



NATIONAL TREASURY'S PAPER ON STRIPS

In February 2001, it was announced that the National Treasury plans to set up a Separate Trading of Registered Interest and Principal of Securities (STRIPS) facility.

A working document providing the basic information on how a strip market could operate was distributed to market participants for comment on 30 March 2001. Following the comments received from the market and extensive consultation with the Bond Exchange of South Africa and the Central Depository, the National Treasury's Paper on Strips has been prepared. The paper sets out the decisions the National Treasury has made about the introduction of the strip market and the process to be followed.

Market participants are invited to comment on the "National Treasury's Paper On Strips" before 20 October 2001. The paper is available on the National Treasury's web page www.treasury.gov.za.

Enhancements to systems to accommodate the stripping and reconstitution of bonds are currently undertaken by the National Treasury, UNEXcor, Bond Exchange of South Africa and Central Depository Participants and it is foreseen that the facility will be set up by the end of January 2002.

It is important to note that strip bonds will have a 5-digit financial instrument code. Market participants should therefore ensure that their systems can process 5-digit codes.

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**SEPARATE TRADING OF
REGISTERED INTEREST AND
PRINCIPAL OF SOUTH AFRICAN
GOVERNMENT SECURITIES
(STRIPS)**

NATIONAL TREASURY'S PAPER



2 OCTOBER 2001

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SEPARATE TRADING OF REGISTERED INTEREST AND PRINCIPAL OF SOUTH AFRICAN GOVERNMENT SECURITIES (STRIPS)

1. INTRODUCTION

The increasingly more active debt management strategy of the Government since 2000 reflects the need to maintain liquidity and integrity under conditions of a declining Government funding requirement, and is facilitated by the growing sophistication and efficiency of the South African bond market.

Among measures to maintain and enhance the liquidity of government securities, inflation linked bonds were introduced in 1999. This was intended to unlock liquidity at the long-end of the curve by designing an asset class that will shift the interest of buy-and hold investors. This was expected to improve the trading at the long-end of the curve. A switch auction programme to consolidate bonds into fewer more liquid benchmark bonds was announced during 2000. A programme to buy back bonds was also announced in 2001. As a further measure, the National Treasury is implementing a program to facilitate Separate Trading of Registered Interest and Principal of Securities (STRIPS).

National Treasury plans to set up this facility by the end of January 2002.

This paper sets out the decisions the National Treasury has made about the introduction of the strip market and the processes to be followed. This follows extensive consultation with the Bond Exchange of South Africa, the Central Depository and the comments from bond market participants.

2. METHODOLOGY OF STRIPPING AND RECONSTITUTION

2.1 Stripping

The process of stripping involves separating a standard coupon-bearing bond into its constituent interest and principal payments, so that they can be separately held or traded. These strips trade as zero coupon instruments¹. Assume the year is 2000, and consider a ten year bond which will redeem on 31 August 2010. The benefits associated with a holding of this bond are the receipt of coupon payments on 28 February and 31 August up to and including 31 August 2010 and of the redemption repayment of 100% nominal on that date. Under the stripping process, each of those payments are stripped from the totality of the bond and made into an individual bond. This process gives rise to a series of 20 such securities emanating from the bond's coupon payments due on 31 August 2000, 28 February 2001, 31 August 2001, until the redemption date of 31 August 2010, and a further strip relating to the bond's repayment of principal on 31 August 2010. The cash flows on the bundle of zero coupon strips would be identical to the cash flows on the original unstripped bond.

Coupon strips are often referred to as C-strips and principal strips as P-strips.

¹ A conventional bond is a debt instrument consisting of a series of periodic coupon payments plus the repayment of the principal on maturity. As the name suggests, a zero-coupon bond has no coupon payments. It has only a single payment consisting of the repayment of the principal at maturity. The zero-coupon bond is purchased by an investor at a discount to its face value and then redeemed for its face value at maturity. The return to the investor is the difference between the face value of the bond and its discounted purchase price.

2.2 Reconstitution

Reconstitution is the opposite of stripping. It involves assembling the constituent cash flows in order to recreate the standard coupon-bearing bond from which the principal strip originally constituted.

3. FEATURES OF THE REPUBLIC OF SOUTH AFRICA'S STRIPPABLE BONDS

3.1 Bond issues to be stripped

Initially, it is the intention of the National Treasury that only benchmark standard coupon bearing bonds will be strippable. These bonds are the R150 (12,0%; 2004/05/06), R153 (13,0%; 2009/10/11), R157 (13,5%; 2014/15/16), R186 (10,5%; 2025/26/27) and R194 (10,0%; 2007/08/09). Bonds that have been used as source bonds in the switch program will not be strippable. In future inflation-linked bonds might also be considered. It is the intention of the National Treasury that all new issues of conventional bonds will be strippable from the issue date.

Non-strippable bonds will not be made strippable without prior notification to the market.

3.2 Fungibility of coupon and principal strips

A single bond issue would not generate a significant volume of coupon strips on its own and therefore liquidity will be compromised. To promote liquidity of strips, coupon dates of strippable bonds should as far as possible be aligned. This will make all coupon strips maturing on the same date fungible, e.g. coupon strips payable on the same date stripped from different underlying bonds will be completely interchangeable. Of the designated strippable bonds, the coupon strips of the R150 (12,0%; 2004/05/06), R194 (10,0%; 2007/08/09) and R153 (13,0%; 2009/10/11) will be fungible.

To increase investor choice of the timing of cash flows, the National Treasury will consider to align a second pair of coupon dates in addition to 28 February and 31 August. As the initial priority is liquidity, the aligning of a second pair of coupon dates will be considered at a later stage once demand and liquidity of strips is assessed.

Coupon and principal strips will not be fungible. The fungibility of coupon and principal strips will mean that the market could create more coupon-bearing bonds via the reconstitution facility than had originally been issued. This might be detrimental to holders of the bond, as the size of an issue would be uncertain.

For the same reason, principal and principal strips will not be fungible, even if the redemption dates of two strippable bonds fall on the same date.

3.3 Stripping of the capital of three-legged bonds

A main feature of the bonds designated to be stripped is that each bond has three maturity dates (three-legged). On the first maturity date, one third of these bonds are repaid and two new bonds are issued for the remaining two-thirds balance in equal proportion, with their respective maturity dates. The two new bonds will have the same

coupon and coupon dates. For the above splitting exercise, loan numbers have already been reserved.

The principal amount of these three-legged bonds will, when stripped, be separated into its three equal principal payments (as if the bond had been split) and therefore into three different principal strips which can be separately held or traded as zero-coupon instruments.

This entails that should the government / market resolve to split three-legged bonds into three different bullet bonds, the strip facility will not be affected.

In the event of three-legged bonds being split, the National Treasury will designate the new bullet bonds as strippable bonds.

3.4 Limits on amounts to be stripped

There will be no limit to the amount of any strippable bond issue that can be stripped. While a limit might in principle help to avoid an underlying coupon-bearing bond being short in supply in the secondary market, the reconstitution facility should ensure that this is achieved through market mechanisms.

The maximum use which can be made of the reconstitution facility will be determined by the amount of the underlying coupon bond in issue.

There will be a minimum amount below which the system will not accept a strip request. The need for this arises because the nominal value of principal and coupon strips need to be rounded to the nearest R1.00. This will be achieved by a minimum nominal strippable amount of R2 400.00 or multiples of R2 400.00. Similarly, the minimum reconstitutable amount of a strippable bond will be R2 400.00 nominal or multiples of R2 400.00 of a coupon-bearing bond being reconstituted.

The amount of R2 400.00 will enable the National Treasury to issue future bonds with coupons in multiples of 0.25% and still have rounding in strip bonds to the nearest R1.00.

Once a three-legged bond has been split according to its three maturities, the minimum nominal strippable and reconstitutable amount will be R800.00 or multiples of R800.00.

Transfers of strips in the secondary market can be made in units as in unstripped bonds.

3.5 Strips to be held in uncertificated form

Strips are not issued with a physical certificate to serve as proof of ownership. As in the case of unstripped dematerialised bonds, the investor only receives a safekeeping receipt issued by the Central Depository Participant who are holding strips in book entry form in the Central Depository.

It will not be possible as with unstripped bonds, to certificate strips held in the Central Depository.

3.6 Availability of the facility

National Treasury will provide the facility to strip bonds.

Although anyone can trade or hold strips, only primary dealers in Government bonds who have entered into a strip agreement with National Treasury will have the ability to perform stripping and reconstitution by using the facility provided by the National Treasury.

Thus, a non-primary dealer who wants to acquire strips will have to purchase these in the market, or can strip a bond in its own name via a primary dealer. Similarly a non-primary dealer wishing to reconstitute a stripped bond could either sell the constituent strips of a strippable bond in the market and buy back the underlying bond or alternatively, it could arrange for a primary dealer to reconstitute the bond on its behalf by having the appropriate coupon and principal strips.

The primary dealers in Government bonds who have entered into a strip agreement with the National Treasury will make a market in strips as part of their general market making obligations.

3.7 Stripping and reconstituting bonds during “Book Close Period”

A strip transaction done during “Book Close Period” will not include the issue of a coupon strip in respect of the interest payment for which the books are closed.

Similarly a reconstitution done during “Book Close Period” will not require inclusion of that coupon strip into the bundle of strips submitted for reconstitution.

Once the capital of a strippable bond enters final “Book Close Period”, no further stripping or reconstitution on that bond will be possible.

3.8 Bond codes and ISIN numbers

Coupon and principal strips are South African Internal Registered Bonds listed with the Bond Exchange of South Africa in terms of the Financial Markets Control Act, No. 55 of 1989.

A unique bond code and ISIN number will be allocated to all coupon strips maturing on the same date and to each principal strip. The bond code of stripped bonds will start with the traditional letter R followed by numbers and the letter C or P to identify coupon and principal strips.

Coupon strips with aligned coupon dates and therefore fungible, will be identified by the first numerical number in the bond code as follows:

- Number 1 for 28 February and 31 August, the coupon dates of the R150, R153 and R194 bonds;
- Number 2 for 15 March and 15 September the coupon dates for the R157 bond; and
- Number 3 for 21 June and 21 December, the coupon dates for the R186 bond.

The bond code for the first coupon strips of the R150, R153 and R194 bonds maturing on 28 February 2002 will therefore be R101C and that of the R157 maturing on 15 March 2002 will be R201C.

The principal of the bonds with three maturity dates will be separated into three equal principal strips. The bond codes assigned to bonds when the principal of the coupon-bearing bonds are split as the first leg of a bond redeems, will be used to number principal strips as follows:

- | | | | | | | | |
|---|------|------|-------------------------|---|------|------|-------------------------|
| • | R150 | into | R006P
R151P
R152P | • | R157 | into | R009P
R158P
R159P |
| • | R194 | into | R007P
R195P
R196P | • | R186 | into | R010P
R187P
R188P |
| • | R153 | into | R008P
R154P
R155P | | | | |

For a full list of bond codes for the coupon and principal strips which can result from the coupon-bearing strippable bonds, see Annexure B.

Should the government / market resolve to split three-legged bonds into three different bullet bonds, the first 4-digits of the principal strip bond codes will become the bond codes of the new bullet bonds.

4. PROCESS OF STRIPPING AND RECONSTITUTION

4.1 Roleplayers

Only primary dealers in Government Bonds who have entered into a strip agreement with the National Treasury will be able to strip and reconstitute Government bonds via the Central Depository Participants. The Central Depository Participants are also settlement agents of the Bond Exchange of South Africa. The Central Depository Participants are ABSA Bank Limited, First Rand Bank Limited, Nedcor Bank Limited and the Standard Bank of South Africa Limited. The Central Depository will act as the agent of the National Treasury in terms of an agreement to systematically strip and reconstitute government bonds.

4.2 Business process

Annexures C1 and C2 illustrates a high level model of the business processes and interaction between the involved role players and is in short explained below.

A primary dealer creates a request to strip a nominal amount of a designated strippable bond, either for its own account or on behalf of a client, and sends the request to the respective Central Depository Participant via the Bond Automated Trading System (BATS) or any other electronic form used for back up purposes. The Bond Exchange of South Africa will provide a new strip/reconstitution function on the automated trading system to cater for the primary dealers requests and client confirmations. If the primary dealer is initiating a strip or reconstitution on behalf of a

client, the client will have to send a confirmation via BATS to its Central Depository Participant confirming that a particular primary dealer will be generating a strip/reconstitution request on their behalf. Alternatively, the primary dealer may initiate a strip or reconstitution for their own account.

On receipt of the requests and confirmations from the primary dealers and clients, BATS will send the requests on to UNEXcor who in turn will notify the designated Central Depository Participant of the strip/reconstitution transactions. Annexure C2 illustrates the communication between the primary dealers, clients and the Central Depository Participants. The current existing network infrastructures and electronic interfaces will be deployed between all parties illustrated. All error handling notifications will use the same communication mechanism of receipt, of the requests and confirmations by the various parties.

Once the Central Depository Participant receives the primary dealer's request, the following takes place:

- If the request is on behalf of a client, the Central Depository Participant matches the primary dealer's request details to the client's confirmation and, on matching, verifies the client's holdings in the standard coupon-bearing bond. Alternatively, the Central Depository Participant verifies the primary dealer's holding in that standard coupon-bearing bond – no matching required.
- Depending on sufficient holdings, the Central Depository Participant either rejects the request and send a message (using the same communication mechanisms of receipt of the request) informing the primary dealer of the event or instruct the Central Depository electronically to perform the strip giving the required detail.
- On receipt of the instruction from the Central Depository Participant, the Central Depository system verifies that the nominal value to be stripped does not exceed the Central Depository Participant's account balance, that the standard coupon-bearing bond is a designated strippable bond and that the bond is not in Last Day To Register (LDR) for final redemption. Failing one of these tests, the Central Depository system will reject the strip and send a message back to the Central Depository Participant. If these tests are positive the Central Depository system will accept the instruction and reduce in its book entry system the amount of the standard coupon-bearing bond and replace it with the relevant value of principal and coupon strips. A message confirming the completion of the process will be sent back to the Central Depository Participant by the Central Depository.

It is required from the Central Depository to maintain an audit trail of transactions processed for reconciliation purposes.

4.3 Recording of liability by National Treasury

On a daily basis, the National Treasury, using the existing electronic dematerialisation facility, will access the Central Depository system to balance with the Central Depository and update the National Treasury's internal records.

4.4 Reconstitution process

The assembly of the constituent cash flows (coupon and principal strips) to reconstitute the standard coupon-bearing bond will follow the same process flows as the strip.

Once balances for reconstitution have been verified by both the Central Depository Participant and Central Depository systems, the Central Depository system would process the reverse of the strip.

5. SECONDARY TRADING

5.1 Trading and settlement

Once stripped, coupon and principal strips will be freely tradable in the secondary market on the Bond Exchange of South Africa. These trades will be settled in precisely the same manner as any other bond traded on the Exchange.

5.2 Script lending and Repo

It will be possible to lend and / or repo coupon and principal strips in the bond lending and repo markets, like any coupon-bearing bond. Coupon and principal strips will qualify as liquid assets. Furthermore the Reserve Bank will also accept strips as eligible assets for accommodation purposes in weekly auctions. Enhancements to the South African Multiple Option Settlement (SAMOS) System is required to process bonds with a 5-digit financial instrument code as acceptable collateral. It will therefore currently not be possible to process strips in SAMOS. It is foreseen that the South African Reserve Bank will not be able to implement the necessary enhancements to SAMOS by the implementation date of strips. Enhancements to SAMOS will be implemented shortly thereafter.

5.3 Strip pricing

The standardised Bond Exchange of South Africa Bond Pricing Formula will be used to price strips. The Bond Pricing Formula specifications are available on the Website of the Bond Exchange of South Africa at www.besa.za.com.

6. MARKET INFORMATION ON STRIPS

6.1 Information on stripping and reconstitution activities

The Bond Exchange of South Africa will on a daily basis publish information on stripping and reconstitution activities. The published information will cover:

- the nominal amounts of each strippable bond in issue and the amount held in stripped form; and
- the nominal amounts of each strippable bond that have been stripped and reconstituted over the previous day period.

This information will be made available by the Bond Exchange of South Africa daily in an electronic format.

In addition daily information as in the case of unstripped bonds will be available from the Bond Exchange of South Africa on the secondary market trading of strips. Information on stripped bonds will also form part of the regular bond information provided by the National Treasury.

7. LEGAL AND REGULATORY ENVIRONMENT

7.1 Enabling Legislation

Coupon and principal strips will be direct obligations of the South African Government, and will be registered securities on the Bond Exchange of South Africa, a financial exchange licensed in terms of the Financial Markets Control Act, No. 55 of 1989.

Legislation facilitating the introduction of the strip market are contained in the Public Finance Management Act, No. 1 of 1999. The Act provides the Minister of Finance with the authority to borrow money and to convert such loans into any other loan with the concurrence of the lender.

Stripped bonds may only be held in the Central Depository, which holds bonds subject to the Custody and Administration of Securities Act, No. 85 of 1992 and the Rules of the Central Depository as published by the Registrar of Financial Markets in the Government Gazette No. 17637 of 6 December 1996.

7.2 Terms and Conditions of Strip Issues

The Terms and Conditions of Strip Issues are attached as Annexure D.

This document sets out information about the terms of issue of strips and the arrangements governing the stripping and reconstitution of bonds. The terms and conditions of issue document is the prospectus under which strips are issued and reconstituted.

7.3 Agreement between the National Treasury and Central Depository

The National Treasury will enter into a formal agreement with the Central Depository Limited, appointing the Central Depository to strip and reconstitute designated bonds. In terms of the agreement the Central Depository will use their book entry system to electronically issue principal and coupon strip bonds against the simultaneous electronic cancellation of a corresponding amount of the underlying bond held by the Central Depository. In terms of the agreement the Central Depository will also reconstitute a bond by simultaneously electronically cancel the corresponding amount of coupon and principal strip bonds held by the Central Depository.

A copy of the agreement between the National Treasury and the Central Depository will be made available as part of the final National Treasury's Paper on Strips.

8. STRIP FEES

The strip/reconstitution transaction fees will be determined by agreement between each Central Depository Participant and its clients.

9. TAXATION OF STRIPS

Taxation of coupon strips and principal strips will follow the same principles applied to conventional zero coupon bonds issued by the Government. Thus, the investor will be taxed on accrued interest calculated on the yield to maturity of the coupon or principal strip. Section 24J of the Income Tax Act will apply as before and it will not be impacted

by capital gains tax, i.e. accrued interest will be taxable as revenue income and not being of a capital nature for tax purposes.

Any gain at disposal of a zero-coupon bond will be taxed as accrued interest and not subject to capital gains tax until August 31, 2001. After October 1st, 2001, however, the investor must disclose any capital gains tax or loss on disposal of the conventional zero coupon bonds or strips. This is done by taking the proceeds from the disposal and deducting the accrued interest first, after that, the original purchase price (base cost) is deducted from the remaining amount. The resulting amount is capital gains if it is positive and capital loss if it is negative.

The general principles used to tax bonds would apply when the instruments are stripped or reconstituted. It should be noted that a trader in zero coupon bonds or strips will always be on revenue account. Hence, the transactions will always be on revenue account even after October 1st 2001.

Annexure A	Nominal amounts of strippable bonds outstanding as at 31 July 2001.
Annexure B1	Potential strips which can be generated from strippable bonds R150, R153 and R194 as at 31 July 2001
Annexure B2	Potential strips which can be generated from strippable bonds R157 and R186 as at 31 July 2001
Annexures C1 and C2	High level model of the business processes and interaction between the involved role players
Annexure D	Designation of strippable bonds and Terms and Conditions of Issue of the resultant Strip Bonds

Nominal amounts of strippable bonds

As at 31 July 2001 the nominal amounts of strippable bonds outstanding were:

Bond Code	Nominal amount in issue <i>R'billion</i>	Interest date	Redemption date
R150 (12,0%; 2004/05/06)	77,526	28 February 31 August	28 February 2004 28 February 2005 28 February 2006
R194 (10,0%; 2007/08/09)	22,558	28 February 31 August	28 February 2007 28 February 2008 28 February 2009
R153 (13,0%; 2009/10/11)	91,324	28 February 31 August	31 August 2009 31 August 2010 31 August 2011
R157 (13,5%; 2014/15/16)	54,854	15 March 15 September	15 September 2014 15 September 2015 15 September 2016
R186 (10,5%; 2025/26/27)	20,634	21 June 21 December	21 December 2025 21 December 2026 21 December 2027
TOTAL	266,896		

Annexure B1

Potential strips which can be generated from strippable bonds as at 31 July 2001

The table below shows the strip bond codes and cash flows of the three fundgible bonds paying interest on 28 February and 31 August.

Strip Bond Code	Redemption Date	R150 (12.0%; 2004/05/06)	R194 (10.0%; 2007/08/09)	R153 (13.0%; 2009/10/11)	Total cash flows
R101C	28-Feb-02	4,651,587,360.00	1,127,906,760.00	5,936,080,956.00	11,715,575,076.00
R102C	31-Aug-02	4,651,587,360.00	1,127,906,760.00	5,936,080,956.00	11,715,575,076.00
R103C	28-Feb-03	4,651,587,360.00	1,127,906,760.00	5,936,080,956.00	11,715,575,076.00
R104C	31-Aug-03	4,651,587,360.00	1,127,906,760.00	5,936,080,956.00	11,715,575,076.00
R105C	28-Feb-04	4,651,587,360.00	1,127,906,760.00	5,936,080,956.00	11,715,575,076.00
R106C	31-Aug-04	3,101,058,240.00	1,127,906,760.00	5,936,080,956.00	10,165,045,956.00
R107C	28-Feb-05	3,101,058,240.00	1,127,906,760.00	5,936,080,956.00	10,165,045,956.00
R108C	31-Aug-05	1,550,529,120.00	1,127,906,760.00	5,936,080,956.00	8,614,516,836.00
R109C	28-Feb-06	1,550,529,120.00	1,127,906,760.00	5,936,080,956.00	8,614,516,836.00
R006P	28-Feb-04	25,842,152,000.00			25,842,152,000.00
R151P	28-Feb-05	25,842,152,000.00			25,842,152,000.00
R152P	28-Feb-06	25,842,152,000.00			25,842,152,000.00
R110C	31-Aug-06		1,127,906,760.00	5,936,080,956.00	7,063,987,716.00
R111C	28-Feb-07		1,127,906,760.00	5,936,080,956.00	7,063,987,716.00
R112C	31-Aug-07		751,937,840.00	5,936,080,956.00	6,688,018,796.00
R113C	28-Feb-08		751,937,840.00	5,936,080,956.00	6,688,018,796.00
R114C	31-Aug-08		375,968,920.00	5,936,080,956.00	6,312,049,876.00
R115C	28-Feb-09		375,968,920.00	5,936,080,956.00	6,312,049,876.00
R007P	28-Feb-07		7,519,378,400.00		7,519,378,400.00
R195P	28-Feb-08		7,519,378,400.00		7,519,378,400.00
R196P	28-Feb-09		7,519,378,400.00		7,519,378,400.00
R116C	31-Aug-09			5,936,080,956.00	5,936,080,956.00
R117C	28-Feb-10			3,957,387,304.00	3,957,387,304.00
R118C	31-Aug-10			3,957,387,304.00	3,957,387,304.00
R119C	28-Feb-11			1,978,693,652.00	1,978,693,652.00
R120C	31-Aug-11			1,978,693,652.00	1,978,693,652.00
R008P	31-Aug-09			30,441,440,800.00	30,441,440,800.00
R154P	31-Aug-10			30,441,440,800.00	30,441,440,800.00
R155P	31-Aug-11			30,441,440,800.00	30,441,440,800.00

Note: Should the government / market resolve to split three-legged bonds into three different bullet bonds the first 4-digits of the principal strip bond codes will become the bond codes of the new bullet bonds. See paragraphs 3.3 and 3.8 of the National Treasury's Paper on Strips.

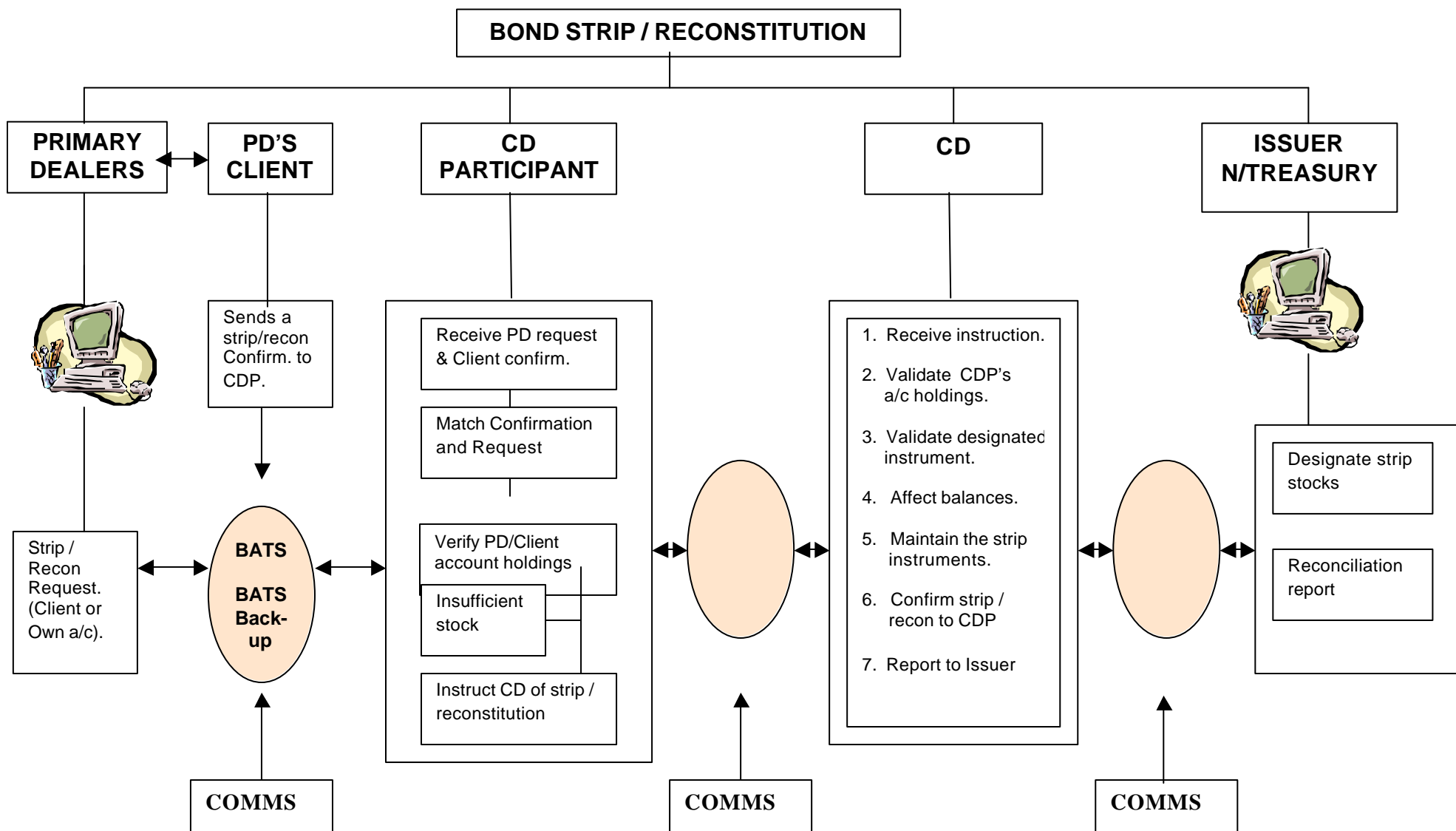
Potential strips which can be generated from strippable bonds as at 31 July 2001

The tables below show the strip bond codes and cash flows of the R157 bond paying interest on 15 March and 15 September and the R186 bond paying interest on 21 June and 21 December.

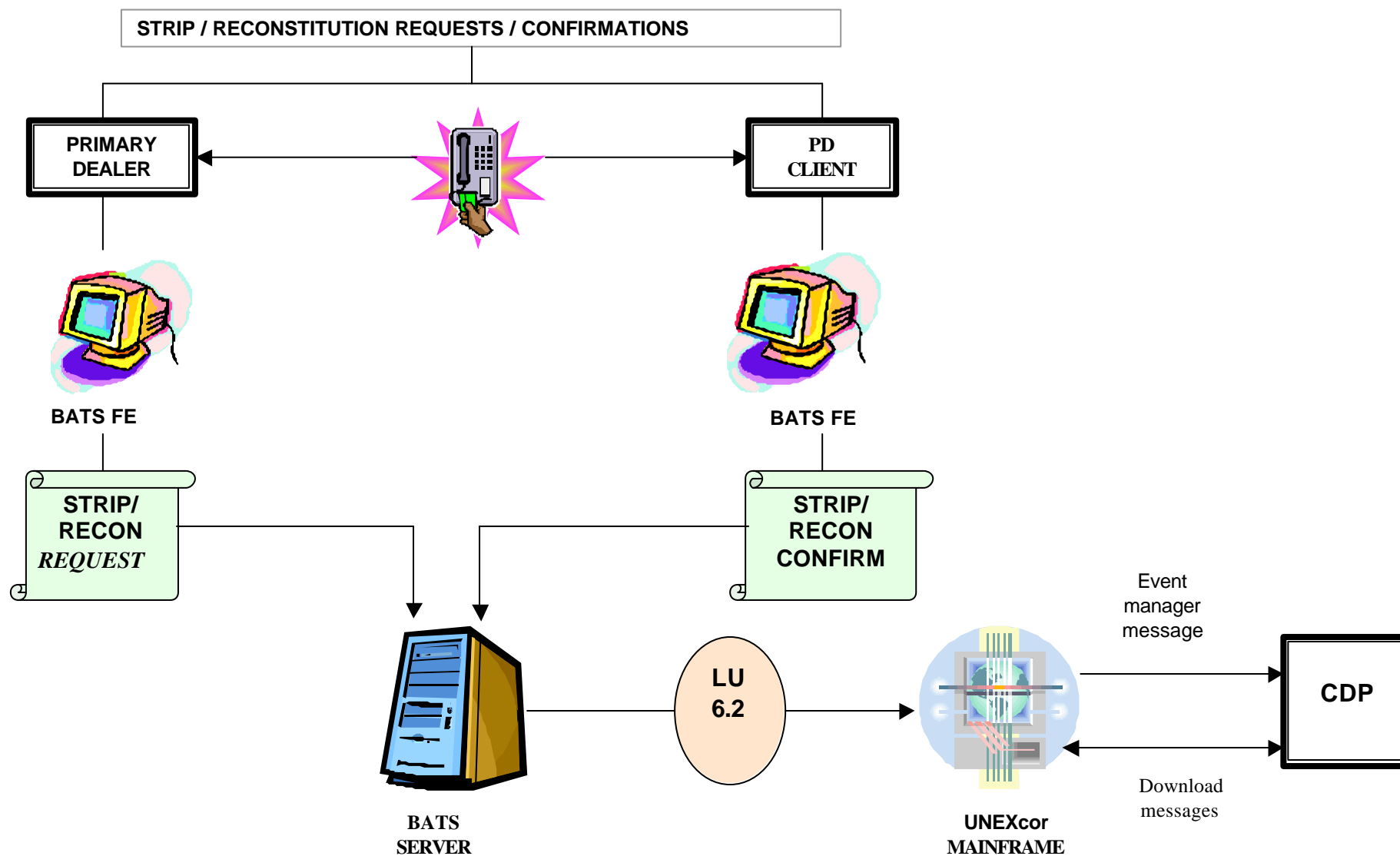
Strip Bond Code	Redemption Date	R157 (13,5%; 2014/15/16)	Strip Bond Code	Redemption Date	R 186 (10,5%; 2025/26/27)
R201C	15-Mar-02	3,702,663,090.00	R301C	21-Jun-02	1,083,293,820.00
R202C	15-Sep-02	3,702,663,090.00	R302C	21-Dec-02	1,083,293,820.00
R203C	15-Mar-03	3,702,663,090.00	R303C	21-Jun-03	1,083,293,820.00
R204C	15-Sep-03	3,702,663,090.00	R304C	21-Dec-03	1,083,293,820.00
R205C	15-Mar-04	3,702,663,090.00	R305C	21-Jun-04	1,083,293,820.00
R206C	15-Sep-04	3,702,663,090.00	R306C	21-Dec-04	1,083,293,820.00
R207C	15-Mar-05	3,702,663,090.00	R307C	21-Jun-05	1,083,293,820.00
R208C	15-Sep-05	3,702,663,090.00	R308C	21-Dec-05	1,083,293,820.00
R209C	15-Mar-06	3,702,663,090.00	R309C	21-Jun-06	1,083,293,820.00
R210C	15-Sep-06	3,702,663,090.00	R310C	21-Dec-06	1,083,293,820.00
R211C	15-Mar-07	3,702,663,090.00	R311C	21-Jun-07	1,083,293,820.00
R212C	15-Sep-07	3,702,663,090.00	R312C	21-Dec-07	1,083,293,820.00
R213C	15-Mar-08	3,702,663,090.00	R313C	21-Jun-08	1,083,293,820.00
R214C	15-Sep-08	3,702,663,090.00	R314C	21-Dec-08	1,083,293,820.00
R215C	15-Mar-09	3,702,663,090.00	R315C	21-Jun-09	1,083,293,820.00
R216C	15-Sep-09	3,702,663,090.00	R316C	21-Dec-09	1,083,293,820.00
R217C	15-Mar-10	3,702,663,090.00	R317C	21-Jun-10	1,083,293,820.00
R218C	15-Sep-10	3,702,663,090.00	R318C	21-Dec-10	1,083,293,820.00
R219C	15-Mar-11	3,702,663,090.00	R319C	21-Jun-11	1,083,293,820.00
R220C	15-Sep-11	3,702,663,090.00	R320C	21-Dec-11	1,083,293,820.00
R221C	15-Mar-12	3,702,663,090.00	R321C	21-Jun-12	1,083,293,820.00
R222C	15-Sep-12	3,702,663,090.00	R322C	21-Dec-12	1,083,293,820.00
R223C	15-Mar-13	3,702,663,090.00	R323C	21-Jun-13	1,083,293,820.00
R224C	15-Sep-13	3,702,663,090.00	R324C	21-Dec-13	1,083,293,820.00
R225C	15-Mar-14	3,702,663,090.00	R325C	21-Jun-14	1,083,293,820.00
R226C	15-Sep-14	3,702,663,090.00	R326C	21-Dec-14	1,083,293,820.00
R227C	15-Mar-15	2,468,442,060.00	R327C	21-Jun-15	1,083,293,820.00
R228C	15-Sep-15	2,468,442,060.00	R328C	21-Dec-15	1,083,293,820.00
R229C	15-Mar-16	1,234,221,030.00	R329C	21-Jun-16	1,083,293,820.00
R230C	15-Sep-16	1,234,221,030.00	R330C	21-Dec-16	1,083,293,820.00
R009P	15-Sep-14	18,284,756,000.00	R331C	21-Jun-17	1,083,293,820.00
R158P	15-Sep-15	18,284,756,000.00	R332C	21-Dec-17	1,083,293,820.00
R159P	15-Sep-16	18,284,756,000.00	R333C	21-Jun-18	1,083,293,820.00
			R334C	21-Dec-18	1,083,293,820.00
			R335C	21-Jun-19	1,083,293,820.00
			R336C	21-Dec-19	1,083,293,820.00
			R337C	21-Jun-20	1,083,293,820.00
			R338C	21-Dec-20	1,083,293,820.00
			R339C	21-Jun-21	1,083,293,820.00
			R340C	21-Dec-21	1,083,293,820.00
			R341C	21-Jun-22	1,083,293,820.00
			R342C	21-Dec-22	1,083,293,820.00
			R343C	21-Jun-23	1,083,293,820.00
			R344C	21-Dec-23	1,083,293,820.00
			R345C	21-Jun-24	1,083,293,820.00
			R346C	21-Dec-24	1,083,293,820.00
			R347C	21-Jun-25	1,083,293,820.00
			R348C	21-Dec-25	1,083,293,820.00
			R349C	21-Jun-26	722,195,880.00
			R350C	21-Dec-26	722,195,880.00
			R351C	21-Jun-27	361,097,940.00
			R352C	21-Dec-27	361,097,940.00
			R010P	21-Dec-25	6,878,056,000.00
			R187P	21-Dec-26	6,878,056,000.00
			R188P	21-Dec-27	6,878,056,000.00

Note: Should the government / market resolve to split three-legged bonds into three different bullet bonds the first 4-digits of the principal strip bond codes will become the bond codes of the new bullet bonds. See paragraphs 3.3 en 3.8 of the National Treasury's Paper on Strips.

PROCESS FLOW OF THE STRIPPING AND RECONSTITUTING OF GOVERNMENT BONDS



Primary Dealers, Clients and CDP Communications



DRAFT



**NATIONAL
TREASURY**

PROVISIONAL TERMS AND CONDITIONS DATED 2 OCTOBER 2001.

REPUBLIC OF SOUTH AFRICA

NATIONAL TREASURY

DESIGNATION OF STRIPPABLE BONDS AND TERMS AND
CONDITIONS OF ISSUE OF THE RESULTANT STRIP BONDS

Issued by the National Treasury
Private Bag x 115
PRETORIA, 0001

REPUBLIC OF SOUTH AFRICA

STRIPPING AND RECONSTITUTION OF LOAN NUMBERS R150, R153, R157, R186 AND R194

Date listed on the Bond Exchange:

Date of Terms of Issue:

DESIGNATION OF STRIPPABLE BONDS AND THE TERMS AND CONDITIONS OF ISSUE OF THE RESULTANT STRIP BONDS

The Republic of South Africa designates loan nos. R150, R153, R157, R186 and R194 as strippable bonds. The resultant coupon and principal strip bonds as set out in Annexures D1 and D2 are in accordance with the terms and conditions set forth herein.

1. INTERPRETATION

In these Conditions, unless inconsistent with the context, the following expressions shall have the following meanings:

“Bond Exchange of South Africa” means a financial exchange licensed in terms of the Financial Markets Control Act, No. 55 of 1989;

“Bondholder” means a person whose name is entered into the Register as the holder of any Bonds;

“Books Close Date” means one calendar month or such shorter period as determined by the Issuer and published in the Government Gazette;

“Bonds” means the bonds issued pursuant to these Terms and Conditions;

“Business Day” means any day (other than a Sunday or official public holiday in the Republic of South Africa) on which banks are generally open for business in the Republic of South Africa;

“Central Depository” means The Central Depository Limited (Reg. No. 1991/000941/06) operating in terms of the Custody and Administration of Securities Act, No. 85 of 1992;

“Central Depository Participant” means a participant of the Central Depository;

“Conditions” means these terms and conditions;

“Issuer” means the Republic of South Africa;

“Redemption Date” means the date reflected against each strip bond code in the Annexures hereto, or, if such date is not a Business Day, the next Business Day;

“The Register” means the register of Bondholders to be kept by the Issuer;

“Registered” means to have been entered into the Register;

“Republic of South Africa Internal Registered Bonds” means Republic of South Africa Internal Registered Bonds R150, R153, R157, R186 and R194 classified as “loan stock” pursuant to the provisions of the Financial Markets Control Act, No. 55 of 1989 as well as specified in the Financial Regulations 13.1(1) – (5) made under section 66 of the Public Finance Management Act, 1999 (Act no. 1 of 1999).

“Transfer Secretary” means the National Treasury of the Republic of South Africa or any other person appointed by the Issuer as its Transfer Secretary in respect of the Bonds, provided no such appointments shall be effective until the Issuer has notified all Bondholders of the name and address of the person appointed;

2. DESIGNATION OF BONDS AS STRIPPABLE BONDS

- 2.1 The Republic of South Africa Internal Registered Bonds R150, R153, R157, R186 and R194 (designated bonds) are hereby designated as strippable bonds.

3. STATUS OF PRINCIPAL AND COUPON STRIP BONDS

- 3.1 The principal strip bonds and coupon strip bonds and the bonds reconstituted in accordance with these conditions constitute direct, unconditional and unsecured obligations of the Issuer and will at all times rank *pari passu* amongst themselves and at least *pari passu* with all other present or future unsecured and unsubordinated obligations of the Issuer for monies borrowed and guarantees given by the Issuer in respect of monies borrowed by others.

4. STRIPPING PROCESS

- 4.1 The process of stripping involves separating the designated bonds into their constituent principal and interest payments so that they can be separately held or traded. This is achieved by cancelling the designated bond and issuing strip bonds in respect of each constituent payment payable on that bond.
- 4.2 The strip bond that equates to the principal payment is called a principal strip bond, and the strip bonds that equate to the interest payments are called coupon strip bonds.

5. RECONSTITUTION PROCESS

- 5.1 Reconstitution is the opposite of stripping, and involves assembling the correct quantities of coupon and principal strip bonds that equate to the outstanding obligations associated with the bond to be reconstituted.
- 5.2 Complete reconstitution of a three-legged bond is naturally only possible prior to the maturity of the first principal strip bond. Thereafter only the split bonds representing the remaining maturities of the bond can be reconstituted.

6. FUNGIBILITY OF STRIP BONDS

- 6.1 Coupon strip bonds will be listed according to their maturity date, and only one coupon strip bond will be listed for each maturity date. This will mean that coupon strip bonds that emanate from the stripping of bonds with the same payment dates will constitute the same instrument as each other, and will therefore be fully fungible.
- 6.2 Principal strip bonds will not be fungible, even if they have the same maturity date.

7. STRIPPING OF THE PRINCIPAL OF THREE LEGGED BONDS

- 7.1 Separate principal strip bonds will be issued in respect of each of the three principal payments due on three-legged bonds.

8. LIMITS ON STRIPPABILITY

- 8.1 There will be no limit on the amount or proportion of any bond issue that may be stripped. The entire issue of a bond may therefore, in theory, be stripped.

9. OFFICIAL STRIPPING AND RECONSTITUTION FACILITY

- 9.1 The Central Depository Limited will provide the facility for the stripping and reconstitution of designated bonds on behalf of and as agent of the National Treasury.
- 9.2 There is no restriction on who may hold or trade in strip bonds. However, only primary dealers in government bonds may initiate stripping and reconstitution by using the facility provided by the Central Depository, and they will access the facility via the Central Depository Participants.
- 9.3 Strip bonds may be held only as uncertificated bonds in the Central Depository.

10. MINIMUM AMOUNTS

- 10.1 Requests for stripping and reconstitution will only be accepted for a minimum amount of R2 400,00 and multiples of R2 400,00.

11. TRADING AND SETTLEMENT OF STRIPS

- 11.1 Strip bonds will be tradable on the Bond Exchange of South Africa in the same manner as any other listed bonds.

12. PAYMENT IN RESPECT OF STRIP BONDS

- 12.1 Bonds are not repayable prior to the redemption date reflected against each strip bond code in the Annexures hereto.
- 12.2 All amounts payable by the Issuer in accordance with these Conditions shall be paid free of set-off or deduction in the Republic of South Africa and in the currency of the Republic of South Africa.

- 12.3 If any day for payment of principal or interest in respect of any Bond is not a Business Day, payment shall be made on the next Business Day following such day and no interest or other sums shall be payable in respect of such postponed payment.

13. STRIPPING AND RECONSTITUTING BONDS DURING "BOOK CLOSE PERIOD"

- 13.1 A strip transaction done during "Book Close Period" will not include the issue of a coupon strip in respect of the interest payment for which the books are closed.
- 13.2 Similarly a reconstitution done during "Book Close Period" will not require inclusion of that coupon strip into the bundle of strips submitted for reconstitution.
- 13.3 Once the capital of a strippable bond enters final "Book Close Period", no further stripping or reconstitution on that bond will be allowed.
- 13.4 The "Book Close Period" will be one calendar month or such shorter period as determined by the Issuer and published in the Government Gazette.

14. STAMP DUTY

- 14.1 In terms of current legislation, as at the date of these terms and conditions of issue, South African Government bonds are transferable free of stamp duty and registration charges. Any further statutory charges will be charged to the registered holder of the strip bonds.

15. REGISTER OF BONDHOLDERS

- 15.1 The Issuer shall procure that the Transfer Secretary shall keep a register of the strip bonds held by the Central Depository in accordance with this clause 14.
- 15.2 The Register:
- shall be kept at the office of the Transfer Secretary;
 - shall record the dates and nominal amounts of strip bonds issued through stripping or reconstitution, and the total nominal amount of each strip bond held in the name of the Central Depository.

16. TRANSFER OF BONDS

- 16.1 It is recorded that interests in bonds which are lodged in the Central Depository may, in terms of existing law and facilities, be transferred through the Central Depository by way of book entry in the central securities accounts of the Central Depository participants. Such transfers will not be recorded in the Register and Central Depository Nominees will continue to reflect in the Register as the Bondholder notwithstanding such transfers.

17. GOVERNING LAW

- 17.1 The Bonds and all rights and obligations relating thereto are governed by the laws of the Republic of South Africa.

GENERAL

1. AUTHORISATION

- 1.1 The authorisation to issue was given by the Minister of Finance on 27 February 2001 in terms of Section 66(2)(a) of the Public Finance Management Act (Act 1 of 1999). In terms of Section 214(2)(b) of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996) and Section 73 of the Public Finance Management Act the repayment of the bonds shall be a direct charge against the National Revenue Fund and is deemed to have been appropriated by Law.

2. LISTING

- 2.1 The Bonds will be listed on the Bond Exchange of South Africa under Bond codes as in the Annexures hereto.

3. INITIAL PRICING

- 3.1 The pricing of strips will be in accordance with the Bond Exchange of South Africa bond pricing formula.

4. TRADING AND REGISTRATION

- 4.1 Bonds may be traded on the Bond Exchange of South Africa. Transactions on the Bond Exchange of South Africa will normally be effected for settlement on the third Business Day (excluding Saturdays) after the transaction (T+3).

5. SETTLEMENT, CLEARING AND TRANSFERS

- 5.1 Strip bonds can only be held in a dematerialised form in the Central Depository.
- 5.2 Bonds held in the Central Depository are registered in the name of the nominee of the Central Depository Limited. In terms of the conditions relating to the Bonds, all amounts to be paid and all rights to be exercised in respect of the Bonds held through the Central Depository, will be paid to and may be exercised only by the Central Depository for the beneficial owners of the Bonds.
- 5.3 The Central Depository holds Bonds subject to the Custody and Administration of Securities Act, 1992 and the Rules of the Central Depository. The Rules of the Central Depository as at the date of this Offering Circular are as published by the Registrar of Financial Markets in the Government Gazette No 17637 of 6 December 1996.
- 5.4 The Central Depository maintains accounts only for the participants in the Central Depository. The participants are also settlement agents of the Bond Exchange of South Africa. As at the date of this document, the settlement agents are ABSA

Bank Limited, First Rand Bank Limited, Nedcor Bank Limited, The Standard Bank of South Africa Limited and the South African Reserve Bank. The participants are in turn required to maintain securities accounts for clients. The clients of participants may include beneficial owners of the Bonds or their custodians. The clients of participants, as beneficial owners of the Bonds or as custodians for the beneficial owners, may exercise their rights in respect of the Bonds held by them in the Central Depository only through the participants. Euroclear and Cedelbank may hold Bonds through their Bond Exchange of South Africa settlement agent.

- 5.5 Transfers of interest in Bonds in the Central Depository to and from clients of Central Depository participants occur by book entry in the securities accounts of the clients with settlement agents (transfers amongst settlement agents of Bonds held in the Central Depository occur through book entry in the participants' central securities accounts with the Central Depository). The standard settlement period on Bond Exchange of South Africa is "T+3". Transactions in Bonds concluded on the Bond Exchange of South Africa are settled by the settlement agents by book entry as described above.

6. TRANSFER SECRETARY

- 6.1 The name and address of the Transfer Secretary is as follows:

National Treasury
Private Bag x 115
Pretoria
0001

7. PUBLIC FINANCE MANAGEMENT ACT, 1999

- 7.1 In terms of Section 75 of the Public Finance Management Act, 1999 (Act 1 of 1999), the issuer shall not be responsible for the fulfilment of any obligation resulting from any lien, whether expressed, implied or construed, which is held over a Certificate, notwithstanding whether the Issuer was notified of such lien or not. The Conditions relating to the Bonds should be read in conjunction with Financial Regulations 13.1(1)-(5) made under Section 66(2)(a) of the Public Finance Management Act, 1999.

8. NON-SOUTH AFRICAN RESIDENT BONDHOLDERS AND EMIGRANTS FROM THE COMMON MONEY AREA

- 8.1 The following guidelines are not a comprehensive statement of the South African Exchange Control Regulations (The "Regulations") and reflect only the Issuer's understanding of the Regulations. Bondholders who have any doubt as to the action they should take should consult their South African Authorised Dealers in foreign exchange and/or professional advisers.
- 8.2 The Regulations affecting non-residents of the Common Monetary Area are as follows:

8.2.1 All Non-Residents of the Common Monetary Area

In the case where non-residents hold bonds through the Central Depository, the securities accounts maintained by the Bond Exchange of South Africa settlement agents for Bondholders who are not resident in the Common Monetary Area will be designated “non-resident”.

It will be incumbent on any such non-resident to instruct the non-resident’s nominated Authorised Dealer in foreign exchange as to how any funds due to such non-resident in respect of Bonds are to be dealt with. Such funds may, in terms of the Regulations, be remitted abroad only if the relevant Bonds are acquired with foreign currency introduced into South Africa and provided that the relevant Certificates or securities account, as the case may be, is designated “non-resident”.

8.2.2 Emigrants from the Common Monetary Area

In the case where emigrants hold Bonds through the Central Depository, the securities accounts maintained for emigrants by Central Depository participants will be restrictively designated.

Any monies due in respect of Bonds to an emigrant holder will be deposited in the emigrant’s Blocked Rand account with the Authorised Dealer in foreign exchange controlling his blocked assets. The amounts are not freely transferable from the Common Monetary Area and may only be dealt with in terms of the Regulations.

8.3 For the purposes of clause 8, the Common Monetary Area includes the Republic of South Africa, Lesotho, Namibia and Swaziland.

Signed at Pretoria on behalf of the Issuer on

B Molefe
DIVISION HEAD:
ASSET AND LIABILITY MANAGEMENT

M Ramos
DIRECTOR GENERAL:
NATIONAL TREASURY

Annexure

Coupon and Principal strips resulting from R150, R153 and R194 bonds

Redemption Date	R 150 (12,0%; 2004/05/06)	R 194 (10,0%; 2007/08/09)	R 153 (13,0%; 2009/10/11)
Strip Bond Codes			
28-Feb-02	R101C	R101C	R101C
31-Aug-02	R102C	R102C	R102C
28-Feb-03	R103C	R103C	R103C
31-Aug-03	R104C	R104C	R104C
28-Feb-04	R105C	R105C	R105C
31-Aug-04	R106C	R106C	R106C
28-Feb-05	R107C	R107C	R107C
31-Aug-05	R108C	R108C	R108C
28-Feb-06	R109C	R109C	R109C
28-Feb-04	R006P		
28-Feb-05	R151P		
28-Feb-06	R152P		
31-Aug-06		R110C	R110C
28-Feb-07		R111C	R111C
31-Aug-07		R112C	R112C
28-Feb-08		R113C	R113C
31-Aug-08		R114C	R114C
28-Feb-09		R115C	R115C
28-Feb-07		R007P	
28-Feb-08		R195P	
28-Feb-09		R196P	
31-Aug-09			R116C
28-Feb-10			R117C
31-Aug-10			R118C
28-Feb-11			R119C
31-Aug-11			R120C
31-Aug-09			R008P
31-Aug-10			R154P
31-Aug-11			R155P

Annexure

Coupon and Principal strips resulting from R157 and R186 bonds

Redemption Date	R 157 (13,5%; 2014/15/16) Strip Bond Codes	Redemption Date	R 186 (10,5%; 2025/26/27) Strip Bond Codes
15-Mar-02	R201C	21-Jun-02	R301C
15-Sep-02	R202C	21-Dec-02	R302C
15-Mar-03	R203C	21-Jun-03	R303C
15-Sep-03	R204C	21-Dec-03	R304C
15-Mar-04	R205C	21-Jun-04	R305C
15-Sep-04	R206C	21-Dec-04	R306C
15-Mar-05	R207C	21-Jun-05	R307C
15-Sep-05	R208C	21-Dec-05	R308C
15-Mar-06	R209C	21-Jun-06	R309C
15-Sep-06	R210C	21-Dec-06	R310C
15-Mar-07	R211C	21-Jun-07	R311C
15-Sep-07	R212C	21-Dec-07	R312C
15-Mar-08	R213C	21-Jun-08	R313C
15-Sep-08	R214C	21-Dec-08	R314C
15-Mar-09	R215C	21-Jun-09	R315C
15-Sep-09	R216C	21-Dec-09	R316C
15-Mar-10	R217C	21-Jun-10	R317C
15-Sep-10	R218C	21-Dec-10	R318C
15-Mar-11	R219C	21-Jun-11	R319C
15-Sep-11	R220C	21-Dec-11	R320C
15-Mar-12	R221C	21-Jun-12	R321C
15-Sep-12	R222C	21-Dec-12	R322C
15-Mar-13	R223C	21-Jun-13	R323C
15-Sep-13	R224C	21-Dec-13	R324C
15-Mar-14	R225C	21-Jun-14	R325C
15-Sep-14	R226C	21-Dec-14	R326C
15-Mar-15	R227C	21-Jun-15	R327C
15-Sep-15	R228C	21-Dec-15	R328C
15-Mar-16	R229C	21-Jun-16	R329C
15-Sep-16	R230C	21-Dec-16	R330C
		21-Jun-17	R331C
15-Sep-14	R009P	21-Dec-17	R332C
15-Sep-15	R158P	21-Jun-18	R333C
15-Sep-16	R159P	21-Dec-18	R334C
		21-Jun-19	R335C
		21-Dec-19	R336C
		21-Jun-20	R337C
		21-Dec-20	R338C
		21-Jun-21	R339C
		21-Dec-21	R340C
		21-Jun-22	R341C
		21-Dec-22	R342C
		21-Jun-23	R343C
		21-Dec-23	R344C
		21-Jun-24	R345C
		21-Dec-24	R346C
		21-Jun-25	R347C
		21-Dec-25	R348C
		21-Jun-26	R349C
		21-Dec-26	R350C
		21-Jun-27	R351C
		21-Dec-27	R352C
		21-Dec-25	R010P
		21-Dec-26	R187P
		21-Dec-27	R188P