Old Klerksdorp Stock Exchange, opened in 1888 and finally demolished in 1958

SAIS DIGEST

SECOND EDITION

DECEMBER 2020

South African Institute of Stockbrokers

EST 1994
S·A·I·S

Contents

Just a Quick Word…

Natércia Faustino, SAIS General Manager

The year that was 2020

As I write this, I reflect on the year that was 2020. To describe it as a tumultuous year would be mild. It has seen global changes that were only envisioned in the imagination of filmmakers and writers, but never was it thought that they would materialize. We have experienced a national lockdown, which at its highest level was akin to being in solitary confinement. We have seen and felt, in many ways, the effect of the COVID-19 pandemic on our economy and on the global economy. We have also felt the heartlessness of those corrupt elements in our society, who have seen fit to derive personal profit from this disaster.

Although it has been year that has been filled with a great deal of negativity, it at also been a year of positivity. It has been a year of banding together, gaining a better understanding of people, how they work and the way in which organisations can still function effectively if not more efficiently given the technology at hand.

The SAIS was microcosmic reflection of global changes. By far, the majority of changes were positive and will be carried forward into 2021. We trust that the positive changes experienced by organisations in our sector will also be carried forward into 2021. The negative experiences will serve as lessons, allowing us to be more resilient and optimistic in 2021.

Your feedback will help us bring you more of the information you need to know in this ever-changing environment. Please send any ideas, feedback or requests for this publication to romaana@sais.co.za.

The Financial Markets in 2020

Kashnie Naidoo, SAIS Technical Consultant

2020 has been a year of trials and tribulations, a year that has tested our resolve to its breaking point both personally and professionally. It has also been a year that has proven to be extremely challenging given the current regulatory environment. There have been several crucial reviews and proposed legislation changes to the South African legislation landscape that will, in future, have a profound effect on how we will continue to operate as authorised users.

What has kept us busy at the SAIS? A lot 😀 but in the interests of time and space we would like to tell you a bit more about the key legislation changes on which we have spent most of our time. In the last six months, we have focused on considering the impact of the effects of the 42 recommendations put forward in the proposed Financial Markets Review. We have also looked at the second iteration of the Conduct of Financial Institutions (COFI) Bill, intended to streamline the conduct requirements for financial institutions, which is currently regulated in several financial sector laws.

It is essential that the finalisation of the COFI Act and the revision of the FMA should be completed simultaneously. It is at this stage difficult to comment on the COFI Bill while there is no clarity on the changes that will be made to the FMA. The second draft of the COFI Bill was published at a time when the FMA is still under review. This leaves a great amount of uncertainty regarding the powers and regulatory functions of market infrastructures (i.e. SROs) as opposed to those of the FSCA.

Allow us to provide you with a very quick outline on the two pieces of legislation:

The **Financial Markets Review (FMR)** set out a framework for a comprehensive and complete system for regulating the South African financial sector. It suggested that South Africa would benefit from a formal review of the domestic wholesale fixed-income, currency and commodities (FICC) markets. The FMR report contains 42 recommendations concerning governance, market conduct and structure, and innovation in financial markets, as well as proposed legislative reforms. A broad range of policy alternatives has been suggested and many of the recommendations highlight areas which require modernisation. The governance review has highlighted the fact that institutions representing over 90% of turnover in the FICC markets in South Africa are well governed and maintain high standards of market conduct.

The **Conduct of Financial Institutions (COFI) Bill**, first draft, was published for comment in December 2018. The second draft of the Bill is accompanied by a Response Document, which explains key changes made to the first draft of the Bill, which is the National Treasury's reply to comments submitted and engagements held. COFI will replace the conduct provisions in various financial sector laws.

The 'Twin Peaks' approach to regulation included the establishment of two dedicated regulatory authorities, namely the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA). These two regulatory authorities came into operation on 1 April 2018. The South African Reserve Bank (SARB), which is ultimately responsible for financial stability, will work closely with the two authorities to create a safer financial system.

The COFI Bill is instrumental in government's Twin Peaks financial sector regulatory reform process, which seeks to establish better financial customer outcomes in the South African financial sector. In essence it is a financial institution-facing law, which it sets requirements for financial institutions to meet and outcomes to deliver.

The Bill aims to significantly streamline the legal landscape for conduct regulation in the financial services sector and to give legislative effect to the market conduct policy approach, including implementation of the Treating Customers Fairly (TCF) principles which are currently not enforceable. With the implementation of The COFI Bill, the TCF principles will become legally binding and enforceable on all financial institutions.

It is proposed that COFI will replace the conduct provisions in existing financial sector laws, which will necessitate the repeal of various provisions in certain Acts or the outright repeal of others. This is essential to ensure that all laws are mutually reinforcing and empower the

Financial Sector Conduct Authority (FSCA) to appropriately use financial sector legislation to meet its market conduct mandate. The Acts which will be affected include:

- The Pension Funds Act, 1956 (PFA);
- The Long-term Insurance Act, 1998;
- The Short-term Insurance Act, 1998;
- The Financial Institutions Act, 2001;
- The Financial Advisory and Intermediary Services Act, 2002;
- The Collective Investments Schemes Control Act, 2002 (CISCA);
- The Financial Sector Regulation Act, 2017; and
- The Insurance Act, 2017

We must as a stockbroking community be considering what this means for us as authorised users, especially as many of us hold multiple licenses. What will the new regulatory terrain look like and what will the impact be? How will the changes impact operations, given the mandatory requirements on systems, resources, qualification, licensing, compliance and capital adequacy?

It is imperative that you ask yourselves if you have the right people in your business reviewing the possible impact of these key legislation changes to your business. The analysis and consideration of the impact of the FMR and COFI cannot be seen as merely a compliance responsibility. ***It is essential that your stockbrokers, CEO's and key management team members, across busines areas, assess the impact of the proposed recommendations on the business functions and provide comment.***

Anti-money laundering legislation (FICA, POCA, POCDATARA) and public consultation papers and industry issues are also always forefront of what the SAIS considers to be integral, when businesses function as an authorized user. We are in contact with the FIC and are currently awaiting the issuance of guidance specific to authorized users, in relation to non-controlled underlying client accounts and the identification and verification thereof. We found FIC Public Compliance Communication 110 to be particularly useful in providing more detail on the categorization and factors relating to the measuring of geographic risk. The FIC also now has its very own YouTube channel with should be interesting to keep in your sights. Be sure to register and attend the FIC webinars for more information on a variety of subjects, including but not limited to Sanctions and Risk Based Approach etc. Your FICA Risk Management Compliance Program (RMCP) should be updated with key information as and when this is available via any of these fora. The [FATF website](#) also offers exceptional content that is well worth reviewing and considering.

We leave you with this last thought. Let us be part of building the framework that will ensure efficiency, transparency and alignment to global standards by commenting on legislation being proposed. We do not want to have legislation imposed on our markets that will impede business and operations. We instead want to look at contributing to the framework conversation, ensuring that legislation allows for business and operational efficiencies, growth and sustainability.

As we wind down and approach the festive season in 2020, we wish you all a safe and blessed festive season. The SAIS looks forward to interacting with you in 2021.

About the Author

In her role as CEO of Crescent Compliance and a consultant, KASHNIE NAIDOO has been the strategic compliance partner to many management teams. She has been part of commenting on legislative changes from a country level (Financial markets and AML), was involved in the 2019/2020 SA FATF county review, and has advised on the handling of compliance risks and compliance-related matters such as AML/CTF to exchanges, stockbrokers and industry bodies. She is also a lecturer and examiner for SAIS for Legislation, Rules and the Financial Markers Practitioner Qualification.

Kashnie is a Member of the South African Institute of Financial Markets, and a Member of the South African Institute of Stockbrokers (SAIS).

How Workplace Cultures Stifle Performance *and what you can do about it*

Steph Du Plessis

Like to Improve Performance and Productivity?

One of the great challenges for leaders nowadays is how to achieve more with less. It's fair to say that all workplaces have benefited from improvements that new technologies bring, but then what?

We have learned that there is potential for substantial performance improvement in most organisations. "at potential is under the direct control of leaders and doesn't cost massive amounts to fix—it's the organisation's culture.

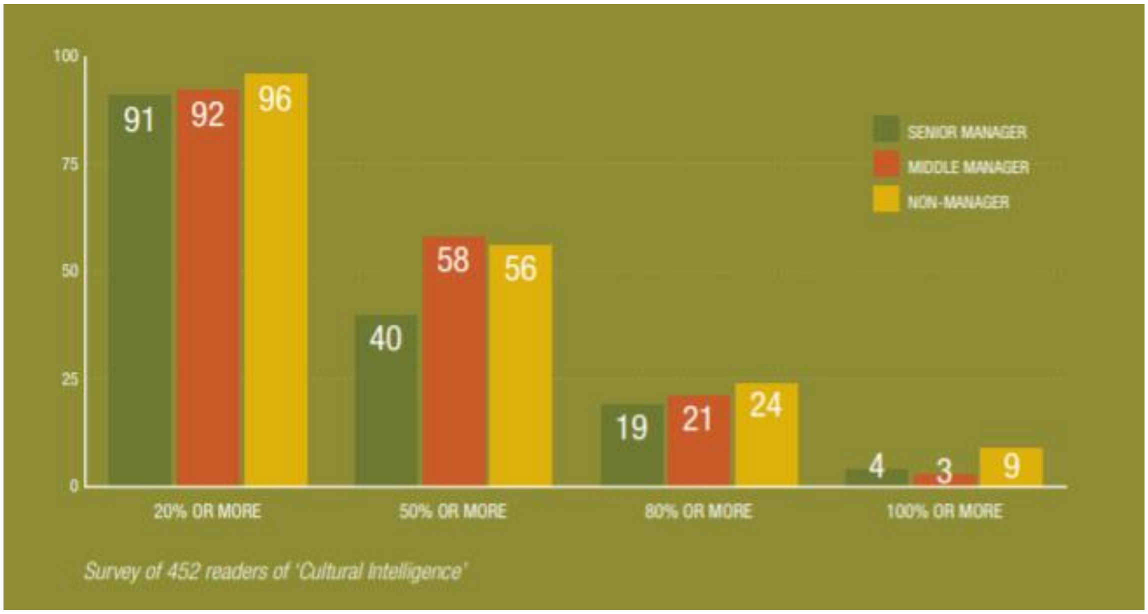
We undertook research that centred on one key question:
If the culture of your workplace was to become as good as it realistically could, how much improvement would there be on people's performance and productivity?

After having specialised in workplace culture for more than 20 years, the results we acquired from this study even surprised us.

- Of the senior leader respondents, 91% thought there would be a 20% or more improvement in performance/productivity if the culture was realistically improved.
- Of the middle manager respondents, 58% thought there would be a 50% or more improvement in performance/productivity if the culture was realistically improved.

What these results tell is that most senior people see huge potential gains that can be realised if the culture of the workplace is to be realistically improved.

Improvement in performance/productivity if the culture was realistically improved



With these potential gains, why isn't culture addressed?

One of the biggest issues when it comes to improving workplace culture relates to the complexity of the concept.

What people don't understand, they don't manage.
What people don't manage they become victims of.

So it is with workplace culture. That is where the concept of UGRs® has a huge part to play …

WHAT ARE UGRs?

Unwritten Ground Rules or 'UGRs' are people's perceptions of 'this is the way we do things around here'. They drive people's behaviour, yet they are rarely talked about openly.

It's the UGRs in an organisation that constitute its culture. Understand UGRs and we understand workplace culture.

Examples of UGRs include:

- At our meetings it isn't worth complaining because nothing will get done
- The only time anyone gets spoken to by the boss is when something is wrong
- The company talks about the importance of service, but we know they don't really mean it, so we don't really have to worry about it

UGRs can *be positive, neutral* or *negative*. Positive UGRs underpin teams that are upbeat, dynamic and productive. Conversely, if a team is not functioning well and there is a great deal of internal conflict, negative UGRs will be in place. In any team there will inevitably be a mix of positive and negative UGRs. In some teams there will be more positive than negative UGRs. In other teams there will be more negative UGRs.

HOW ARE UGRs CREATED?

UGRs are created in a number of ways:

- *People watch what gets noticed*. For example, if someone gets frowned upon for speaking up, then a UGR might be 'Around here, you're better off not to speak up, even when you're asked'. Conversely, if leaders say that safety is vitally important, and someone gets into trouble for not conforming to safety procedures, then a UGR might be 'Around here, we're serious about safety'
- *People watch what doesn't get noticed*. For example, if someone speaks badly of a leader, and nobody suggests they shouldn't talk that way, then a UGR might be 'Around here, it's fine to criticise bosses'. Similarly, if a person goes out of their way to help a colleague and no one recognises that extra effort, then a UGR might be 'Around here, it's not worth your while to help others out'
- *People watch for any differences in terms of what people say and what they do*. For example, if a leader says 'In this organisation, we care for our people', and soon after that same person treats a person without respect, then a UGR might be 'Around here, the bosses say one thing and mean another'

HOW DO UGRs AFFECT ME?

UGRs affect all of us! Here's evidence …

When people are new to an organisation they are quieter than they normally would be. Why? So that they can deduce the UGRs. Why? So that they can conform. It's really interesting to note that leaders are not immune from the influence of UGRs.

One of our favourite stories comes from a CEO we worked with—let's call him Greg.

Greg had been part of a Mastermind Group comprising around 12 CEOs from non-competing organisations. He had moved location with his company and decided to join a new Mastermind Group, made up of a similar number of people, closer to his new residence.

We gave a presentation to a small group of leaders, including Greg. After introducing the notion of UGRs to the group, Greg became very animated.

'I can't believe it', he proclaimed. 'In my former Mastermind Group, there was a UGR for new members of the group that went something like: Around here, new members to the group are to be treated with the deepest suspicion, until they prove us wrong.'

'In my current group, the UGR is: Around here, new members are welcomed warmly for the contribution they can bring, until they prove us wrong.'

'In my former Mastermind Group, I was cold and aloof to new members. In my current Mastermind Group, I'm warm and embracing. Here I am, a CEO of my own company, and my behaviour has been in accord with the UGRs of a group I meet once per month!'

UGRs are that powerful.

BUT I SEE THINGS REALISTICALLY, SO MY UGRs MUST BE RIGHT!

UGRs are defined as people's perceptions of 'this is the way we do things around here'. Of course, the critical word in this definition is 'perceptions'. Because we are individuals with different life experiences, *we have different biases* and therefore our perceptions differ. This is easy to prove.

If two people watch a political speech on television, one person can walk out of the room saying that was the best political speech they have ever seen. The other can walk out of the room saying that was the worst political speech they have ever seen. "ese people have observed the same thing but have *interpreted it differently*.

This means that people's perceptions of 'the way we do things around here' are perfectly valid and correct *from the perspective of that person*. Once people form their views on the UGRs within an organisation (more often influenced by others), there is a risk these will lock-in for the long term, almost irrespective of the actions of leaders.

In fact, cognitive scientists have put a name to this. They describe *'Motivated Reasoning'* as something that occurs when people actually seek out information that confirms what they already believe.

So here, we have a fundamental leadership conundrum, where people believe in the accuracy of their perceptions, then seek out information primarily to confirm those views.

An example?

If there is a UGR which says 'Around here, bosses don't care about us', then it almost doesn't matter what a leader says—in fact, people might become even *more cynical* if a leader says 'I'd really like to hear your views on this'. People harbouring the negative UGR about bosses will overlay a negative agenda on what might be a genuine question by saying something like 'He's only asking us that to soften us up for bad news he'll deliver tomorrow'.

SO HOW CAN UGRs BE USED IN THE WORKPLACE?

Now that you are aware of the concept of UGRs, **you will see things differently**! You will notice UGRs in the workplace and you will also notice how people conform to UGRs. After reading this guide, it's probably a good idea to simply be an observer for a little while—watching how UGRs impact on people and how they drive people's behaviour (including your own!).

After tuning-in to the UGRs in your organisation, you have the choice of deploying the concept with varying levels of complexity.

At its least complex, you might challenge yourself and the leadership team to consider your own behaviours and question the extent to which your own behaviours either cause or allow negative UGRs to exist (as a side-note, we have learned that leaders either cause or allow the vast majority of UGRs to exist).

At a more sophisticated level, you may wish to deploy the five-step UGRs process for strategically improving workplace culture.

WHAT HAVE WE LEARNED ABOUT UGRs IN THE WORKPLACE?

We've been working with organisations across the globe using UGRs to improve culture for more than 20 years. So we've learned a great deal, including the following:

- Almost without exception, senior leaders see their culture more positively than middle managers, who in turn see their culture more positively than non-managers. This means there is a real risk that leaders think their culture is fine, while employees see things very differently. Remember, UGRs drive people's behaviour so if employees hold negative UGRs, their behaviour is being impacted accordingly

- Leaders often shoulder too much responsibility for the culture. Employees can take a 'cop-out' position by pointing upwards and saying 'If only they'd fix things up'. "e concept of UGRs teaches people that we all choose to live by our UGRs—although most of the time this happens sub-consciously. When people learn about UGRs they come to realise that while leaders play a primary role in creating and sustaining the culture, all individuals play their part. In a sense, learning about UGRs encourages people to share responsibility for the culture

- Many people feel unhappy about their workplace culture, but have given up hope of it being any different. Structured well, learning about and focusing on the UGRs concept can revitalise people and get them excited about the prospects for the culture into the future. We have literally had people say to us '"is has changed my life!'

SOME FINAL THOUGHTS ...

There will always be room for people to find negatives in any situation. If we dwell on those negatives, then there's a good chance those negatives will be realised. Also, by dwelling on negatives, people tend to give up hope, which is a sad state for anyone.

Your opportunity lies in identifying positive UGRs you can live by and helping others live in a similar way. Remember—if you do nothing, then nothing changes. You can and do influence others, so you can make the choice for your influence to be positive.

Good luck with your quest for even more positive UGRs and the **heightened performance that will follow**!

About the Author

STEF DU PLESSIS holds a Masters degree in leadership. He is a strategic facilitator, people mobiliser and leadership development practitioner. Together with his business partner Steve Simpson, he helps client organizations build a culture-by-design that will ensure their success into the future and make theirs a great place to be for everyone who comes there. Stef speaks and works with clients globally.

The JSE and its co-sponsors, Standard Bank, Old Mutual and UBS, successfully hosted the 8th annual *South Africa Tomorrow (SAT) Investor conference* under the theme *Rethink, Recover and Rebuild* on 16 – 20 November 2020. Business engaged with investors from across the world to promote South Africa as an investment destination and to drive investment into the country.

The five-day conference featured prominent speakers and panelists from leading corporates discussing themes such as mobilising back to growth trajectories post Covid-19, Pan-African growth, investing for good and sustainability for green growth.

Nonkululeko Nyembezi, JSE Ltd Chairman, opened the conference saying, “The South African economy was under pressure before the pandemic, which is why the impact of the lockdown was fairly predictable. The country is no stranger to difficult times, however, we have demonstrated traits that underpin our resilience. These include a competent and responsive central bank, a skilled and credible National Treasury, a stable political system and macroeconomic framework, consistency in the enforcement of contracts by the independent judiciary, a vibrant and resourceful private sector, free and independent media, and deep and liquid financial markets.”

Finance Minister, Tito Mboweni, provided the keynote address on the first day of the conference in which he emphasised how the South African government is committed to pursuing a program of economic restructure and reconstruction, which is important to grow the economy, collect more revenue and bridge the funding gaps.

President Cyril Ramaphosa echoed the Minister's sentiments when he opened the third annual SA Investor Conference on Wednesday 18 November. He reinforced South Africa's progress in infrastructure development, its diverse economy, sophisticated capital markets and manufacturing capacity. Further saying that "South Africa is the ideal location for any company wanting to reach the continental market with greater effectiveness from a cost and logistical point of view." This year's SA Investor Conference focused on the implementation of the commitments made to date.

On the final day of the conference, the South African Reserve Bank Governor, Lesetja Kganyago and Public Enterprises Minister, Pravin Gordhan addressed investors.

Governor Kganyago said "South Africa needs to recover output in the sectors of the economy that are still viable, and then we need to find new sources of growth. This means adopting policies that raise potential growth, and thereby nurture expectations that SA will be a viable economy in future. The SARB has been diligent about its mandate, inflation is well-controlled and inflation expectations for the medium term are all well within our target range, allowing the SARB to cut rates more than most countries."

Addressing investors on government's plans regarding state-owned enterprises, Minister Gordhan noted that the work being done by the President's SOE council, which includes government and private sector representatives, is focused on looking at different ownership and governance models and rationalisation. He went on to say that government wanted to ensure that state owned entities do away with any dependence on the fiscus.

"As the country took the initial steps to adapt to the new reality, what stands out is our remarkable entrepreneurial spirit and the unbelievable capacity to pull together in a time of crisis. Like President Ramaphosa said, through our Economic Reconstruction and Recovery Plan, we are pursuing a few high impact priorities and focusing relentlessly on implementation," concludes Nyembezi.