wishing to use) the services of Strate are given full documentation to enable them to interface with the Strate. Furthermore, participation entry criteria stipulate the initial, and continuous, obligations and</p>	<b>Observed</b>	<b>None</b>	<b>None</b>

	risk management requirements for affected stakeholders.			
<b>Key consideration 3:</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules and procedures and the risks they face from participating in the FMI.	Training is provided by Strate to new and existing stakeholders. Exams are also available to compliance officers as well as other market players. Training and training materials are also provided by Strate on request. Further explanation is provided to the relevant stakeholders through market workshops, committees, forums and conferences.	<b>Observed</b>	<b>None</b>	<b>None</b>
<b>Key consideration 4:</b>	<b>Assessment of Key Consideration</b>	<b>Rating</b>	<b>Findings</b>	<b>Recommendation</b>
An FMI should publicly				

<p>disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.</p>	<p>Strate's fees and costs payable by the stakeholders are disclosed in the relevant fee schedules (per market or instrument type). Fee schedules are made available to Participants, Business Partners, Exchanges and Issuers (as appropriate) via the Strate's website (<a href="http://www.Strate.co.za">www.Strate.co.za</a>).</p> <p>Fees for other services (governed by contract) are negotiated bilaterally. Affected stakeholders are given the opportunity to comment on proposed fee structures prior to their approval and implementation. Strate's priced services are detailed in the fee schedules that are maintained for each market. The descriptions used are intended to enable/enhance users understanding or interpretation</p>	<p><b>Observed</b></p>	<p><b>None</b></p>	<p><b>None</b></p>
<p><b>Key consideration 5:</b> An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework</p>	<p><b>Assessment of Key Consideration</b></p> <p>Strate completed its first official disclosure in 2014. This review represents the fifth iteration (2016, 2018, 2020 and 2022).</p>	<p><b>Rating</b></p> <p><b>Observed</b></p>	<p><b>Findings</b></p> <p><b>None</b></p>	<p><b>Recommendation</b></p> <p><b>None</b></p>

for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.				
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## **6. Conclusion and Recommendations**

The report covered 18 of the 24 principles (6 principles were not applicable to Strate).

Strate is deemed to observe 17 of the PFMI's and to partially observe principle 13 in relation to participant default rules and procedures. This is, in the main, due to the lack of testing and review of the Strate's default procedures with its participants.

Regarding principle 2, Strate should consider whether re-electing independent members to the board, after a reasonable determined threshold has been surpassed, is appropriate. Strate should identify and state what this reasonable threshold should be. Strate should also consider reviewing the maximum tenure periods of Board members to avoid any impediment to sound governance.