Amendments to the JSE Listings Requirements (the “Requirements”)

Part 1 of 2016

1 November 2016

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<th>Item</th>
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| 1 Part A | Section 3: Continuing Obligations | Adoption of the King IV Report on Corporate Governance (“King IV”) into the Requirements, as well as other governance arrangements. | King IV has been launched on 1 November 2016 and the JSE is proposing amendments on (i) the adoption of King IV and (ii) other governance arrangements. These amendments are subject to public consultation and we look forward to receiving comments thereon. Key proposed amendments include:  
- General terms and application alignment with the provisions of King IV.  
- The JSE expanded the mandatory board committees (audit committee and remuneration committee), to include the social and ethics committee. The aim is that the social and ethics committee will place focus on oversight and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships. The responsibilities of the audit committee are expanded. The amendments stipulate that the audit committee must - 
  (a) ensure that the issuer has established appropriate financial reporting procedures, and that those procedures are operating; and 
  (b) request and consider the following in their assessment of the suitability for appointment of their current or a prospective audit firm and designated individual auditor: |
(i) the decision letter and findings report of the inspection performed by the IRBA or the professional/regulatory body for auditors in their jurisdiction, on both the audit firm and their designated individual auditor;

(ii) the findings report of the internal engagement monitoring inspection performed by the audit firm on their designated individual auditor; and

(iii) the outcome and details of any legal or disciplinary proceedings instituted by any professional body of which they are a member or regulatory body to whom they are accountable, unless compliance with the requests referred to in (i) or (ii) above are unlawful for the auditor in the jurisdiction in which they are regulated.

• The JSE aims to introduce separate non-binding advisory votes by shareholders of the issuer at the annual general meeting on the remuneration policy and the implementation report (as described in King IV). Although the approach is included as a recommended practice in King IV, the JSE is considering including a mandatory, though non-binding vote on remuneration, in the Requirements. The consequences of not passing the non-binding advisory vote will require disclosure and engagement with shareholders. Evidence suggests that companies that experience significant levels of shareholder opposition against their remuneration policies enhance the level of engagement between directors and shareholders. Generally shareholders are only engaged concerning votes on transactions and the like, now shareholders will have the opportunity to indicate their position on remuneration. Further it is intended that disclosure will be required in the annual report of
the issuer concerned dealing specifically with (i) who the issuer engaged with and the manner and form of engagement and (ii) the nature and steps taken to address objections raised by shareholders. Although some jurisdictions do have a binding vote on remuneration, uncertainty and practical issues arise when a binding vote on remuneration is not passed. These issues include: (i) how and when the remuneration will be approved, (ii) how remuneration will be treated during the period that the remuneration is not approved and (iii) what if the remuneration is not approved at all. These practical issues must be considered and could have a significant impact on the business of the issuer concerned. On balance therefore we feel that a mandatory but non-binding vote will have the benefit of enhancing shareholder voice in this space but not have the negative practical effects indicated above.

- King IV application regime has been applied to the disclosure provisions in pre-listing statements and the annual report.
- The JSE Guidance Letter on Corporate Governance dated 30 September 2014 will be withdrawn and it will not be the intention of the JSE to issue a further guidance letter on corporate governance immediately once these amendments become effective.

**Transitional Provisions**

Should the amendments be accepted, the JSE will ensure that there is sufficient lead time from the effective date of the amendments to allow issuers to prepare for the implementation of these provisions. In this regard the JSE will seek implementation by Quarter 4 of 2017.
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<th>Part B</th>
<th>Section 3: Continuing Obligations</th>
<th>As with the gender diversity policy introduced by the JSE in November 2015 pursuant to paragraph 3.84(k) (now 3.84(i)) of the Requirements, the JSE wishes to add a disclosure item under corporate governance as it relates to race diversity at board level. The disclosure should clearly identify the race diversity policy at board level and require annual reporting on how the policy has been applied.</th>
<th>More than 20 years into our democracy, our economy has still not completed its transformation. In November 2015, the JSE introduced disclosure around gender transformation at board level. The amendments are proposing a similar policy of disclosure around racial transformation at board level. The proposal regarding disclosure around gender transformation was well received by listed companies. We hope that this new requirement regarding disclosure around racial transformation will also be well received. The JSE’s requirements on transformation are twofold: • Racial diversity disclosure at board level; and • Publication of their BBBEE scorecard on their website. Please refer to Items 2 below.</th>
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<td>Section 16: Periodical Returns Appendix 1 to Section 11</td>
<td>The JSE wishes to include disclosure on the websites of issuers regarding their compliance with broad-based black economic empowerment pursuant to (i) the Broad-Based Black Economic Empowerment Amendment Act No. 46 of 2013 (the “BBBEE Amendment Act”) and (ii) the Broad-Based Black Economic Empowerment Regulations 2016 (which came into force on 6 June 2016) (the</td>
<td>Section 13G(2) of the BBBEE Amendment Act stipulates that all public listed companies on the Johannesburg Stock Exchange must provide the Commission, in such manner as may be prescribed, a report on their compliance with broad-based black economic empowerment. Section 12(3) of the Regulation requires the submission of a compliance report in the prescribed form to the Commission. The form is attached for ease of reference. The information required to be disclosed in the form must reflect the state of compliance with the following elements:</td>
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The JSE must be notified once the annual compliance report is placed on the issuer’s website. The annual compliance report must reflect how each element contributes to the outcome of the scorecard in terms of the Codes of Good Practice.

Section 12(5) of the Regulations stipulates that where the public company listed on the JSE has included the annual compliance report in its audited financial statements and annual report, such company may file the audited annual financial statements and annual report with the Commission within 30 days of the approval of the audited annual financial statements and annual report.

On the basis that the Regulations allow for the incorporation and disclosure of the annual compliance report in the annual report of issuers, the JSE wishes to amend the Requirements to make the disclosure of the annual compliance report on the website of the issuer mandatory. The aim with the approach will be to ensure equal and consistent dissemination by all listed companies of compliance with broad-based black economic empowerment.

It should be noted that the preparation of the annual compliance report is a statutory obligation on all companies listed on the JSE pursuant to the provisions of the BBBEE Amendment Act and the JSE will merely be requiring the disclosure of such compliance report on the website of issuers.

The JSE will require issuers to notify the JSE once the report has been published on the website of the issuer.
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<td><strong>Section 11: Circulars, pre-listing statements/prospectuses and announcements.</strong></td>
<td>Paragraph 11.17: Capitalisation issues, cash disbursements and dividends.</td>
<td>Strate (Pty) Ltd submitted a request for an amendment to the Requirements in order to comply with the Standard Release Guide 2016 which introduced significant changes to the processing of dividends and cash disbursements in the South African market. On this basis the JSE will now require disclosure of “country source of income” in all dividend announcements.</td>
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<td><strong>Section 22 and Schedule 8: Accreditation of auditors, reporting accountant specialists and IFRS advisors</strong></td>
<td>A new accreditation model will be introduced for the accreditation of audit firms and individual auditors.</td>
<td><strong>Point 1</strong></td>
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<td>Section 22 and Schedule 8 will be merged and simplified to remove various duplications.</td>
<td>The JSE introduced its auditor accreditation model in 2008. The model has been running effectively over the past eight years and most importantly has delivered the desired regulatory effects for the JSE.</td>
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<td>The model relies heavily on the external inspections results of the Independent Regulatory Board for Auditors (“IRBA”) (the audit regulator) as an indicator that the audit quality of audit firms and individual partners is at an appropriate level given the public interest in listed entities. Changes by the IRBA in the inspections methodology together with an increased number of requests for inspections have led to challenges and congestions in the JSE accreditation system.</td>
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<td>The issue relates to Schedule 8.3(c)(i) of Requirements which requires an auditor to have a satisfactory or clean IRBA engagement inspection result (which is the review of the file for a specific audit) (&quot;engagement inspection&quot;) on initial application in order to be accredited. The IRBA has been faced with challenges through specific and urgent requests from auditors for these engagement inspections. The IRBA therefore issued a communiqué in August 2014.</td>
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setting out a new process for auditors to follow in order to ensure that their requests could be attended to. In line with this communication the Requirements were updated to indicate that the engagement inspection needed to be on an appropriate public interest engagement.

Despite the new process introduced in 2014, the IRBA continues to face challenges in responding to the increasing number of requests from auditors to be inspected for the purposes of our accreditation system. The problem has become exacerbated by the JSE’s introduction of an accreditation model for debt issuers and the obligations under the Companies Act for audit partner rotation after 5 years (these rotations are beginning to occur). IRBA therefore issued a communiqué in June 2016 indicating that they will no longer be able to accommodate any requests for JSE accreditation purposes. The result is that audit firms are faced with an increasing list of partners in need of accreditation that they are currently unable to accredit.

In addition to the above problems which have impacted new accreditations, certain of the procedural changes that IRBA has made, and intends to make in the near future, mean that it will no longer be practical for the JSE to implement its current Requirements as they relate to the outcome of IRBA reviews for firms and partners that are already accredited.

It has therefore become necessary to consider a revised approach for auditor accreditation.

The new accreditation model will result in changes to the initial and continuing requirements for accreditation of audit firms and individual auditors so that there is no longer reliance placed on the IRBA apart from new firms, where reliance on the firms’ International Standard of Quality Control (“ISQC 1”) inspection by the IRBA is still considered critical.
The new model will:

- Require an audit firm seeking accreditation to have had a firm level ISQC 1 inspection performed by the IRBA or (in the case of an auditor not registered in South Africa) the regulatory body in their jurisdiction and for the JSE to be satisfied with the outcome;

- For new partner accreditations:
  1. The audit firm must have performed an internal monitoring inspection on a completed assurance engagement on the partner in question and they must be satisfied with the outcome. The engagement subject to inspection must be on an entity that is deemed appropriate for JSE auditor accreditation purposes and they must have signed the audit report within the past 12 months;
  2. A satisfactory IRBA engagement inspection on an entity that the JSE deems appropriate will also be acceptable;
  3. The partner must not have received an unsatisfactory IRBA engagement inspection or re-inspection within 30 months prior to the date of their application;
  4. The individual must have been an audit partner signing off on audit reports for a minimum of 3 years (although the JSE may accept a lesser period under exceptional circumstances); and
  5. The CEO or Head of risk partner must provide confirmation that they believe that the individual has the appropriate competence, capabilities and experience and that the support structures that will be provided with are appropriate;

- Once accredited, an internal engagement monitoring inspection must be performed by the audit firm every 3 years for all accredited partners;
For existing accredited audit firms and partners, ongoing eligibility will no longer be determined based on the immediate outcome of the IRBA inspections. Instead -

1. The audit firm and individual engagement partner must provide the outcome of their IRBA inspections and internal inspections and the outcome of any disciplinary or legal action taken by IRBA against the individual or firm to the audit committee of any JSE listed company to which they are the engagement partner or to any prospective new engagements;

2. The audit committee must request and consider the IRBA inspections from both the audit firm and audit partners as well as the audit firm’s internal engagement monitoring inspections. Furthermore the audit committee must request and consider the outcome of any disciplinary or legal action taken by IRBA against the individual or firm; and

3. The JSE will continue to have the right to remove an auditor’s accreditation based on the outcome of an IRBA inspection, subject to the IRBA first concluding any investigation process.

An important consequential change is that foreign registered firms will now also have to perform internal engagement monitoring inspections that will be used for initial accreditation purposes. Previously the requirements did not rely on any engagement monitoring inspections for foreign partners as there was no relationship between those foreign auditor regulators and the JSE by which the JSE could obtain such inspections.
| 5 | **Section 1 and 22**<br>Accreditation of audit firms and individual auditors | **Amendments will be made to**<br> reinstate the position where the JSE can take action against (i) IFRS Advisors and (ii) auditors for breaches of the Requirements other than for audit work. | **When the auditor accreditation model was introduced in 2008, at the request of IRBA, the JSE sanctions applicable to auditors were limited to their removal of their accreditation status (either on a temporary or permanent basis).**<br>Two unintended consequences resulted from the amendments the JSE made at that time:<br><ol><li>The JSE is unable to censure parties that are not registered with IRBA such as IFRS advisors;</li><li>Parties accredited with the JSE may breach aspects of the Requirements outside of the actual signing of the audit report, and neither the JSE nor IRBA can take appropriate action against these parties. For example if an auditor negates to make certain notifications on a timely basis, the only action the JSE can take is to remove them from the register. This type of action would appear to be inappropriately harsh. Timely notifications have however always been important, and will become even more important under the new accreditation model.</li></ol> |

Point 2

The drafting of the requirements relating to auditor accreditation is unnecessary complex and there are various duplications. This has been simplified with Schedule 8 being merged into Section 22. These changes are not marked up, and instead only where an existing requirement has been clarified or expanded on have we marked up the change. None of the existing requirements has been removed. These requirements have been reduced to 13 pages in length from the previous 17 pages.

Refer to Annexure A for detailed amendments.
Amendments will therefore be made to the Requirements allowing for disciplinary action of private or public censures or fines in terms of the FMA:

1. For IFRS advisors, for any breach of the Requirements.
2. For auditor, reporting accountant and/or reporting accountant specialists, for breaches of paragraphs 8.56, 22.10(f)(g)(h), 22.21 and 22.23 (which were old paragraphs 8.56, 22.5(f), (g), 22.6 and 22.8).

Refer to Annexure B for detailed amendments.