

RISK MANAGEMENT PLAN

FSP name : LUCRATIVE EXCHANGE (PTY) LTD

FSP number : 29252

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RISK MANAGEMENT

1. Introduction:

Each authorized financial services provider experiences different risks depending on the nature of their business, the extent of their financial obligations and other resources and the attitudes of its people.

Risk can be defined as the potential future harm that may arise from some present action or omission.

Risk management is defined in The King Report on Corporate Governance for South Africa 2002 (King II) as “a process that utilizes internal controls as a measure to mitigate and control risk”. This report highlights that risk management goes beyond the control of financial risks only and that the reputation and future survival of the business are also at stake.

The key steps to consider in establishing a sound risk management plan include the following:

- Identify risks early and continuously;
- Thoroughly understand risks, their causes and consequences;
- Determine how to best avoid or reduce risks;
- Establish internal controls to mitigate risks;
- Monitor control systems and ensure timely and accurate reporting.

2. Legal obligations:

The General Code of Conduct addresses risk management as follows:

Section 11: Control measures

A provider must at all times have and employ the resources, procedures and appropriate systems that can be reasonably expected to eliminate the risk that clients, product suppliers and other providers or representatives will suffer financial loss through theft, fraud, other dishonest acts, poor administration, negligence, professional misconduct or culpable omissions.

Section 12: Specific control objectives

A provider (excluding a representative) must structure the internal control procedures so as to provide reasonable assurance that:

- the business can be carried on in an orderly and efficient manner;
- financial and other information used or provided will be reliable;
- all applicable laws are complied with.

Section 13: Insurance

A provider (excluding a representative) must, if, and to the extent required by the registrar, maintain in force suitable guarantees or professional indemnity or fidelity insurance cover.

3. Main risks:

There are various risks facing a business but the following main risks should be the focus point of the financial services provider:

- compliance risks;
- operational risks;
- financial risks;
- reputation risks.

Legislation (where applicable) that needs to be considered when establishing the risk management plan should include, but not be limited to:

- Basic Conditions of Employment Act
- Close Corporations Act
- Collective Investments Schemes Control Act
- Companies Act
- Electronic Communications and Transactions Act
- Estate Duties Act
- Exchange Control Act
- Financial Advisory and Intermediary Services Act
- Financial Intelligence Centre Act
- Income Tax Act
- King Report II
- Labour Relations Act
- Long-term Insurance Act
- Medical Schemes Act
- National Credit Act
- Occupational Health and Safety Act

- Pension Funds Act
- Prevention of Organized Crime Act
- Short-term Insurance Act
- Unemployment Insurance Act

4. Responsible persons:

The provider is represented by the sole proprietor or key individual(s), as the case may be, and such person(s) is/are ultimately responsible and accountable for establishing and maintaining risk management systems.

Risk management should be a team effort where all key individuals, representatives and administrative personnel are included in the process to ensure effective control and mitigation of risks.

Compliance officers have a duty to monitor the compliance of key individuals, representatives and personnel with relevant legislation. This may include advising and guiding providers and key individuals on risk management systems.

Providers and key individuals are ultimately accountable for their own actions and those of their representatives and personnel, not the compliance officer.

5. Risk and control:

A provider must implement a comprehensive system of controls to ensure that risks are reduced and that the objectives of the provider are achieved.

The control environment should include ethical values, the compliance culture of the provider and the competence of all involved.

Essential aspects of control should include:

- the control environment;
- risk identification and evaluation;
- control activities;
- information and communication;
- monitoring and management.

Any risk must be identified and reported promptly through the control systems in order to improve the risk profile of the business.

The provider should consider the need for a confidential reporting process (whistle blowing) that covers fraud and similar risks.

6. Application of risk management:

The provider or key individual is responsible for establishing risk strategies and policies. It is also the duty of the provider or key individual to review the effectiveness of these policies on a regular basis to ensure that it will guide responsible persons in executing their duties.

In reviewing the policies and processes the following should be considered:

- what the risks are and how they will be identified, evaluated and controlled;
- the effectiveness of the process of risk management;
- whether steps are taken timeously to rectify defects;
- whether the review points to a need for more stringent controls.

Risks can be assessed according to the following criteria:

- type of risk;
- the seriousness of the impact it may have on the business and third parties;
- probability that a risk may occur;

The above criteria can then be rated on a scale of high, medium and low.

The risk management plan must be documented and can contain the following:

- types of risks –
 - regulatory;
 - operational;
 - financial;
 - reputation.
- the rating of the risk, its impact and probability;
- control measures to mitigate the risk;
- the responsible person(s);
- remedial actions;
- review dates.

7. Monitoring:

The provider or key individual must monitor the risk management plan on a continuous basis.

A compliance officer who assists in monitoring must report to the provider on at least a quarterly basis and to the Financial Services Board on an annual basis, or whenever so required by the registrar.

In the monitoring process the following can be considered:

- interviews with providers, key individuals, representatives and personnel;
- availability of relevant legislation;
- evaluating complaints received and solutions offered;
- inspection of relevant documentation and registers;
- evaluating client files and records in respect of advice and solutions;
- evaluating procedures followed when interacting with clients;
- observing processes followed in rendering advice;
- evaluating intermediary services rendered;
- inspection of financial matters of the business;
- assessing queries received from regulators.

8. Reporting on risk management policies:

The provider or key individual may be requested by regulators to report on how the provider deals with risk management.

The following may need to be disclosed by the provider:

- that the provider is responsible for the process of risk management, the system of internal control and communication throughout the business;
- that the system is regularly reviewed for effectiveness;
- that there is a continuous process for identification, evaluation and management of risks;
- that there is an appropriate system of internal control to reduce risks of the provider to an acceptable level;
- that provision is made for the provider to continue its business activities in case of a serious risk impacting the business;
- that the process is documented.

9. Summary:

Risk management procedures can be utilised to identify opportunities for the business and should not only be viewed from a negative perspective. Effective risk management can easily be transformed into a competitive benefit for the provider.

Risk management reaches further than mere control of compliance and financial risks. Reputation and future continuance of the business are also affected.

Providers must ensure that control of risk management is transparent and disclosed to all parties involved.

Risk management is a continuous process of identification, evaluation and control of risks. Providers who view risk management merely as an action of compliance will probably miss out on the opportunities it offers.

Source: FIA Express

| Risk Area: FAIS Act and subordinate legislation | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|--|--|--|---|---|------------------------------|
| Licence Categories Sec 7: FAIS | The FSP must only provide advice and/or intermediary services on financial products that fall within the licence categories | Check to ensure that each Key individual / representative is licensed / authorised correctly in terms of categories vs product advising / selling. If not, then the correct categories are to be applied for | High | Key Individual / Compliance Officer | Ongoing | |
| | | Implement a Key individual and representative register | High | Compliance Officer | Ongoing | |
| Subscription / Levies Sec 8: FAIS | The FSP is obliged to pay all applicable levies in order to remain authorised to provide advice and / or intermediary services | Ensure that all relevant levy invoices generated by FSP are paid on due date | High | Key individual / appointed staff member | Annually | |
| | The FSP/Key Individual/Representative to remain accredited with the Council for Medical Schemes if applicable | Ensure that the Council of Medical Schemes accreditation is in place (if applicable) – remember that the application must be made 3 months prior to expiry of the accreditation | High | Key Individual / appointed staff member | Annually | |
| Advisory and/or Intermediary Services Sec 7: FAIS | The FSP must provide financial services strictly within the framework of the financial product categories that it is licensed for. | Obtain the licence and scrutinise thoroughly | High | Key Individual / Compliance Officer | Ongoing | |
| | | The FSP must ensure that only authorised people provide advice and/or intermediary services. | High | Key Individual | Ongoing | |

| Risk Area: FAIS Act and subordinate legislation | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|---|--|--|---|---|------------------------------|
| | | <p>The FSP must ensure that no financial services are rendered in respect of additional licence categories until such time as approval has been granted by the FSB and the relevant licence updated.</p> <p>The FSP must ensure that a certified copy of the licence is displayed in all the branches (if applicable)</p> | <p>High</p> <p>Medium</p> | <p>Key Individual</p> <p>Key Individual</p> | <p>Ongoing</p> <p>Ongoing</p> | |
| Sec 4, 5 and 7: General Code of Conduct | <p>The FSP must ensure that the disclosure requirements in terms of sections 4, 5 and 7 are fully adhered to during the provision of financial services</p> <p>Implementation of templates with regards to the advice giving process.</p> | <p>Ensure that the following documents are implemented:</p> <ul style="list-style-type: none"> ▪ Disclosure letter ▪ Letter of authority / copy of license ▪ Letter of engagement / brokers appointment ▪ Needs analysis ▪ Risk Profile ▪ Client advice record ▪ Final Letter | High | Compliance Officer | Ongoing | |
| Sec 7(4): General Code of Conduct (as amended) | The FSP must on a regular basis (at least annually) conduct a review of all clients (new and existing) | The FSP must ensure that every client is provided (at least annually) with a written statement identifying clients financial products in accordance with the provisions in section 7(4) | High | Key Individual | Ongoing | |

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|---|---|--|--|-------------------------------------|---|------------------------------|
| Client Service Level Agreement Sec 3(2)(1)(d): General Code of Conduct | Service Level Agreements / contracts must be in place with all clients in order to properly manage the relationship | Ensure that appropriate SLA are concluded with every client | Medium | Key Individual | Annually / as or when | |
| Financial Products Sec 4: General Code of Conduct | The FSP must only give advice on and market products of approved product providers | Ensure that proper due diligence process is followed before new product providers are contracted (SOP) | Medium | Key individual / Compliance Officer | Ongoing | |
| | The FSP must have a mandate / contract with every product provider | Check on the licence categories and how they compare to the products that the FSP is selling | Medium | Key individual / Compliance Officer | Ongoing | |
| | | Maintain a contract file for all the product providers | Medium | Key Individual / Compliance Officer | Ongoing | |
| Sec 65: C I S Act | The FSP may not market any unapproved local or offshore funds | Check on the FSB's website (if applicable) if a product is approved (www.fsb.co.za / CIS / List of Approved Schemes) | Medium | Key Individual / Compliance Officer | Ongoing | |
| | In the event that the FSP acts as an administrator or underwriting manager a written agreement with the relevant | Check if the administrator or underwriting manager agreement reflects the rights, duties and | Medium | Key Individual | Ongoing | |

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|--|--|---|--|--|---|------------------------------|
| | product provider/s must be in place | obligations of the parties thereto | | | | |
| Maintenance of Records Sec 18: FAIS Sec 3(2): General Code of Conduct | Records must be kept of the following: <ul style="list-style-type: none"> ▪ all written and verbal communication to clients relating to the rendering of financial services (including emails) ▪ new business ▪ surrenders / replacements ▪ premature cancellations ▪ Non-compliance issues ▪ Original documents ▪ Complaints | The FSP must have a procedure in place to ensure that a record is kept of all important documentation. The following must be implemented to assist with the maintenance of records: <ul style="list-style-type: none"> ▪ New business register ▪ Surrender /replacement register ▪ Cancellation register ▪ Complaints register ▪ Original document register ▪ Receipts for original documents | High | Key Individual /assigned person | Weekly | |
| | The FSP must keep these records for a period of 5 years after termination of the product or after the rendering of the financial service | The FSP must ensure that the CO is consulted before documents are destroyed Ensure that files are kept in a fire proof safe or in the alternative, all documents must be scanned and backed up regularly | High High | Key Individual /Compliance Officer Key individual / assigned person | Weekly Ongoing | |
| Client exit process | Upon termination of services the correct termination process must be | Ensure that all pending/unfinished transactions are finalised | Low | Key Individual | As and when | |

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|---|--|--|--|---|--|------------------------------|
| Sec 20: General Code of Conduct | followed (SOP) | <p>Confirm to client that the agreement is terminated and where necessary, inform the product provider too</p> <p>Inform the client in writing of the termination of the service</p> <p>Maintain the necessary records as prescribed</p> | <p>Low</p> <p>Low</p> <p>Low</p> | <p>Key Individual</p> <p>Key Individual</p> <p>Key Individual</p> | <p>As and when</p> <p>As and when</p> <p>As and when</p> | |
| <p>Fit and Proper Status of Key individuals and representatives</p> <p>Sec 8: FAIS</p> <p>Sec 13: FAIS</p> <p>Board Notice 105 of 2008</p> <p>Board Notice 106 of 2008-12-18</p> | Any KI of an FSP must be approved by the Registrar before performing any management and/or overseeing functions and the Key Individual must ensure that a representative is competent before being authorised to represent the FSP | <p>Ensure that all KI's have been approved by the Registrar before he/she can participate in management / overseeing functions</p> <p>Establish a process for informing the Registrar of changes in the KI's circumstances that will affect his/her fit and proper status within 15 days</p> <p>Perform quarterly checks on KI's and ensure that the Fit and Proper declaration is signed</p> <p>Assessment and confirmation of operational ability with regards to the Key individual</p> | <p>High</p> <p>High</p> <p>High</p> <p>High</p> | <p>Key Individual / Compliance Officer</p> <p>Key Individual / Compliance Officer</p> <p>Compliance Officer</p> <p>Compliance Officer</p> | <p>Once off / as and when</p> <p>Quarterly</p> <p>Annually</p> | |

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| | | Financial records must be up to date and reflect financial soundness KI's and representatives must conform to the Determination for Fit and Proper requirements, 2008 The honesty and integrity declaration to be signed by all KI's and representatives | High High High | Compliance Officer Compliance Officer Compliance Officer | Ongoing Ongoing Quarterly | |
| Representative mandates Sec 13: FAIS Act Sec 20(c): General Code of Conduct | There must be a service contract / mandatory agreement entered into with all representatives of the FSP | Ensure that all representatives are furnished with a certificate / disclosure letter confirming his status as representative and the KI accepts responsibility for the representatives actions Ensure that if a mandate of a representative is terminated the client is informed about the termination and also inform the client who will be servicing them | High High | Key individual / Compliance officer Key Individual / Compliance Officer | As and when As and when | |
| Sec 13(3) & (4) : FAIS | A register of representatives must be kept and updated with the FSB | Ensure that the representative register is updated within 15 days with the information that changed | High | Key Individual / Compliance Officer | Ongoing | |
| | | | | | | |

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|--|--|--|--|---|---|------------------------------|
| FSP's responsibilities to representatives Sec 13(2): FAIS | <p>The KI of the representatives must ensure that the representatives adhere to the provisions of the FAIS Act and the General Code of Conduct during the advice giving process</p> <p>The FSP has a duty to ensure that appropriate training is given to the representatives with regards to products and compliance issues</p> | Ensure that a training register is kept to record all training activities (Training register template) | High | Key Individual | Monthly | |
| Representatives under supervision Board Notice 104 of 2008 Board Notice 106 of 2008 | The supervision Key individual / representative for a representative under supervision must be suitably qualified and competent and a formal supervision program must be adhered to (SOP) | <ul style="list-style-type: none"> ▪ Appoint a qualified and competent supervisor ▪ Implement an agreed training and progress monitoring program ▪ Conduct regular performance appraisals, as well as continuous reviewing and assessing services rendered by the representative under supervision ▪ Disclose to clients that the representative is acting under supervision ▪ Implement a supervision process if the supervisor is a different person to the Key individual ▪ Ensure that a written | Medium | Key Individual/ Qualified supervisor | Ongoing | |

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|---|---|---|--|-----------------------------|---|------------------------------|
| | | supervision agreement is concluded with every representative | | | | |
| Debarment Sec 14: FAIS | Any representative of the FSP who no longer complies with the requirements in Sec 13(2)(a) must be debarred (SOP) | Establish an appropriate debarment process that includes the immediate withdrawal of authority | High | Key Individual | Ongoing | |
| | | Establish a disciplinary process in accordance with acceptable labour law practices | High | Key Individual | Ongoing | |
| | | Ensure that debarred key individuals and representatives are removed from the register and advise the Registrar of the debarment within 30 days | High | Key Individual | Ongoing | |
| | | Establish a process whereby the client is informed of a debarment. Ensure that any outstanding business is concluded | High | Key individual | Ongoing | |
| Professional Indemnity Cover Sec 5(e): General Code of Conduct Sec 13: General Code of Conduct | The FSP must disclose to all the clients whether PI cover is held or not | Obtain a copy of the certificate and monitor the expiry / renewal date if applicable | Low | Key Individual | Annually | |
| | | | | | | |

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|--|---|--|--|-------------------------------------|-------------------------------------|------------------------------|
| Compliance Function Sec 17(3) : FAIS Sec 5: FAIS Regulations | Any FSP must establish and maintain a procedure in order to ensure compliance with the FAIS Act and subordinate legislation | Ensure that the staff receive regular training on compliance functions | High | Key individual / Compliance officer | Ongoing | |
| | | The appointed CO must perform appropriate monitoring procedures and provide feedback / recommendation as stipulated in SLA | High | Key individual / Compliance officer | Ongoing | |
| | | Implement a register for all issues of non-compliance | High | Key individual / Compliance officer | Ongoing | |
| Custody of financial products / client funds Sec 10: General Code of Conduct Sec 45: Short-term Insurance Act Regulation 4 of the Short-term Insurance Act | Any FSP that receive funds or financial products from clients must account for the funds or financial product | Establish a procedure to ensure that written confirmation of receipt is issued when funds or financial products are received | High | Key Individual | Ongoing | |
| | | Check that there is a separate account for client funds (take note of the exemptions with regard to Short term insurance premiums) | High | Key Individual | Ongoing | |
| | | Establish if the FSP receive short term insurance funds and ascertain whether the FSP is authorised in terms of Sec 45 (STIA) and complies with section including an IGF guarantee | High | Key Individual | Ongoing | |

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| | | Establish whether the FSP receiving Short term insurance funds utilises the services of a collection agency. In the event that they do, obtain a copy of the contract and ensure that the collection agency is appropriately licensed The assets of the FSP must exceed the liabilities at all times | High High | Key Individual Key Individual | Ongoing Ongoing | |
| Auditing and financial requirements Sec 19: FAIS Act | The FSP must keep monthly accounting records up to date | Establish and maintain an appropriate accounting system | High | Key Individual | Monthly | |
| | The FSP must submit the Financial Statements to the FSB within the prescribed period as indicated in section 19 of the FAIS Act The FSP must submit a section 19(3) auditors report in the event where client funds are received | Ensure that the appropriate financial statements are submitted to the FSB when due | High | Key Individual / Compliance officer | Annually | |
| Conflict of interest and non-cash incentives Sec 3(1)(b), (c) & (d): General Code | The FSP must disclose all non-cash incentives or any other indirect consideration or any situation that can give rise to conflict of interest | Implement a Conflict of Interest document. Ensure that this document include a policy on how to deal with non-cash incentives | High | Key Individual | Ongoing | |

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|---|--|--|--|---|---|------------------------------|
| of Conduct | | <p>Implement a gift register</p> <p>Ensure that the disclosure document includes the following:</p> <ul style="list-style-type: none"> ▪ If the FSP holds more than 10 % of any product provider / supplier's shares ▪ If the FSP received more than 30 % commission from any one product provider / supplier ▪ If the FSP received any non-cash incentives or indirect consideration from any other person ▪ The existence of any personal interest in the relevant service, of any circumstances that gives rise to an actual / potential conflict of interest | <p>Medium</p> <p>High</p> | <p>Compliance officer</p> <p>Key individual</p> | <p>Ongoing</p> <p>Ongoing</p> | |
| <p>Client complaints</p> <p>Section 16 – 19: General Code of Conduct</p> | All FSPs are required to obtain a complaints resolution process and an appropriate procedure | <p>Ensure that an appropriate complaints procedure has been implemented and disclosed to the clients</p> <p>Ensure that a complaints register is opened and maintained</p> | <p>High</p> <p>High</p> | <p>Key Individual</p> <p>Key Individual</p> | <p>Ongoing</p> <p>Ongoing</p> | |

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|--|--|--|--|--------------------------------------|---|------------------------------|
| Advertisements/ Marketing Material Sec 14: General Code of Conduct | All advertisements and marketing material must comply with the relevant provisions | Establish a process to ensure that all advertisements and marketing material complies with the provisions of the General Code of Conduct | Low | Key individual / Compliance Officer | As and when | |
| | | Ensure that the CO sign of all new advertisements or marketing material | Low | Key Individual / Compliance Officer | As and when | |
| Premature cancellations / replacements Sec 8(1)(d) and 8(3): General Code of Conduct | The FSP must comply with the relevant provisions with regards to premature cancellations / replacements | Establish and monitor a replacement / cancellation register Ensure that an appropriate replacement policy advice record (RPAR) is used in the event of any replacements | High High | Key individual Key Individual | Ongoing / as and when | |
| Direct marketing Sec 15: General Code of Conduct | The FSP / direct marketer must comply with all the relevant provisions of the FAIS Act and the General Code of Conduct | Implement an appropriate voice-logging system | High | Key Individual | Ongoing | |
| | | Ensure that a quality assurance process applies to all direct marketing issues | High | Key Individual / Compliance Officer | Ongoing | |
| | | Implement a procedure for storing and retrieving of recordings Ensure that pre-prepared documents are checked by the | High | Key Individual / | Ongoing | |

| Risk Area: FAIS Act and subordinate legislation | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|---|--|---|--|---|---|------------------------------|
| | | CO | | Compliance officer | | |
| Business Continuity and Succession planning Board Notice 106 of 2008: Sec 8 Operational Ability | The FSP must have a business continuity and succession plan in place | Ensure that appropriate business continuity and succession planning arrangements is implemented (see SOP) | High | Key Individual | Annually | |
| Communication with Registrar Sec 8: FAIS | The FSP must inform the Registrar timeously with regards to all relevant changes within the business | Establish a process to ensure that the Registrar is informed timeously about changes to the information submitted during licence application process Ensure that the necessary profile changes are submitted (SOP) (templates/FSP forms) | Medium Medium | Key Individual / appointed staff member Key Individual/ appointed staff member | Ongoing Ongoing | |
| SLA with third parties Board Notice 106: Sec 8 Operational Ability | The FSP must have an appropriate SLA with any third party that is utilised to render administrative or system functions with regards to rendering financial services | Ensure that an appropriate SLA which specifies the agreed service, time standards, roles and responsibilities and any penalties that might be applicable | Medium | Key Individual | Ongoing | |
| Segregation of | The FSP must ensure that there is a | Ensure that there is a defined | Medium | Key | Ongoing | |

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| duties and roles and responsibilities Board Notice 106: Sec 8 Operational Ability | segregation of duties, roles and responsibilities where such segregation is appropriate (where applicable) | process for the segregation of duties and roles and responsibilities implemented (see SOP) | | Individual | | |
| Access rights and data security Board Notice 106: Sec 8 Operational Ability | The FSP must ensure that there are proper access right control and data security on electronic data | Ensure that there is a defined process in place for access right control and data security on electronic data (see SOP) | Medium | Key Individual | Ongoing | |
| System application testing Board Notice 106: Sec 8 Operational Ability | The FSP must ensure that there are proper system application testing (where applicable) | Ensure that there is a defined process in place to ensure proper system application testing (see SOP) | Medium | Key Individual | Ongoing | |

| Risk Area: Management of discretionary funds / products | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|---|---|--|--|-------------------------------|--|-----------------------|
| Prohibitions Sec 3(1) – (3): Code of Conduct for Discretionary FSP's | <p>Discretionary FSP's must obtain the written approval of the client for the following:</p> <ul style="list-style-type: none"> ▪ Sell client details or provide client details to a third party (except if the law requires it); ▪ Exercise a vote in a ballot conducted by a CIS; ▪ Exercise voting rights on behalf of clients to gain control of a listed or unlisted company except if it is done: <ol style="list-style-type: none"> 1. to protect the interest of the clients on whose behalf the financial product involved are held as investments; 2. on instruction of the client. <p>A discretionary FSP is not allowed to engage in the netting of transactions</p> <p>A discretionary FSP is not allowed to buy for own account financial products owned by the client, or sell financial products, owned by him, to the client</p> | <p>Client mandates must make provision for the list under control issues</p> <p>FSP must certify that they are not involved in netting</p> <p>FSP must certify that they do not buy for own account financial products owned by the client, or sell financial products, owned by him, to the client.</p> | High | Key Individual / Fund Manager | <p>Ongoing</p> <p>Quarterly</p> <p>Quarterly</p> | |

| Risk Area: | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|--|---|--|-------------------------------|---|------------------------------|
| Management of discretionary funds / products | | | | | | |
| Duties of a discretionary FSP Sec 4: Code of Conduct for Discretionary FSP's | <p>The discretionary FSP is required to do the following:</p> <p>Provide on request- Information about the client's financial products, market practices, risks inherent to the financial products and markets.</p> <p>Before entering into a written mandate with a client-</p> <ul style="list-style-type: none"> Obtain information about the client's- <ul style="list-style-type: none"> financial circumstances; needs; objectives. <p>Identify the financial products best suited to the client's objectives, risk profile and needs (keeping in mind the limitations imposed on the FSP re what he is authorised to deal in).</p> | <p>Ensure that statements concerning the product held by the client are available on his request.</p> <p>During the transaction monitoring process, make sure that a needs analysis and written advice record is on file.</p> | High | Key Individual / Fund Manager | Ongoing | |
| Mandates Sec 5: Code of Conduct for Discretionary FSP's | <p>A discretionary FSP may not render any service to a client as such unless he or she has a written mandate from that client.</p> <p>Approval of mandate</p> <ul style="list-style-type: none"> The mandate must be submitted to the FSB for approval. Any material amendments to the | <p>Make sure that a mandate that has been approved by the FSB is in place.</p> <p>Ensure that important amendments to the approved mandate is submitted to the FSB for approval and do not use it</p> | High | Key Individual / Fund Manager | Ongoing | |

| Risk Area: Management of discretionary funds / products | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|---|---|---|--|--------------------------------------|---|------------------------------|
| | <p>mandate (other than those required by the FSB) must be approved by the FSB.</p> <p>Termination of mandate</p> <ul style="list-style-type: none"> Upon termination of the mandate the FSP must return all cash, financial products, documents of title to the client, and give the client a final statement of account. <p>Anything in possession of a nominee company must be returned to the client upon instruction by the FSP.</p> | <p>before the amendments have been approved.</p> <p>Have a mandate signed before any transactions are concluded on behalf of the client.</p> <p>When a client's mandate is terminated, ensure that the correct termination process is followed.</p> | | | | |
| Reporting to clients Sec 6: Code of Conduct for Discretionary FSP's | <p>Written report at least every 3 months (this report must also be produced if and when so requested by the client)</p> | <p>The FSP must provide clients with a consolidated report on at least a quarterly basis</p> <p>If clients are put with one LISP (category III FSP) only, the quarterly report from that LISP is sufficient.</p> <p>The FSP must still request the LISP to send copies of all the quarterly reports to the FSP, and the FSP must ensure that each</p> | <p>High</p> | <p>Key Individual / Fund Manager</p> | <p>Ongoing</p> | |

| Risk Area: | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|---|---|--|-------------------------------|---|------------------------------|
| Management of discretionary funds / products | | client receive a quarterly report from the LISP | | | | |
| Nominee companies Sec 8: Code of Conduct for Discretionary FSP's Sec 6 of FAIS Regulation | A discretionary FSP may establish a nominee company with the sole object of being the registered holder and custodian of the investments of clients, subject to such conditions and restrictions as may be imposed by the Registrar under section 8(4) of the Act, and the applicable provisions of the regulations made under the Act, and enter into a written agreement with the company, which provides for termination of the agreement by either party on written notice of not less than 90 days. Where a discretionary FSP elects not to establish such a nominee company, an appropriate existing nominee company, approved by the Registrar, must be utilised by the discretionary FSP. | The FSP must establish its own nominee company or identify an existing approved nominee company | High | Key Individual / Fund Manager | Ongoing | |

| Risk Area: Financial Intelligence Centre Act | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|--|--|--|-----------------------------|-------------------------------------|------------------------------|
| FICA Internal Rules Sec 42: FICA Sec 25 – 27: FICA Regulations | The FSP is obliged to implement an appropriate set of internal rules | Ensure that FICA internal rules are implemented Provide copies to all staff members | High | Key Individual | Ongoing | |
| Client due diligence Sec 21: FICA | Proper due diligence must be applied with regard to all new client take on in accordance with the provisions of FICA and the Regulations | Obtain appropriate FICA declarations from new clients | High | Key Individual | Ongoing | |
| Client verification Sec 4: FICA Regulations | The FSP must verify relevant client information as per FICA | Establish a process to ensure that the required documentation is obtained from all active clients | High | Key Individual | Ongoing | |
| PEP Verification Government Notice 27803: Guidance Notes Sec 25 - 27 | The FSP must verify if a client is a PEP | Establish a process to ensure that clients that are PEPs are identified and necessary documents are verified and proof of source of funds are obtained | High | Key Individual | Ongoing | |
| UN Security Council List | The FSP must check on a regular basis for the updated list of terrorists organisations or persons at the UN Security Council | Ensure that the FSP's client list does not include clients as identified on the list (if applicable) (http://www.un.org/sc/committees/1267/consolist.shtml) | High | Key Individual | Ongoing | |
| | | | | | | |

| Risk Area: Financial Intelligence Centre Act | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|---|--|--|--|---|---|------------------------------|
| Recordkeeping Sec 22 – 26: FICA Sec 26: FICA Regulations | The FSP must ensure that proper recordkeeping is in place according to the provisions of FICA | Ensure that records will be kept for a period of 5 years after termination of the product or after the rendering of the financial service If the records are stored by a third party the FIC must be informed | High | Key Individual / appointed staff member | Ongoing | |
| Source of funds verification Sec 21(2) & (3): FICA Regulations | The FSP has a duty to take reasonable steps to establish the source of income of any client in case of a suspicious or unusual transaction | Ensure that a process is implemented to establish source of a clients funds Implement a source of funds register | High | Key Individual | Ongoing | |
| Staff Training Sec 43: FICA Internal Rules | The FSP is obliged to give training to staff on all relevant provisions of FICA | Establish a process that will ensure that all staff receive the relevant training Ensure that a Money Laundering Officer is appointed (preferably the KI of the FSP) | Medium | Key Individual / Compliance officer | Annually | |

| Risk Area: Income Tax Act | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|--|---|--|-----------------------------|---|------------------------------|
| Recordkeeping | The FSP must keep all income tax records safe from destruction for a period of 5 years | Consider implementing a process for scanning / appropriate back-ups of all relevant documentation | Medium | Key Individual | Monthly | |
| VAT | The FSP must keep all VAT records safe from destruction for a period of 5 years | Consider implementing a process for scanning / appropriate back-ups of all relevant documentation | Medium | Key Individual | Monthly | |
| Submission of returns | The FSP must timeously submit tax and VAT returns | Establish a procedure that will ensure timeous submission of VAT and tax returns | Medium | Key Individual | Annually / every two months | |

| Risk Area: Basic Conditions of Employment Act | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|---|---|--|---------------------------------|---|--------------------------------------|
| Staff employment contracts | The FSP must have an employment contract in place with all the employees | Ensure that appropriate written employment contracts are concluded with all employees | High | Key Individual / HR manager | As and when | |
| Employment termination | The FSP must have a proper procedure for termination of employment in place | Establish a process that will ensure correct procedures to be followed when employment is terminated Establish an appropriate process for disciplinary hearings of employees | Medium | Key Individual / HR manager | As and when | |

| Risk Area: Information Technology | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|---|---|--|---|-------------------------------------|------------------------------|
| Recordkeeping of data and transactions | The FSP must have a documented policy with regards to electronic recordkeeping, data integrity, back-ups and electronic communication | Establish a policy document that provides for the following: a) all electronic records are to be easily accessible and readily reduced to printing b) all business processes and electronic workflow procedures c) ensure that a confidentiality agreement is concluded with clients when appropriate d) confidentiality clauses must form part of staff employment contracts and representative mandates e) regular back-ups must be made of electronic records and emails f) back-ups must be tested to ensure that information was correctly backed up and that it can be easily retrieved g) it is advisable for back-ups to be stored off site and it must be easily accessible h) where the IT function is outsourced it is | High | Key individual / appointed staff member | Ongoing | |

| Risk Area: Information Technology | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|-----------------------|--|--|-----------------------------|-------------------------------------|------------------------------|
| | | advisable for a staff member to be trained in terms of emergency back-ups, information retrieval, etc i) appropriate virus protection and firewall programs are included in the contract from the internet service provider j) email correspondence must include a disclaimer as well as the information required in terms of FAIS | | | | |

| Risk Area: Business Security | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|---|--|--|--|-----------------------------|-------------------------------------|------------------------------|
| Security arrangements | The FSP must ensure that appropriate measures are in place for business security | Ensure that there are a procedure in place that gives consideration to the following: Security relating to the business premises Sufficient short term cover Client files must be stored in lockable cabinets Ensure that there is a disaster recovery plan in place (See SOP) | High | Key Individual | Ongoing | |

| Risk Area: Occupational Health and Safety Act | Control Issues | Recommended Actions/Processes | Risk Rating : High Medium Low | Responsible Person/s | Monitoring/ Review Frequency | Key performance dates |
|--|--|---|--|-----------------------------|-------------------------------------|------------------------------|
| | The FSP must ensure that they must adhere to the provisions of the Act | Ensure that the questionnaire is completed annually | Low | Key Individual | Annually | |