

FPL and SASLA to collaborate on automating Securities Lending

Statement of Understanding

The global financial services industry and its principal customers, through global initiatives such as straight-through-processing (STP) are requesting greater efficiency in the securities transaction life cycle. In response to these requirements, FIX Protocol Ltd. (FPL) and the South African Securities Lending Association (SASLA) have agreed to cooperate with each other and work toward automating securities lending in South Africa.

This document outlines the conditions that FPL and SASLA agree are necessary to achieve our mutual goals.

Background

FPL is a non-profit organisation whom owns the intellectual property rights of the Financial Information eXchange protocol (FIX), which is provided free in the public domain. FIX is a globally recognised messaging standard that enables the electronic communication of pre-trade and trade messages between financial institutions, primarily investment managers, broker/dealers, and exchanges. An entire industry of order management systems, network services, and software service providers has grown out of the evolution of FIX as the front office messaging standard. FIX presently exists in two syntaxes: “tag=value” format and XML format (FIXML). Within FPL, the EMEA Southern Africa Executive Committee has been engaged to focus on improving the understanding and utilisation of FIX in the Southern African region.

SASLA is a forum that independently considers all issues affecting the industry from the borrower, lender and intermediary perspective. Objectives of the association include promoting the lending and borrowing of South African securities, safeguarding the integrity of the industry in South Africa and abroad, encouraging the reform of tax and other legislation for the benefit of the industry, assisting in the orderly, efficient and competitive development of business by establishing standards and guidelines for good working practices, encouraging an exchange of ideas and information, liaising with regulators, government and other agencies to increase their awareness and understanding of the industry and to assist in the development of appropriate regulation for the industry, cooperating with industry bodies in other countries or internationally in matters of common interest, promoting awareness of future challenges and opportunities for securities lending.

Points of Understanding

This statement represents a formal understanding between FPL and SASLA to contribute to the FIX Protocol standard, share market expertise and collaborate strategically. FPL and SASLA members, including other industry associations and/or interested parties, which participate on the SLB Working Group (SLBWG) will be defined as ‘the Collaborators’.

- SASLA agrees to encourage its members to interact with the EMEA Southern Africa Committee to expand the usage of the FIX Protocol.
- FPL and SASLA will work toward increasing the awareness of the FIX protocol and this initiative in an attempt to educate market participants and encourage adoption.
- FPL and SASLA believe that agreeing on a universal business definition for information and message scenarios that covers the financial processing chain. In addition, the utilisation of a common message standard will increase efficiency and improve the straight-through-processing of securities lending transactions between industry counterparties. This is devoid of network/s used, platforms employed or the operating systems utilised by participants.
- The Collaborators will undertake a product coverage and business process gap-analysis for securities lending and borrowing in pre-trade, trade, confirmation and settlement standards. The gap analysis will serve as the basis for future developments in SLB.

September 2006

- SASLA will provide FPL with a representative to co-Chair the SLB Working Group (SLBWG) and give any support required from its members. FPL will ensure that the SASLA Executive and its members are informed of and involved in the development of the electronic trading protocols.
- Nothing in this Statement of Understanding shall be understood to imply that any collaborator will not be able to act independently of any; or all other collaborators, in the event that the circumstances warrant such a decision. The Collaborators also specifically agree that as an open standards initiative, membership will be extended to such other organisations that may from time-to-time present themselves as having a legitimate interest in the initiative.
- Nothing in this Statement of Understanding shall be understood to prohibit any collaborator from making available common work products to bona fide members of the respective organisations. Subject to an over-riding obligation to ensure that by doing so no warranties express or implied are deemed to be undertaken by the parties to this agreement.

Objectives

The first phase of the initiative is to create a messaging architecture to support the business practices required for the processing of post-trade Securities Lending and Borrowing transactions.

- Loan Confirmations and Affirmations
- Loan Management and Reporting
- Margining, Collateral and Fee Management
- Multi-leg Order Flow (new loans, returns, recalls and rolls) with Automated Matching
- Define a common schema and guideline for the interoperability of FIX and a certified message framework to enable standard industry practice

FPL and SASLA will work together to produce guidelines that maintains the integrity of the message structure and industry practices to ensure the seamless implementation by market participants.

The second phase entails an in-depth review of product coverage and end-to-end processes of the Securities Lending and Borrowing transaction lifecycle.

- Quotes and Market Data
- Order Routing and Trade Automation
- Allocations and Settlement Instructions
- Central Matching and Cash Management

FPL and SASLA will collaborate on creating a best-practice model that delivers an STP solution for Securities Lending and Borrowing transactions. The final solution will enable SASLA to decrease operational risks, reduce costs and increase transaction transparency.

The above Statement of Understanding was developed on the basis of meetings and discussions involving various industry leaders, including representatives from both FPL and SASLA. The undersigned officials of these respective organisations represent that they are authorised to approve the points of understanding detailed herein, and that they hereby commit each of their organisations to the implementation of the points.



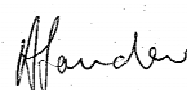
Gavin Borrageiro
EMEA Southern Africa
Executive Committee Co-Chair
FIX Protocol Ltd.



Sam Phajane
EMEA Southern Africa
Executive Committee Co-Chair
FIX Protocol Ltd.



Belinda Kasch
Executive Committee Member
South African Securities Lending
Association



August Sander
Executive Committee Member
South African Securities Lending
Association

September 2006