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The Financial Director
c/o Sponsors and Designated Advisers

GUIDANCE LETTER: DIRECTORS' RESPONSIBILITY ON FINANCIAL CONTROLS

Paragraph 3.84(k) of the JSE Listings Requirements ("**the CEO and FD sign off**") was introduced in December 2019 and is effective for issuers with a year-end on or after 31 December 2020. The JSE has been requested to provide clarity on certain aspects of the provision.

<u>Introduction</u>

At the onset the JSE wishes to emphasise that it is not following a USA Sarbanes Oxley approach with this new requirement. The CEO and FD sign off should not be regarded as an obligation to obtain external assurance. In fact, given that the JSE is not prescribing the nature of the internal financial control ("**IFC**") framework (but expects that it will be entity specific) we envisage that it will be difficult for auditors to issue assurance reports on the IFC environment.

The JSE believes that this entity specific approach is the appropriate measured response within the South African context and is in line with the King Code.

It is also important to note that the CEO and FD sign off is prefaced by the words:

"after due, careful and proper consideration".

The statement is not 'to the best of our knowledge' but rather requires the directors to actively take steps as would be expected of any executive director exercising their fiduciary duty.

Materiality

In terms of the JSE Listings Requirements ("**the Requirements**") financial information must be prepared in accordance with IFRS. The application of materiality is an important concept dealt with by IFRS. The reference to materiality in paragraph (a) of the CEO and FD sign off must be interpreted in the context of IFRS.

The second obligation under the CEO and FD sign off rule (as detailed in (b)) must be read in the context of paragraph (a). The term 'no' does not mean a one hundred percent factual correctness but rather that after due, careful and proper consideration the directors agree that no facts have been omitted or untrue statements made that would make the Annual Financial Statements ("**AFS**") materially false or materially misleading in terms of IFRS.

Which internal financial controls ("**IFC**")

The IFC in paragraph (d) of the CEO and FD sign off clearly link to the preparation of the AFS, and are those internal controls which ensure that material information is reported in accordance with IFRS and that no material information, required by IFRS, is omitted.

Paragraph (c) of the CEO and FD sign off is not limited to the annual financial statements and would cover other periodic financial statements prepared in terms of the Requirements and IFRS including: interims; provisionals; preliminary financial statements and forecast financial information falling within the ambits of paragraph 8.43 of the Requirements.

The focus of both paragraphs (c) and (d) is on financial information that is published in terms of the Requirements.

Remedial action

Paragraph (d) of the CEO and FD sign does not place an obligation on these parties to ensure that the remedial action is fully implemented and effective at the time of signing of the statement. Such a narrow interpretation would be impractical. For example, if a weakness in the IFC is only identified after the year end (and close to the date that the publication date for the AFS), it would be unreasonable to expect an issuer to delay releasing their results in order to test the effectiveness of the remedial action. Remedial action is an ongoing process.

Restatements

Practice note 3/2017 deals with the obligations of issuers to report restatements to the JSE. As a reminder, not all restatements need to be reported to the JSE. It would be unreasonable for the JSE to ask an audit committee to confirm that 'steps have been implemented to prevent the reoccurrence of a restatement' (per paragraph 3(iv) of Practice note 3/2017) where that restatement is as the result of the adoption of a new accounting standard.

By extension, not all restatements would point to a weakness in the IFC. This determination needs to be made on a case by case basis.

Modification of the wording to the CEO and FD sign off

The CEO and FD sign off must be made exactly as set out in the Requirements. Amending of the wording is not permitted.

We understand that issuers may wish to include the following additional information:

- details on the internal financial controls the issuer has in place (either directly or via a cross reference); and/or,
- details regarding deficiencies in internal financial controls.

The JSE has no objection such (or similar) supplementary wording being included on a standalone basis after the required statement, provided that such additional information does not detract from or nullify the meaning and intention of the CEO and FD sign off.

Further guidance on the application of the CEO and FD sign off

The JSE wishes to draw attention to the fact that the South African Institute of Chartered Accountants is close to finalising the documents set out below:

1) A document that provides principle based guidance to assist the CEO and FD to be in a position to make the required sign off (i.e. a preparer document); and
2) A separate document that discusses the potential implications of the CEO and FD sign off for the auditor (i.e. the auditors' perspective).

Conclusion

The nature of the questions we have received (as addressed above) highlights to us that this new Requirement has brought a focused attention on IFC and financial reporting. We are confident that this new Requirement will assist in ensuring that the control environment of each issuer continues to mature over time and as such contributes to quality financial reporting of issuers listed on the JSE.

Please contact Tania Wimberley on 011 520 7067 or taniaw@jse.co.za should you have any questions or queries regarding the content of this letter.

Yours faithfully

A F VISSER: DIRECTOR

ISSUER REGULATION