



INPUTS

**Intellectual capital**

- Licence to operate as a CSD, a clearing house as well as payment system operator for all markets
- Operating procedures and protocols in line with rules and directives
- Developed market specific systems and interfaces



**Human capital**

- Knowledgeable and supportive Board of directors
- Specialised and skilled employees focused on innovation, creativity and thought leadership



**Financial capital**

- Funded by equity and reserves
- Strong cash generating ability through operations



**Manufactured capital**

- Robust Information Technology (IT) (applications and infrastructure) to meet business objectives in terms of availability, resilience and reliability
- Alternate operating facilities to ensure business continuity



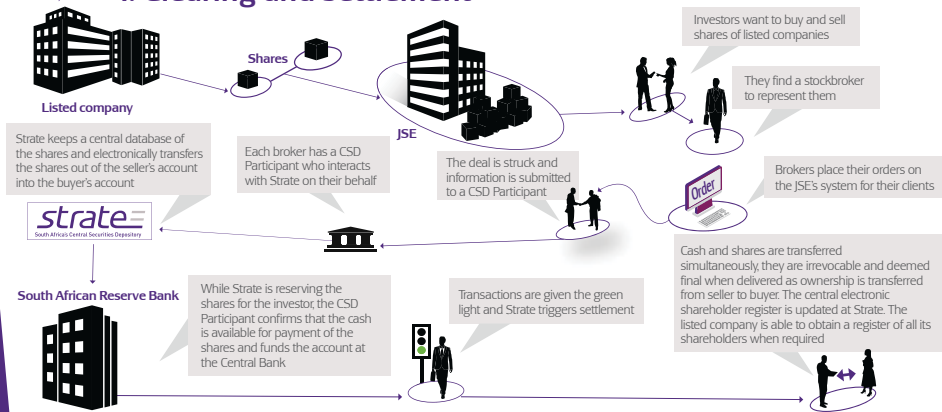
**Social and relationship capital**

- Clients
- Employees
- Regulators and government
- Shareholders
- Suppliers and partners
- Communities

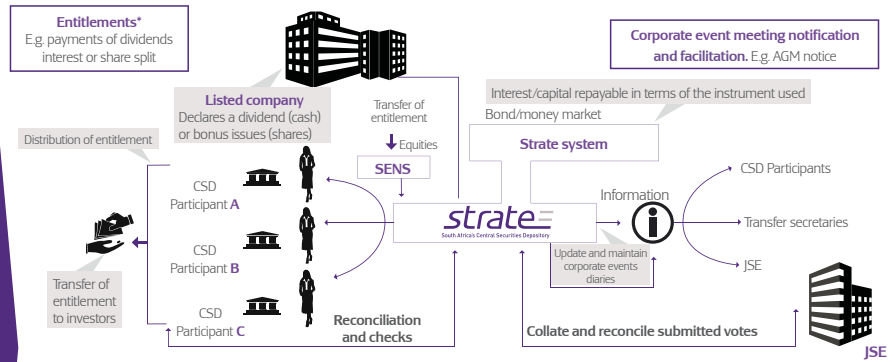


PROCESSES

**1. Clearing and settlement**



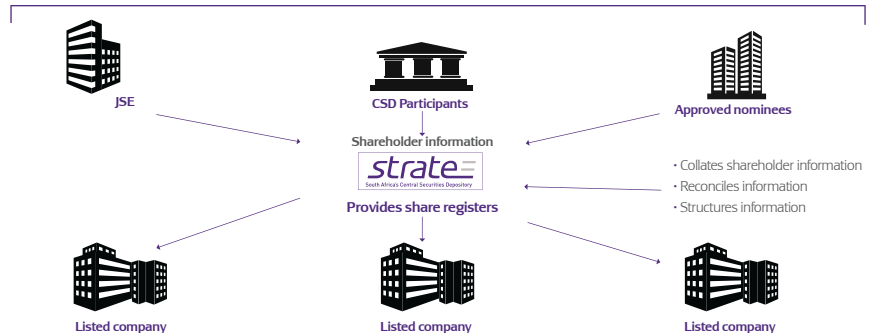
**2. Corporate actions**



\* Entitlements: The transfer of cash or securities to the security holder as reflected in the records of beneficial ownership

**3. Information services**

JSE/CSD Participants and approved nominees maintain the records of beneficial ownership of securities for their respective clients



**4. Collateral management services**

Refer to the business unit analysis for further information relating to these services.

**5. Information Technology services**

IT Services comprise both SWIFT Services and Gateway Services.

Refer to the business unit analysis for further information relating to these services.



## OUTPUTS

## OUTCOMES

Settlement of securities is a business process whereby securities, or interests in securities are delivered, usually against (in simultaneous exchange for) payment of money, to fulfil contractual obligations, such as those arising under securities trades.



**Settlement** – Securities transferred from seller to buyer and cash transferred from buyer to seller. This is done on a Simultaneous, Final and Irrevocable Delivery versus Payment (SFIDvP) basis in Central Bank Funds.

A corporate action is an event initiated by a listed company that affects the securities issued by the company.



Investors receive entitlements based on their shareholding.  
Investors receive meeting notices and results for voting purposes.

Beneficiary Download (BND) is the disclosure of information on securities holdings.



Share register (BND), which contains details of shareholders, is produced and provided to the respective securities issuers (listed companies).

### Operational excellence

As an FMI, Strate supports and promotes the safety and efficiency of the South African financial markets.

Provision of high-quality services.

Investment in projects to ensure organisational growth.

Effective management of risk.

### Stakeholder centricity

Stakeholder satisfaction.

### Financial viability

Profit and cash flow generation to ensure sustainability and financial viability of the company.

Dividends paid to shareholders.

### Learning and growth

Remunerating staff.

Investing in staff development.  
contributions to corporate and social initiatives.

## STRATE'S BUSINESS MODEL CONTINUED

The business model depicted on pages 10 and 11 represents the process flows of Strate's core services, which constitute a significant portion of the company's revenue.

### Strate's clients – Who we create value for

Strate's positioning and differentiation is important, as it explains the financial markets segment in which Strate operates and for which it creates value.

The JSE is currently the only licensed stock exchange in South Africa and its primary service is to provide a platform where capital can be raised through the creation of securities, which are then traded by investors using stockbrokers. This segment of the market is commonly known as the trading environment.

The post-trade environment is where various activities take place after trading in the financial market. Strate operates in the post-trade market segment to give effect to changes in ownership.

There are several entities involved in the post-trade market segment with similar, but varying, needs. Strate has grouped these entities based on the similarity of their needs and has designed its products and services accordingly.

Strate's client groups include:

- issuers of listed and unlisted securities;
- authorised CSD Participants;
- the JSE;
- Securities Lending and Borrowing (SLB) business partners;
- money market business partners; and
- investors, both local and international.

### Strate's value proposition – Which client needs are satisfied

As each of the client groups fulfils a specific role in the financial markets, the value proposition of Strate's products and services is different for each group. However, common underlying themes exist in that it:

- removes principal risk;
- reduces risk for clients in the post-trade market segment

by providing an electronic solution as an enhancement to the previous paper-based system;

- reduces costs for clients in the post-trade market segment;
- enables efficiencies for Strate and its clients;
- creates revenue-generating opportunities for Strate and its clients; and
- assists clients with achieving their key deliverables and meeting their obligations in the financial markets.

For further details, a full list of Strate's products and services can be found on its website:

<http://www.strate.co.za/our-services-you>.



### Channels – How Strate engages its clients

Communicating with clients is vital. Therefore, several communication mediums are used. These include individual or face-to-face meetings, industry forums, newsletters, the media, Strate's website, educational workshops, publications and material, as well as company circulars. The nature and purpose of Strate's engagement determines the medium to be used.

Strate has Corporate Affairs, Operations and Stakeholder Relationship teams which interact with clients regularly.

### Client relationships – What type of relationships clients expect from Strate

Clients are one of Strate's most important stakeholder groups that give it purpose, satisfying their needs is therefore essential for ensuring Strate's sustainability.

Strate aims to exceed clients' expectations by keeping them up-to-date with developments, especially those that impact their respective businesses. Operationally, Strate's clients expect the company to provide superior post-trade services in line with the purpose for which it was created.

Strate has operational help desks that support its clients daily. In addition, the relationship management team regularly engages with clients, as effective management of these relationships is integral to Strate's business success.

## Revenue streams – Strate’s revenue streams and how services are charged

Strate’s revenue is primarily derived from transaction fees through settlement activities, which are ultimately paid for by investors. Strate also charges membership and licence fees, which are not a material part of its revenue.

Strate’s revenue is highly dependent on economic conditions that impact trading and corporate actions activity. This, in turn, impacts the number of transactions that Strate processes. There are three settlement models on which Strate operates, as per the Bank for International Settlements (BIS):

- BIS Model 1 – Gross securities and gross funds (cash);
- BIS Model 2 – Gross securities and net funds (cash); and
- BIS Model 3 – Net securities and net funds (cash).

Strate’s settlement models are different for each type of security. Strate’s equities settlement model is mainly designed on the BIS Model 3 (net securities and net funds), which means that trades are netted, resulting in a lower number of settlement transactions being processed. As a result, changes in trading volumes do not necessarily correspond with changes to Strate’s revenue.

All transactions processed by Strate that require funds to be transferred, irrespective of the type of security, are conducted in Central Bank Funds on a SFIDvP basis. Settlement models for each market have been designed to conform to the BIS guidelines. The primary settlement timelines for the types of securities are:

- Equities – T+5
- Bonds – T+3
- Money markets – T+0

There are various types of transactions that Strate processes for which it has determined fixed individual fees based on the effort and associated cost. Strate’s clients require a regular review of Strate’s pricing structures as they are sensitive to price increases.

## Key resources – What Strate requires for its business to operate successfully

Several resources are required for Strate to operate successfully. Strate’s licences to operate, its IT and human

capital with knowledge of the financial markets are imperative to successfully run the business.

Without Strate’s licences to operate, it does not have a business. Strate operates under licences that have been granted to it by:

- the Financial Services Board (FSB), which authorises Strate to be a CSD and Clearing House in South Africa. Performing such functions without licences is in breach of legislation; and
- the Payments Association of South Africa (PASA), which authorises Strate to be a system operator.

IT is a key enabler of Strate’s services. Strate’s IT infrastructure includes various systems and applications that are required for the daily processing of transactions. The infrastructure includes the mainframe, open systems architecture, enterprise storage and networks (such as wide area, local area and the Society for Worldwide Interbank Financial Telecommunication (SWIFT) networks).

As a rule, Strate does not develop IT applications in-house and rather partners with international experts in each area. This has improved both the quality and the time frame of delivery of the applications that are required to fulfil Strate’s duties as a CSD.

People form the cornerstone of Strate’s business. Specialised skills and knowledge are required throughout the organisation. Strate uses a co-sourcing model in various areas, more extensively in IT and, as a result, there are several external vendors providing additional support to Strate’s business. Strate sees this model as a risk-mitigating action to ensure continuity of critical functions.

Financial soundness is an imperative for an FMI. Strate, as an FMI, performs a critical role in the financial markets and sufficient reserves and funds are required to ensure the continuation of operations, even during adverse market conditions.

In order to attract and retain international investment in South Africa, it is essential for Strate to provide CSD services at the highest of global standards. To achieve this, it is necessary for Strate to have infrastructure that is comparable with its international counterparts. This has required a large upfront investment that needs to be maintained.

### **Key activities – The important things that Strate must do to make its business a success**

Engagement with Strate's stakeholders and a thorough understanding of their needs and expectations is important to Strate's strategic direction and its sustainability. Significant effort and time is spent engaging with its stakeholders in meaningful dialogue.

Strate has obligations in terms of its licences and adherence to these are always top of mind. Specially in terms of its CSD licence, Strate has the responsibility for:

- the provision and maintenance of infrastructure for holding, settling and administering uncertificated securities;
- the issuing, amendment and suspension, where necessary, of Rules and Directives according to which the market must operate. Strate has a Legal and Regulatory Division that is staffed by regulatory specialists who draft Rules and Directives; and
- the supervision of compliance with the Rules and Directives by the CSD Participants. This function has the potential for conflicts of interest to exist, or be perceived to exist, between the Supervisory function and other services undertaken and performed by Strate as the CSD. Appropriate 'Chinese Walls' have been established between these functions (CSD or commercial function versus the supervisory function) to avoid confidential information obtained as a result of its statutory powers as a regulator being used, or being perceived to be used, to provide Strate's CSD and other commercial activities with an unfair advantage. The STRATE Supervision Division reports to the CEO on administrative matters only. It reports to the Regulatory and Supervisory Committee and its Chairman for all other matters.

### **Key partnerships – The partners and suppliers that are necessary to make Strate successful**

One of Strate's critical success factors is centred on the support that it receives from its partners, suppliers and other stakeholders.

The selection of the right parties to support Strate's applications has historically been a critical success factor. Many of these parties have been with Strate since its inception and they have played a key role in the maintenance, development and enhancement of Strate's services.

The ongoing support from Strate's shareholders, initially in the provision of funding, has been essential to Strate's success.

The international alliances and relationships that Strate has established with its peers are invaluable, as these have assisted Strate in keeping up with international developments and trends.

### **Cost structure – What costs are associated with the business**

Strate's cost base is largely fixed and it is not impacted by transaction volumes. Strate continuously searches for opportunities to achieve economies of scale and many of the ancillary services that it is researching, or has already implemented, enable it to achieve this.

The majority of Strate's costs relate to staff and the IT infrastructure. The escalation of these costs is carefully managed.