



Regulatory Committee

SRO Oversight Committee Report

February 2019

➤ **A2X MARKETS**

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2018 Full Year Report to the A2X Board of Directors

13 February 2019

Dear Mr Chairman,

This report is tabled by the Regulatory Committee describing its work for the year ended 31 December 2018.

The Regulatory Committee is a formal sub-committee of the A2X Board, and this report is prepared in its final format for the Board's consideration. In adherence to its mandate, a copy of this report will be submitted to the Financial Sector Conduct Authority (FSCA).

The Committee is comfortable that it is constituted in a manner that allows it to independently fulfil its functions and that it does not have a conflicting duty to management or the A2X Board.

The Regulatory Committee meeting held its inaugural meeting on 23 August 2018 and met again on 7 November 2018. This report must be considered in the context of:

- » A2X having commenced business on 6 October 2017; and
- » the Committee only being in operation for less than half of 2018.

Furthermore, a summary of this report will be prepared for inclusion in the A2X Annual Report.

Bert Chanetsa

Chairman of the Regulatory Committee



The Financial Markets Act, no. 19 of 2012

The Financial Markets Act, no. 19 of 2012 ("FMA") governs the operation of a market infrastructure.

The purpose of the FMA is;

"To provide for the regulation of financial markets; to license and regulate exchanges, central securities depositories, clearing houses and trade repositories; to regulate and control securities trading, clearing and settlement, and the custody and administration of securities; to prohibit insider trading, and other market abuses; to provide for the approval of nominees; to provide for codes of conduct; to replace the Securities Services Act, 2004, as amended by the Financial Services Laws General Amendment Act, 2008, so as to align this Act with international standards; and to provide for matters connected therewith."

The objects of the FMA are set out in Clause 2;

"This Act aims to —

- » *ensure that the South African financial markets are fair, efficient and transparent;*
- » *increase confidence in the South African financial markets by — (i) requiring that securities services be provided in a fair, efficient and transparent manner; and (ii) contributing to the maintenance of a stable financial market environment;*
- » *promote the protection of regulated persons, clients and investors;*
- » *reduce systemic risk; and*
- » *promote the international and domestic competitiveness of the South African financial markets and of securities services in the Republic."*



Constitution of the Regulatory Committee

The Regulatory Committee (“Committee”) was created as an A2X Board sub-committee on 23 August 2018. The purpose of the Committee is to oversee the SRO activities of A2X. Specifically it serves as an independent check on the appropriateness of A2X’s SRO activities and the manner in which conflicts of interest are managed by A2X. It also creates a reporting line between the Legal and Regulation team of A2X, responsible for issuer regulation and market regulation, and the A2X Board which is in addition to the direct reporting line between the Chief Executive Officer and the head of this division.

The Committee reports to the A2X Board on at least an annual basis and it has broad powers to require input from the head of the regulatory focused division and any other A2X staff.

The Committee consists of an independent chairman, Bert Chanetsa and two other non-executive Board members, Brenda Matyolo and Ashley Mendelowitz. Observers also attend meetings of the Committee to provide detailed input when required. See Annexure A for the Committee’s meetings and attendance record.

Members of the Committee recuse themselves when a matter being discussed involves information that could give rise to a potential personal conflict of interest. The Company Secretary ensures, prior to and at meetings, that members recuse themselves where appropriate. The Secretary confirms that there were no such conflicts during this period.

A representative from the FSCA and the Prudential Authority has a standing invitation to attend the meetings of the Committee to ensure that matters that concern the respective Authority is brought to the attention of, and addressed by the Committee.



Terms of Reference of the Regulatory Committee

The FMA requires A2X to take the necessary steps to avoid, eliminate, disclose and otherwise manage possible conflicts of interest between its regulatory functions and its commercial services.

Clause 62 of the FMA states,

A market infrastructure must, where applicable, take necessary steps to avoid, eliminate, disclose and otherwise manage possible conflicts of interest between its regulatory functions and its commercial services, which steps must include the implementation of appropriate arrangements, which arrangements must comply with the requirements prescribed by the registrar, be documented and be publicly available; and an annual assessment, in the manner prescribed by the registrar, of the arrangements referred to in subparagraph (a), the results of which must be published.

Clause 62 of the FMA is supplemented by FSCA Board Notice 1 of 2015.

The Committee reviewed its Terms of Reference at its last meeting of 2018. The said terms of reference comply with both the general provisions of the FMA as well as the specific requirements set out in the said board notice.



Report to the A2X Board and FSCA

The Committee examined and reviewed A2X's regulatory function to the extent required to fulfil its statutory obligation as a Self-Regulatory Organisation. The report is prepared in accordance with the mandate of the Committee drafted under the FMA and Board Notice 1 of 2015. The findings of the Committee are detailed in the report below.

The Committee performed both:

- » an annual review and approval of its terms of reference; and
- » a self-evaluation of its performance.

This report must be considered in the context of:

- » A2X having commenced business on 6 October 2017; and
- » the Committee only being in operation for less than half of 2018.

The Committee's mandate requires it to oversee ten items relating to the performance of the regulatory function within A2X. They are as follows:

1. *Review the arrangements, resources and infrastructure maintained by A2X to ensure they are sufficient to fulfil the A2X obligations under the FMA.*

The Committee considered the human capital resource including its qualification, relevant experience and retention of skills. Overall the Committee judged the human capital resource as sufficiently adequate to enable A2X to perform its regulatory functions.

The Committee noted that the Head of the Legal and Regulation Division confirmed that A2X Management did not constrain the resourcing of the departments.

The Committee noted that the FMA no longer requires the annual renewal of an exchange licence. The renewal application has been replaced with a self-assessment questionnaire that the exchange is required to complete. A2X is in the process of



completing this questionnaire, and it will be submitted to the FSCA by 28 February 2019.

- 2. Report to the Board on whether A2X has applied its regulation fairly and consistently to its authorised users and issuers and have imposed appropriate sanctions for non-compliance.*

The Committee noted that since the A2X market opened for trading, there had not been any investigations conducted by the Legal and Regulation Division. Given the fact that the A2X listing model is that it only secondary lists companies in good standing with the host exchange, the expectation is that there will not be many (if any) incidences of non-compliance by an issuer with the A2X Listings Requirements.

The Committee also noted that there is a stringent, non-bias and independent authorised user application process. Each application is assessed on merit which includes a rigorous interrogation of all documents supplied with every application received.

- 3. Review the decision taken by the Executive Committee of A2X where the Executive Committee requires alterations to the wording of a proposed amendment to the Listings Requirements, which in the opinion of the Executive responsible for the regulation of issuers negatively impacts the regulatory objective of the proposed amendment.*

During the period under review there were no decisions of the Executive Committee in respect of the Listings Requirements or any decision by that Committee which negatively impacted the regulatory objective of the proposed amendment.

- 4. Review the decision of the CEO of A2X ("CEO") where a new post or new appointment of an existing position within the teams responsible for issuer regulation or market regulation is declined by the CEO. The Committee will then, if appropriate, prepare a recommendation to the CEO in support of the new post or appointment;*



During the period under review, there were no new posts or new appointments within the Legal and Regulation division.

- 5. Review a rule proposed by the Executive Committee, where the Executive responsible for market regulation is concerned that a business rule proposed by the Executive Committee is in conflict with, or compromises a regulatory principle and if appropriate, the Committee will raise this with the Executive Committee who will table the findings of the Committee for further consideration.*

During the period under review there were no rules proposed by the Executive Committee where the Head of Legal and Regulation was concerned that the said rule proposed by the Executive Committee is in conflict with, or compromises a regulatory principle.

- 6. Assess any reports by the Executives responsible for the market regulation and regulation of issuers or any another staff member that undue pressure has been placed on them by any member of the Executive Committee in respect of regulatory processes;*

During the period, there were no reports of this nature that were required to be considered by the Committee.

- 7. Assess the perceived or actual conflicts of interest in respect of its regulatory oversight function that may arise in respect of any proposed new business, function or service to be performed by A2X not provided for as licensed functions in the FMA. In the event that the Committee is not satisfied with the manner in which any issue relating to an actual or perceived conflict of interest is resolved by the Executive Committee or Executive or staff member, the Committee may report the matter to the Board;*

During the period, there were no perceived or actual conflicts of interest of this nature that were required to be considered by the Committee or reported to the Board.



8. Report to the Board on whether A2X has cooperated with the FSCA and other SROs to investigate and enforce applicable laws and regulations;

During the period, there were no areas where A2X was required to cooperate with the FSCA or other SRO to investigate and enforce applicable laws and regulations.

9. Report to the Board on whether A2X has appropriately managed actual and perceived conflicts of interest in relation to its SRO functions and has avoided using its regulatory authority to allow itself or any market participant to gain an unfair advantage;

The Committee meeting minutes are tabled at A2X Board meetings with feedback on the discussions of the Committee. In the period, there were no instances where A2X used its regulatory authority to allow itself or any other participant to gain an unfair advantage.

10. In the context of a perceived conflict of interest, report to the Board on whether A2X has followed professional standards of behaviour on matters such as confidentiality and procedural fairness in performing its SRO activities.

The Committee was satisfied that A2X has acted appropriately and professionally as required on such matters.

Bert Chanetsa

Chairman (on behalf of the Regulatory Committee).



Annexure A

Meeting Attendance

Committee Member	23 August 2018	7 November 2018
Bert Chanetsa (Chairman)	Present	Present
Brenda Matyolo	Present	Present
Ashley Mendelowitz	Present	Absent
Gary Clarke (Company Secretary)	Present	Present

Invitees who attended meetings:

- » Luthfia Akbar- Legal and Regulation
- » FSCA Representatives