PRESIDENT'S REPORT

ANNUAL GENERAL MEETING HELD ON 6 APRIL 2017

Good Evening Ladies and Gentlemen.

I would like to start off by extending our sincere thanks to STANLIB for hosting us this evening and to each and every one for taking the time out of their very busy schedules to join us.

We find ourselves living in very difficult and noisy times with International Global markets experiencing real turbulence whilst internally within South Africa, we are facing some extreme turmoil, anxieties and challenges with uncertainty both socio economically and politically. The recently announced changes in the Cabinet, including the firing of the Minister of Finance and his deputy, to the downgrading to junk status by S&P and being put on a watch list by Moody's is extremely disconcerting. These events provoke emotions and uncertainty. It also brings with it different interpretations and opinions of what the future will bring. As always, the combination of sentiment, macroeconomic and political consequences, and the flow of money in financial markets will present both risks and opportunities for us.

Growth of our market

JSE trades executed have grown exponentially over the past couple of decades both in value and volume. This can positively be mapped and seen against major structural changes and activities taking place within the market. These include but are not limited to the demutualization of the exchange, the listing of insurance companies in 1999, dual listings in 2002, emerging markets creating diversified asset classes and the start of a resource super cycle in 2006. But it is imperative for us to give credit to the JSE for growth as result of major structural changes like the introduction of electronic trade, total anonymity and tick sizes in 2002, commission on principal trades, direct market access (DMA) in 2006 and single stock futures and the continuous upgrading of trading technology platform and the migration to MIT, clearing and electronic settlement and of course world class regulation. The majority of the growth in recent years has been driven by a dynamic shift in the market as a result of technology and the JSE facilitating the great utilisation of technology.

The JSE enjoyed markets reaching record months, in both value and volume in 2016 with revenue streams of approximately R2.38 billion and profits of R920million. The JSE managed to reduce trading fees and gave considerable rebates back to its members on BDA fees. The markets moved to T+3 equity settlement in 2016 with zero failed trades to date. We are truly grateful to the JSE and all those members and market participants for working tirelessly together to ensure its great success. This is an exceptional feat and is something which is totally unheard of and proves that if we work together as a collective, the industry can be exceptionally powerful and successful.

Changes in our markets

This been said, we find that the financial markets are facing another dynamic shift, but this time it will be driven by regulations. Currently more reference is made to MiFiD11 and new legislation than latency and IT developments and we are entering a phase where the pendulum has swung and markets will be driven predominately by regulation rather than technology. The FSB is looking at implementing Twin Peaks and are investigating the implementation of minimum professional qualification standards and the implementation of CPD – Continuing Professional Development. At the same time we are looking at the new Financial Services Bill and pending changes in FIC legislation.

The landscape that we have become accustomed to is drastically changing as a result of reengineering within the financial markets with regards to execution, clearing, settlement and regulation. The granting of three new exchange licenses by the FSB adds another layer of complexity to our markets with potentially a couple more licenses on the horizon. We do acknowledge the need for competition within our markets as this could drive costs down as well as could have the benefits of enhancing liquidity. We are of the opinion that competition is good and there is empirical evidence that where competition has been introduced, costs have been reduced.

Challenges that we currently face

The main differentiating factor of the SA market to the rest of the continent is its regulation and governance. Enforcement of regulation would not be possible to achieve if the regulatory process is duplicated across markets and participants, without legislated sharing of information (membership, code of conduct and disciplinary procedures, capital requirement, margining, position and counterparty risk and offset of positions) between licensed exchanges. As we support a well-regulated, well-functioning, efficient market place there are multiple unanswered questions and comments from industry with regards to the licensing of new exchanges and how it will work.

We need to ensure that the introduction of additional new exchanges does not lead to:

- the legitimisation of parallel and poorly regulated markets,
- the opportunity for regulatory arbitrage and general un-level playing fields,
- different levels of investor protection and macro prudential oversight, or
- to the compromising of market efficiency.

We also need to ensure investor protection and that market fragmentation does not affect liquidity and costs and drive investors to other markets.

We, as industry need to look at the implications of:

- layered systems,
- the integration of trading and clearing systems to multiple players,
- the integration of post trade systems and testing thereof by multiple players within the market. Post-trade systems include smart order routing, orders management, trading, deal allocation, clearing and administration and settlement across markets.

Other areas that require our attention are:

- the impending licensing of new exchanges
- the off-set of capital and risk;
- connectivity across participants- buy side, CSPD, exchanges and STRATE,
- compliance and regulations,
- capital adequacy, listing and membership requirements.

Minimum qualifications and exams is another area that needs our urgent attention. There is a need to relook qualifications as we need to ensure that there is no duplication of qualifications and exams across exchanges.

We need to be certain there is integration of multiple systems and that the regulation with regards to STT and exemptions thereof, statutory taxes and charges, FIC, FICA and money laundering oversight are in place.

We believe that execution and technology and the cost thereof cannot be seen independent from the overall systemic market risk, capital, margin and post trade system requirements which are all associated and coupled with execution and settlement. It is therefore imperative that we get to a stage of total interoperability of these functions across markets.

The risk for the industry is that the changes to the current system might make sense to the exchanges and regulators, but not necessary for the market participants

We are at an important junction and the choices we make will have major consequences for the industry. These consequences may only become evident later down the line. It is therefore imperative that we all become more actively involved in determining our future path.

JSE changes and projects

Alongside other market changes and challenges, the JSE has some major projects on the go that will have vast consequences for members' businesses. It has been working on ITAC – Integrated Trading and Clearing solution for derivatives, which could see the costs of derivative trading increase exponentially and the demise of smaller derivative members. The JSE is finalising ETP for government bonds and is looking at a new equity risk model which could also include the potential non-mandatory use of BDA.

With regards to the "New Equity Risk Model" the JSE at present provides settlement assurance and employs measures to manage risk in the market (such as asset visibility through BDA, CSDP commits, margin etc.). The JSE Equities Rules dictate that a client's trading member must ensure settlement of all of its clients' transactions.

Although it has stood the market in good stead, a number of shortcomings in our current clearing model have been observed. The purpose of looking at a new equity risk model is to address these shortcomings, with particular focus on moving away from mandated BDA systems currently used to provide settlement assurance. However, if these systems are no longer mandated, the JSE needs a different way to manage settlement risk and members will potentially need to provide their own administrative systems and additional infrastructure.

The JSE's new model moves towards a central counterparty structure (CCP) in providing settlement guarantee i.e. a CCP becomes the counterparty to each trade, thereby mitigating the counterparty credit risk.

In moving to a CCP structure, the JSE aims to clear as many asset classes as possible through one CCP across multiple exchanges. Such a change could drive improvements in -margin efficiencies, operational robustness, and the regulators' ability to manage a default.

We as industry must ensure that the final model is inclusive and flexible for all market participants. The model needs to promote, and not inhibit, trading activity and flow of liquidity. The model should be designed to be as cost-efficient as possible and may result in the move to a T+2 settlement cycle to further reduce risk. The JSE has set up a committee to start investigating this model and will hopefully have some form of proposal by the end of the year.

In recent years we have seen the risk of a stockbroker being defined by capital. The JSE differentiated between stockbrokers on the basis of capital and capital also afforded brokers the opportunity to create versatile product offerings. With the foreseen changes, capital requirements might not only increase, but capital might also have to be reallocated as a result of structural (multiple exchanges) and regulatory changes (CCP).

The SAIS believes that we as the professional and industry body can play a pivotal role in offering an IT infrastructure and services to assist our members and market participants with the integration of systems and interoperability across markets. We are currently looking at a utility that can potentially be a central data point for our members as well as for exchanges, regulators, national treasury, SARB, and SARS.

We can play a huge part in assisting positive change and truly believe that we are on the right track. It is our view that this cannot be attained in the absence of constructive dialogue and coordination between the multiple Exchanges, the FSB, Treasury, all other market participants and industry bodies and therefore we look forward to working together ensuring a better market for all. I can confirm that these discussions are underway and in progress.

SAIS activities over the past year

We to have been exceptionally busy in the past year.

SAIS changed its constitution to allow corporate membership in order to be more representative of the industry. We believe that as a result of the broader representation, we have been afforded the opportunity to directly engage with Treasury, FSB, JSE, STRATE and SARS. All interaction was mandated by the SAIS Council. The aim of our engagements was twofold:

To engage the policy writers and regulators with a non-biased agenda, ensuring an efficient well regulated market To establish good relationships and clear communication lines with all stake holders so that the industry can become part of the structural changes and can become far more in control of the environment it continues to operate in.

The 2016 year proved to be challenging and eventful for the financial markets industry in general and for the stockbroking community in particular. As the year progressed we became more and more aware of the need for SAIS to grow into the professional body that represents and speak with ONE VOICE for the stockbroking community as well as for all participants in the broader financial markets industry. On several occasions the need arose to interact on behalf of industry with the exchanges, regulators and other establishments and SAIS became involved in various ways:

We are aware of Global regulations and the role the regulator plays in drafting policies. We are actively reviewing new market regulation especially around the Financial Regulation Bill, Financial Sector Levies Bill and the Impact Study on Twin Peaks.

We responded to requests for information and comments by the regulators with regards to new exchanges and the introduction of a regulation levy.

SAIS has been working with the JSE, Strate and members to resolve an issue around the methodology used to calculate historical Strate ad valorem fees. We have spent an inordinate amount of time engaging with the JSE, Strate and some members with regards to this dispute. Although engagement continues, we are hopefully at the end of this and believe that the outcome will be in the best interest of all the market participants.

We have worked closely with the JSE and STRATE with regards to renegotiating an interim STRATE fee structure and we are part of a committee working with STRATE, revisiting the STRATE billing model across the entire market. Our aim is to ensure that all market participants are treated fairly.

In the interim with effect 1 February 2017, a compromise was reached whereby members' multiple proprietary "stock" accounts are aggregated and members are now only billed STRATE ad valorem fees on the aggregated bases and not individually per stock account as previously.

We were involved in facilitating dialog with JSE regulators and participated in the deliberations around regulation changes with regards to Directive BI.

We have been working with SARS in connection with a central access point for looking at the calculations and balancing of STT, VAT and Dividend Tax and have facilitated meetings between industry, SARS, the JSE, CSDP and registrars.

We are in the process of getting a general market opinion on riskless principal transactions for the entire market from SARS. This has been a lengthy process. We are also working with SARS trying to get a general VAT opinion with regards to commission sharing agreements.

We have been asked to look into Section 42 of the Income Tax Act which deals with the asset for share transfer. We are specifically looking at the basis / authority on which members can effect such transfers.

We engaged with the JSE and regulators with regards to the publication of incorrect foreign statistics and the impact thereof.

We were commissioned by members to look into the Financial Mail's Top Ten Stock Brokers Survey as some of the participants who are not stockbroking members as defined by the FMA, are purporting to being stockbroking members and are advertising accordingly.

We have been asked to investigate the new requirements for compliance officers with regards to having to write RE1 & RE5 exams and how this affects "stockbroking" compliance officers.

SAIS advocates and remains committed to the continuation of transformation within the Financial Markets and we are exceptionally proud of the great strides made in setting education standards for the industry.

We registered an industry-specific qualification and learnership, the Occupational Certificate: Financial Markets Practitioner (NQF Level 7). This qualification consists of a knowledge, practical skills and work experience component. The knowledge and practical skills are offered by the University of Johannesburg (as the Advanced Diploma in Financial Markets) and several organisations have become approved workplaces and offer the work experience component of the qualification.

Our first group of learners on the Financial Market Practitioner learnership wrote their final exam (the External Integrated Summative Assessment (EISA)) in May 2016. Half of them passed the exam.. Feedback from employers is generally positive. The second group of learners have just written the EISA in March 2017.

The University of Johannesburg (in collaboration with SAIS) has also instituted a Post Graduate Diploma in Financial Markets (NQF Level 8) qualification. This learning programme gives students access to the Stockbroker exams. Our first group of students qualified at the end of 2016.

Looking at our student numbers for 2017, we have 70 students enrolled for the advanced diploma at UJ (if which only 18 are unemployed) and 32 enrolled on the Post Graduate Diploma

The CFA Society of SA has called on industry bodies who want to collaborate and work together to achieve shared objectives and to build relationships through a sense of partnerships. We will be participating in this initiative.

We have also been working with the FSB and market participants and other recognized and professional bodies to look at the introduction of continuous professional development (CPD), which we have no doubt will be enforced and regulated somewhere in the future by the regulator. CPD is a process of tracking and documenting the skills, knowledge and experience one gains formally and informally while working.

SAIS is in the process of developing a comprehensive CPD programme for its members that we hope to start implementing at the beginning of 2018. We are working in conjunction with the CISI (Chartered Institute for Securities and Investment) in London to see how we can partner with them and use their technology platform and some of their international material.

The institution of CPD is essential. We cannot sit back and wait for the regulators to dictate what they believe is essential in terms of CPD. We may land up back in the same position we found ourselves in with the introduction of FAIS when we had to write exams that we did not think were relevant to our market. We may also land up having to join other professional bodies that do have CPD, even though the content may not be pertinent or ideal for our market.

Most of us, I believe, have been far too busy trying to make money. That left us with no time to continue learning and developing knowledge and with even less time to mentor and transfer skills. Others, sadly, don't believe it is even necessary to continue learning or to transfer skills. We all need to ensure that standards of professional competence are upheld.

Whilst we have been exceptionally busy with trying to keep up with our changing industry, we have not neglected the continuation of the Stockbroker examinations, ensuring the high standards that the market demands from us. We are extremely pleased to confirm that the education committee led by Andy van Heerden has continued with their essential and exceptional work in managing the education portfolio. A special mention must also go to Richard North for the continuous development of the investment curriculum.

The committee has managed to run lectures and to maintain the educational process of preparing candidates for the Stockbroker exams.

A total of 121 examinations were written by candidates over the past 18 months and a total 66 were passed.

A huge thank you must go to the Education Committee members who give of their time generously and many of them with very little compensation if any at all. They are: Andy van Heerden, Richard North, Sean Davies, Vincent Freemantle, William Bowler and Jimmy Thompson. To these committee members: your support and dedication is truly admired and greatly appreciated.

We are also in the process of trying to automate these exams and take lectures online ensuring that they can be done anywhere in the country. We are relooking the way examinations take place at present. We would like to see candidates being tested on application rather than just pure repetitive regurgitation of information.

We are in the process of looking at the feasibility of having a central register for qualifications and taking over the responsibility of all qualifications and examinations across exchanges, which will not only include the board exam but will incorporate, traders, compliance and settlement officer exams, We need to ensure no duplication across exchanges. We will engage with all necessary stake holders, exchanges and regulators to investigate the best way of taking this forward.

As SAIS, our vision is to ensure we have true relevance and see the growth of this prestigious profession. We need all our members to buy into this vision and to become part of the journey in which we take control of and actively engage in shaping our own future. We look forward to growing talent within the industry and implore members to assist by joining the education committee in developing the correct qualifications and educational standards needed in our industry.

We are also in the process of developing and implementing a fully-fledged integrated membership system, whereby members can see all their history online. The system is in the process of being rolled out and we will be sending notifications out to all members with regards to updating their details and status on-line.

We have been asked by industry to run an annual survey looking at the demographics, professional profiles and qualifications within the industry.

At present we have a total membership of around 528 individual members of which 483 are males, 45 are female (both practising and non-practising). Of these, about 220 are paid up members. We are in the process of updating the contact details for many and will continue to do so.

We don't have an exact racial breakdown of our members as in the past race was never asked or recorded. However, we roughly estimate that approximately 55 of our members are Black and of these 12 are females. These figures once again illustrate the need for transformation in our industry. .

At present we have 10 registered corporate members and we are in the process of registering many more. This is essential to ensure that SAIS is truly representative of the industry.

For the Institute to effectively represent industry at the various forums and to further develop into a relevant and credible professional and industry body, it is imperative that more corporate and individual members become actively involved and join SAIS's committees. Active involvement will ensure sustainability and growth. Membership fees will also provide sustainable financial support.

As one can see we have achieved a great deal and we have an extremely busy and challenging year ahead. We, as industry, have just started to work as a collective and we need to solidify our place as professional body. We need to show that we are serious and that we have real relevance within the market place.

So far we have proved that if we work together we can be exceptionally powerful. Our voices will be heard and we can make a positive and substantive impact. We cannot become complacent. The landscape is changing rapidly and we can either be part of our future or sit idly back and do nothing and wait for regulators and others to dictate and determine our paths and future.

As a collective, we need to ensure that we are the drivers in defining our own future and that we have real relevance within our industry. We also need to ensure that we will make a meaningful and valuable contribution in line with the National Bill – Ensuring an Inclusive market for ALL.

For the last five years SAIS has focused on how to structure itself to stay relevant in a new regulatory environment. We believe that it is imperative that industry partners with the Regulator, Natioanal Treasury, exchanges and all other market participants during the dynamic shifts taking place in our industry and in the environment. We believe that SAIS has established a good platform and has the opportunity to be part of change by engaging with the relevant institutions, by giving input and by taking control of our own destiny.

As we embark on this new era for the Professional Body, we will have no option but to relook how we take it forward - employment of a full time executive and staff members, running of offices and the affordability there of. The new Council will have its hands full with putting together a proposal r that we can take forward to the market.

Once again to those incredibly dedicated and passionate Council members who have put in a substantive amount of effort and time into revitalizing the SAIS - THANK YOU - We will always be indebted to you.

As a last word of thanks and I would like to record the Institute's gratitude to Bobby Johnson for the continuous support and continued commitment to the Institute. To

Elize van Zyl for her tireless efforts, hard work, commitment, patience and dedication to getting the Institute working as it should. To the team, Robyn Shapiro, Kashnie Naidoo, Jennifer Titus, Tiaan van Zyl and Pam Johnston for their unwavering dedication and hard work - your effort and commitment do not go unnoticed and are exceptionally appreciated by all of us. We are truly grateful and thank you.

I look forward to the challenging but exciting times ahead. I have no doubt that it will be successful. Once again, thank you for your time.

ERICA BRUCE

PRESIDENT