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JSE Consultation Paper
May 2022
Comments Schedule

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JSE

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Member of the International Federation of Accountants (IFAC), Pan African Federation of Accountants (PAFA),
Global Accounting Alliance (GAA), Chartered Accountants Worldwide (CAW) and Investors in People. Proudly South African

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Organisation: The South African Institute of Chartered Accountants (SAICA)
Date: 20 June 2022

As mentioned in the Consultation Paper, the response paper may include personal information as contemplated in applicable data protection legislation, including, but not limited to the Protection of Personal Information Act, No. 4 of 2013 and I/we understand, acknowledge and confirm that your personal information may be used by the JSE for purposes of the provision of the response paper. The JSE may also elect to contact me/us to obtain more clarity where required.

All personal information provided in relation to the response paper will be collected, used, shared, retained and otherwise processed by the JSE in accordance with the JSE's Privacy Policy (https://www.jse.co.za/privacy-policy). By the completion and submission of my/our comments for purposes of the response paper (including personal information), I/we consent to the processing of the above personal information for the above purpose as well as the purposes set out in the JSE Privacy Policy.

I/We agree to the statement above:

Yes	✓	**No**	

(Please tick the appropriate box before submission)

For information or questions contact:
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	Request for Guidance & Proposals	Comments
1	**Request for Guidance 1: Auditor Accreditation Model** Considering the Financial Reporting Improvements and the JSE's involvement in various initiatives that enhance financial reporting, is there support for removal of the Auditor Accreditation Model? If supported, are there any suggestions on measures that can be placed on issuers and the audit committee to promote a higher confidence in the financial reporting process?	SAICA supports the removal of the Auditor Accreditation Model for the reasons explained in the consultation paper. We however suggest the retention of some of the measures currently in Section 22 to continue to promote confidence in the financial reporting process. Obligations on audit committees and audit firms are peremptory for the appointment of auditors (firms and individual auditors), reporting accountants and reporting accountant specialists. The Listings Requirements are currently the appropriate mechanism to continue to enforce the obligations on audit committees. The IRBA is the appropriate Regulator to enforce measures against auditors. In principle, we suggest that the JSE Listings Requirements should set out the obligations of the audit committee: • The Audit committee should be responsible for the appointment of the auditor, reporting accountant, and reporting accountant specialist of an issuer. • The suitability criteria (as set out in the Listings Requirements) of auditors, IFRS advisers, reporting accountants and reporting accountant specialists should be assessed by the audit committee. The possible changes to the Listings Requirements may have a significant impact on auditors, IFRS advisers, reporting accountants and reporting accountant specialists. Guidance may be needed to explain these changes, which may be issued by another professional body, such as SAICA, the Institute of Directors or the Independent Regulatory Board

		for Auditors (IRBA) in collaboration with the JSE. Without detracting from the generality of our comments in principle above, we suggest retention of the following sections in Section 22, either as part of an amended section 22 or incorporated elsewhere in the Listings Requirements: • Section 22.3 – 22.9: The Listings Requirements should continue to specify criteria for the audit firm, IFRS adviser, reporting accountant and reporting accountant specialist. We suggest that the criteria should be renamed "suitability criteria" as opposed to the current "eligibility criteria". The criteria currently contained in the Listings Requirements would need to be amended, as appropriate, to accommodate the removal of the Auditor Accreditation Model. It should no longer be required of the audit firm, IFRS adviser, reporting accountant and reporting accountant specialist to demonstrate their suitability *to the JSE.* • Section 22.4: The Auditing Profession Act, Act No 26 of 2005 (the APA) determines that only auditors registered with the IRBA may perform an "audit" as defined in the APA. It is therefore unnecessary for the JSE Listings Requirements to require a South African auditor to be registered with IRBA. However, that may not be the case regarding audit firms and their individual auditors registered in a jurisdiction other than South Africa. We suggest the retention of the requirement that the audit firm and the individual auditor who will sign the assurance report of the applicant issuer must be registered with the

IRBA for that purpose or in the instance of an audit firm and their individual auditors registered in a jurisdiction other than the Republic of South Africa, with a similar regulatory/ professional body for auditors.

- Section 22.4(b): We suggest the retention of the requirement that the audit firm must have at least one IFRS adviser, either internal or external to the firm as part of the specified suitability criteria of an audit firm. It should however not be necessary for the JSE to have visibility of all IFRS advisers.
- Section 22.4(c): We suggest the retention of the requirement that the IRBA or regulatory/professional body for auditors in the jurisdiction must have completed a firm-wide independent quality control (ISQC 1) <u>or quality management (ISQM 1</u>) inspection on the audit firm in its current or previous inspection cycle as part of the specified suitability criteria of an audit firm;
- Section 22.4(j): In order to facilitate communication between the JSE and the audit firms, we suggest that details of duly authorised individual/s to deal with the areas of communication with the JSE (i.e. a contact person) should still be provided to the JSE on an annual basis:
    - The head of risk or a similar senior person within the audit firm who is tasked with the responsibility of risk management, to deal with any audit quality related matters.
    - a senior internal IFRS adviser or external IFRS adviser (where such a person is contracted by the audit firm), to deal with any IFRS related matters; and

		- if applicable, a senior reporting accountant specialist, to deal with any reporting accountant related Listings Requirements matters. • Section 22.14: The JSE should consider implementing a mechanism of keeping abreast of the external auditors (firms and individuals) and reporting accountants and reporting accountant specialists that are performing services for issuers. This may take the form of the JSE keeping a list of audit firms, individual auditors, reporting accountants and reporting accountant specialists that are performing services for issuers. These lists would however not be published publicly to avoid creating the impression that the JSE has accredited such persons. • Section 22.15 to 18: The roles and responsibilities of the auditor, IFRS adviser, reporting accountant, reporting accountant specialist, as amended by the removal of the accreditation model, should continue to be set out in the Listings Requirements. • Specifically regarding sections 22.15(f) and (g), we suggest retention of the following subsections (f)(ii);(iii);(v);(Vi)(vii); (g)(i) to (iii). • Section 22.15(h): We suggest the retention of this subsection. Subsection 22.15(h)(ii) would need to be amended, as appropriate, regarding ISQM 1. • Section 22.16(b): We suggest that the requirement on the auditor to notify the JSE when an issuer has misrepresented the content of the auditor's report should be retained.

2	**Request for Guidance 2: International Exchanges** Given the present list of twelve recognised foreign exchanges above, are there any recommendations as to which other international exchanges the JSE should target in order to make its secondary listings offering more appealing and accessible? Considering the concerns raised on the attractiveness of the JSE's secondary listings offering, is there support to reconsider the delisting regime for secondary listed companies?	No specific comments were received.
3	**Proposal for Consideration 1: Market Segmentation** Considering the recent spate of delistings, the steady decline in the number of listed companies over the last 15 years and calls for the JSE to cut red tape, is there appetite in the market to consider the above market segmentation to provide the necessary regulatory relief for mid/low cap and growth companies? Are there any other thoughts you may wish to share with the JSE on how to better position the proposed market segmentation?	SAICA supports this proposal for the reasons provided in the consultation paper.
4	**Proposal for Consideration 2: Dual Class Share Structures** There appears to be a general acceptance globally for the listing of DCS structures, provided there are suitable safeguards in place to promote corporate governance. In order for the JSE to remain competitive and relevant, the question is whether there is investment appetite for companies with DCS structures to list on the JSE, provided due safeguards to enhance governance are	We believe that it is challenging to create a structure that is fair to all shareholders, as usually the dual-class shareholding is oftentimes intended to give preference to one shareholder, usually the founding family. General examples in the JSE are those with extra-ordinary voting powers, seen in listed company such as Naspers and Shoprite. Another example of dual-listed shares is those found in the REIT sector of JSE, where there are 2 classes of shares with similar

	in place similar to those imposed by the SGX and LSE?	voting power, but different remunerative structures, e.g. where class A would receive a dividend +CPI growth annually, while class B would receive the residual. While we would prefer that none of these exist, as the concept should be that all shareholders are equal, a number of these listings on the JSE are "grandfathered" or took place many decades ago. We believe listing on the board should not encourage these kind of shareholding structures, as what may happen is that the controls that are intended to be in place to provide fairness to all shareholders fail, and one category of shareholders are prejudiced in favour of the other shareholder.
5	**Proposal for Consideration 3: Free Float & New Listings** Considering the developments in the UK and EU on the reassessment of free float, the questions the JSE poses are the following: • Is free float a good measure to ensure liquidity? • Could a minimum free float requirement be a barrier to listing? • Is the recommended threshold for a Main Board listing set at 20% appropriate?	We believe that free float alone is not an adequate measure of liquidity of the security on the market and should be looked at alongside volume traded and value traded as a percentage of the market capitalisation of the security. A minimum free float should be required to list, as the intention is to have a security that can be traded on the exchange, and the exit or entry of the company should not be restricted as the company does not trade on the exchange or extremely low amounts are traded. If free-float is used, there should be a consideration of institutional investors that are passive investors that should be factored in the calculation, as the intention of these are to not trade after purchasing the security, and therefore the definition of free-float should factor these, where they are large holdings in a

		security.
6	**Proposal for Consideration 4: Free Float Assessment** Considering the liquidity fund managers/ institutional investors offer, should holdings of 10% or more in an applicant issuer on listing qualify for free float, provided the funds used to acquire the interest in the applicant issuer represents those of underlying clients/policyholders and not that of the institutional investor itself and/or its shareholders?	We do not yet have a definitive opinion on whether the 10% is an adequate shareholding. However, we do believe a look-through approach is required from the determination of the passive holding if it were to be removed, as some asset managers have multiple mandates, both discretionary and non-discretionary (example would be PIC where they have both an active mandate where they can trade freely, but also a passive mandate which they cannot) and this creates nuance in terms of looking through to exclude the holding. The idea is ultimately that free float should be a reflection of what is available for general market participants (not take-overs) and indefinite holdings by institutions are not available for general market participants.
7	**Proposal for Consideration 5: Depositary Receipts & Africa** Considering the growth potential in the wider Africa region and the nature of a DR, is there support for the proposal to afford investors access to Africa listings and beyond through DRs on the JSE?	SAICA supports this proposal for the reasons provided in the consultation paper.
8	**Proposal for Consideration 6: JSE Technology Board** There are many high-tech and innovation companies incorporating DCS structures globally. Often companies in the technology sector are considered to be high growth companies. As a result, the JSE seeks to establish a Technology Board with clearly identified regulatory flexibilities to guarantee that it caters to their unique nature. Recognising that South Africa may not be the leader or even well known for fintech start-ups, a platform to enhance and support fintech innovation may be worth considering given the success	SAICA supports this proposal for the reasons provided in the consultation paper.

	of such platforms in other markets. Depending on the acceptability of DCS structures for the South African financial markets as proposed above, international fintech companies may consider the JSE as a secondary listings destination of choice to raise capital. The JSE is posing the question: Is there investment appetite for a Technology Board on the exchange, with more regulation flexibilities in order to promote growth?	
9	**Proposal for Consideration 7: Simplification Project** Is there a demand from market participants for the JSE to commence with a project to rewrite and repackage the Listings Requirements in their entirety? The aim is to simplify the application and significantly reduce the volume of the Listings Requirements.	SAICA supports proposals to simplify the JSE Listings Requirements in their entirety and would welcome a reduction in volume and simplified application.
10	**Any other Proposals or Comments?**	SAICA supports the JSE's project to simplify financial reporting disclosures - we support the proposals as set out in Section 4 *Financial reporting disclosures* in the consultation paper. As set out in the consultation paper, some reporting requirements in section 3 of the Listings Requirements result in duplication (for example abridged reports), and we support the removal of those provisions and the introduction of a new short form announcement. SAICA also supports the JSE's project to develop the Sustainability Disclosure Guidance and Climate Change Disclosure Guidance that seeks to assist companies to navigate the landscape of sustainability reporting standards and intended to provide guidance explicitly for the South African context but aligned and consistent with International

		Standards and with a greater focus on the control environment.