

REGULATORY GUIDELINES FOR INTERMEDIARIES

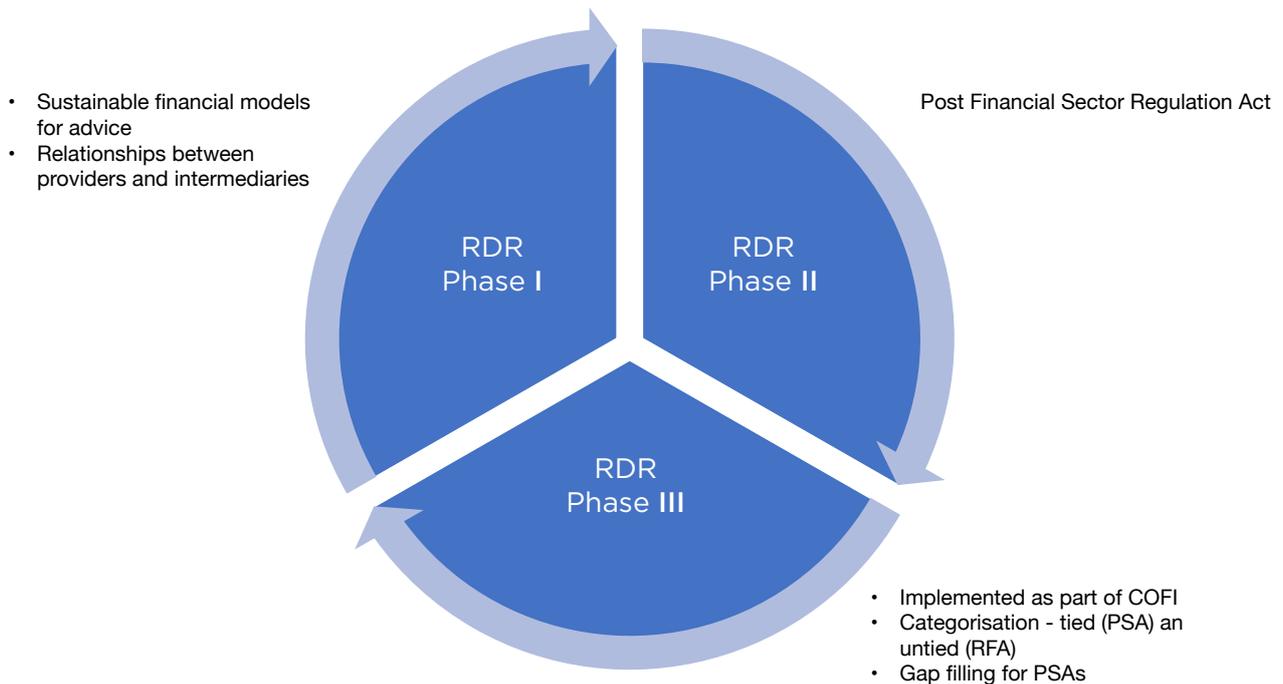
March 2018



THINK WORLD CLASS

glacier
by Sanlam

THE PHASES AND THE BASICS OF THE RETAIL DISTRIBUTION REVIEW (RDR)



RDR will require financial intermediaries to think about their own value proposition and how they will position this to their clients.

RDR fee proposals

- Investors must agree to fees in writing if recovered from the investment account, i.e. if the payment of the fee is facilitated by the provider. It should be noted that “facilitation” means only passing on money that is already in the investor’s account – no funding of fees by product providers will be allowed.
- No commission on wrapped products, savings or investment products – only advice fees. Sanlam’s understanding is that this is a certainty, which will be implemented as Phase 2 and the removal of commission on all recurring premiums (savings) will happen from Phase 3.
- Upfront adviser fees payable on a lump sum investment will mean no more 100% allocations to investors.
- Adviser trailer fees may not be paid from annual management fees.
- Stockbrokers and financial advisers may not share annual management fees.

Further consultation has been requested regarding the following:

- Defining investment management as a licensing activity and the extent to which investment managers must be licensed differently to model portfolio providers, as an example
- Clarification on the contractual and business relationships between all entities in the investment value chain to mitigate the risks posed by conflicting advice and discretion
- The future of white label models
- The implication for adviser categorisation for investments – when will an investment adviser be a PSA?

So if you’re a Category II intermediary, you will also need to be certain of your value proposition.

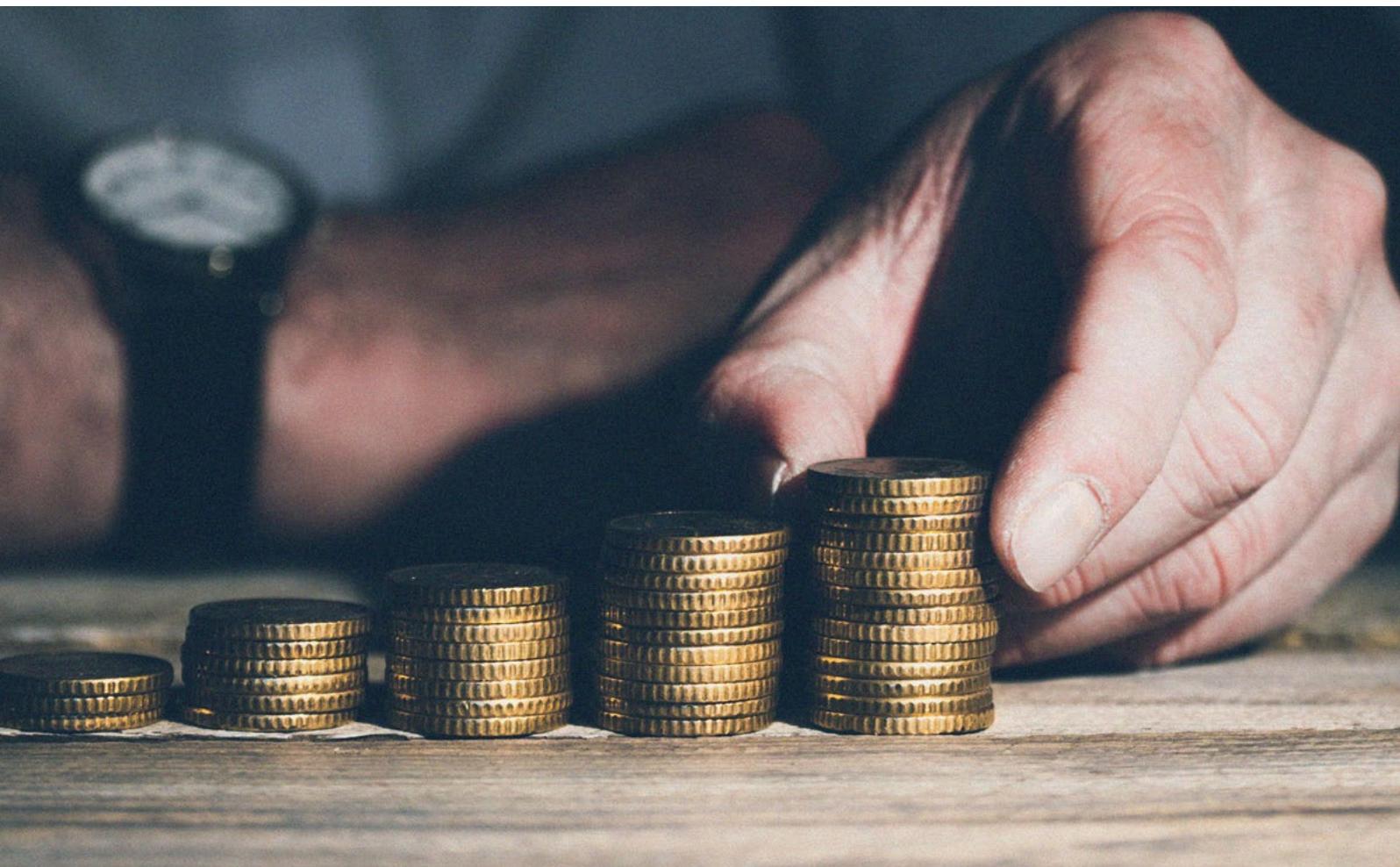


Practical steps to prepare for Phase 2

Jacques Coetzer, General Manager of Broker Distribution at Sanlam Personal Finance has proposed **a few practical steps intermediaries can take in the countdown to the implementation of Phase 2.**

These steps include reading the RDR paper and applying the requirements to your business, getting your cash flow game plan in place, setting the right price for your advice and making your value proposition clear in order to better capitalise on the RDR earning potential.

| | |
|---|--|
| Understanding cash requirements | Evaluate business expenses so you understand how much income you need monthly. |
| Month-to-month income | The current earnings from all income streams need to be evaluated as well in order to determine the sustainability of RDR-compliant income. |
| Build cash reserves | Upfront commissions for the interim, to buffer cash flow issues during the building of a fee-based income stream. Strategically start introducing a fees-for-service model. |
| Build a compelling value proposition | Your value proposition must be clear and unique - you need to differentiate yourself. Compare yourself to your competitors and consider that robo-advice in the future will cater for one-dimensional purchases. It is necessary to think about holistic advice where quality surpasses all. |
| Plan how you will convert your clients | Think about acclimatising clients to pay a fee for services and the corresponding agreements, systems and processes that need to be in place. |



FATCA & OECD CRS

Foreign Account Tax Compliance Act and The Organisation for Economic Co-Operation and Development-Common Reporting Standard

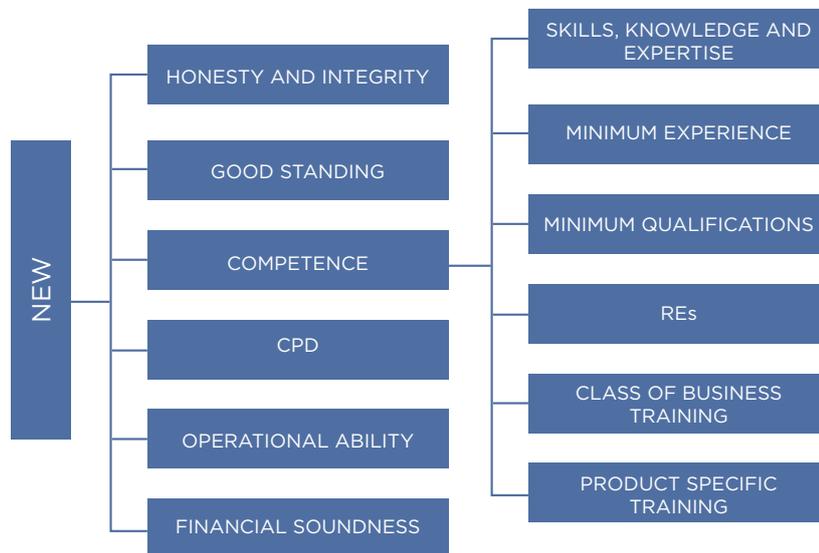
Our forms were updated recently to make provision for the self-certification requirement, as we need to obtain additional information from existing clients to determine if they are taxpayers in any foreign jurisdictions. Clients must complete and sign the individual self-certification form to confirm their tax status. If a client is a taxpayer in a foreign jurisdiction, the tax identification information must be completed on the form. This is to enable Glacier to report to SARS accordingly.

We would thus recommend that financial intermediaries include the FATCA/OECD CRS reporting data at the information gathering stage already for each client, perhaps as part of the personal details questionnaire. The reporting responsibility might not relate directly to an intermediary, but it is necessary to inform and educate clients on the expected requirements from financial institutions. The detail should be included in the second step of financial planning in any event, i.e. when the financial intermediary gathers client data.

Please note that Glacier is obliged to report it to SARS if we were unable to obtain the self-certification document. This could potentially see penalties imposed on clients who fail to provide the necessary information.

NEW FIT & PROPER REQUIREMENTS

BN 194 of 2017



New competency responsibilities for FSPs

The FSP must establish, maintain and apply adequate policies, internal systems, control and monitoring mechanisms to ensure that all parties are continuously compliant, and must keep a competence register which must be furnished to the Registrar. Competence registers must be maintained for product-specific training (PST), class of business (COB) training and continuing professional development (CPD) from 1 May 2018.

In terms of minimum requirements, the FSP must:

- adopt and follow procedures accurately to perform their responsibilities and functions

- possess appropriate general and technical knowledge to comply with disclosure obligations to clients
- be appropriately trained for the financial services and products that they sell
- undertake CPD to maintain and update relevant knowledge and skills
- assess whether appropriate financial planning can be completed for the client.

The FSP must be able to demonstrate and record that it has:

- evaluated and reviewed
- at regular and appropriate intervals
- that its Reps and KIs remain competent, and
- that training and CPD requirements are appropriate.



The evaluation and review must take into account skills and expertise and changes in the market to financial products, services and legislation.

New CPD rules for FSPs, KIs and Reps

The CPD activity must be facilitated in conjunction with an approved CPD provider.

| | |
|--|--|
| CPD: Within 30 days after the expiry of each CPD cycle (1 June to 31 May) the FSP must: | Record all CPD activities in the competence register |
| | Calculate the number of CPD hours completed by each person |
| | Maintain the relevant evidence as per the register |
| | Record dates of, reasons for and evidence for reducing CPD requirements |
| | Keep records for at least 5 years after the end of the cycle |
| | In terms of minimum CPD hours: KIs and representatives must submit evidence of their CPD activities to the FSP within 15 days after the expiry of the CPD cycle |
| 1 April 2018 | <ul style="list-style-type: none"> • New Fit and Proper requirements effective • Old BNs repealed |
| 1 May 2018 | <ul style="list-style-type: none"> • FSPs must be able to demonstrate and record regular reviews of all KI's and Rep's competency. The records must include the actions taken to ensure that they remain competent and also indicate the appropriateness of training and CPD undertaken • FSPs must maintain a competence register in which the qualifications, COB, PST, RE and CPD of KIs and Reps are recorded • Reps under supervision at this date & newly appointed Reps have 3 months from 1 May to comply with the Product-specific training [PST] requirements • All Reps appointed after 1 May must comply with the PST requirements prior to rendering service • FSPs that provide automated advice must have certain policies, processes and systems in place |
| 1 June 2018 | <ul style="list-style-type: none"> • FSPs must have policies, procedures and systems in place to record and report on CPD activities [KI's and Rep's] |
| 1 August 2018 | <ul style="list-style-type: none"> • Reps under supervision at this date & newly appointed/approved Reps and KIs have 12 months from 1 August to comply with the Class of Business training [COB] requirements • All Reps and KIs appointed/approved after this date must comply with the Class of Business training [COB] requirements prior to rendering service |
| 1 March 2019 | <ul style="list-style-type: none"> • FSPs must have adequate financial resources to run an effective business • Liquidity requirements for various category FSPs |

POLICYHOLDER PROTECTION RULES UNDER THE LONG-TERM INSURANCE ACT

What you need to keep in mind about the new PPRs, effective 1 January 2018 with staggered implementation dates:

1. The definition of “ Policyholders” include potential policyholders, thereby extending the scope of the PPRs to persons who have applied for a policy, have been solicited by the insurer or have received advertising in respect of a policy.
 2. There are general principles applicable to all advertising, brochures or similar communications that insurers need to comply with. It would be wise for intermediaries to also comply with any such rules when advertising product campaigns to clients, as they would run the risk of insurer involvement should non-compliance occur.
 3. Carefully consider your intermediary/distribution agreement with product providers, as there might be some product disclosure requirements that you should comply with.
- It all comes down to the importance of disclosure that enables policyholders to understand exactly what they are buying.

FIC AMENDMENT ACT – PARTY DUE DILIGENCE (PDD)

The FIC Amendment Act places some onerous obligations on accountable institutions, not least of which is the requirement to develop and implement a Risk Management Compliance Plan (RMCP) that outlines how you will (amongst others):

- Risk rate your clients from an anti-money laundering (AML) and countering of the financing of terrorism (CFT) perspective, and
- Screen your clients against various sanctions lists and reputational sources

It introduces a set of new acronyms:

- EDD - Enhanced Due Diligence, which is required for high-risk clients
- SOF - Source of Funds, which requires you to understand where your client got the money to invest

- SOW - Source of Wealth, which requires you to understand how your client generated wealth
- PIPS - Politically Influential Persons, i.e. persons connected to government or State Owned Agencies (SOA)
- SIPS - Special Interest Persons

At Glacier (and Sanlam), we refer to this as PDD - Party Due Diligence, meaning the process of identifying your client and the required verification procedures. Eventually we want you to be able to rely on our having conducted these processes in respect of our mutual clients. This would mean that you would potentially not have to go through the entire PDD process as well. You would need to document the basis on which you place such reliance on us in your RMCP, i.e. you'll have to confirm that you are comfortable with our processes.

POPIA (PROTECTION OF PERSONAL INFORMATION ACT)

It is clear that an FSP, financial adviser and representative will be subject to the rules and limitations set by the legislation in their capacity as the responsible party for processing their client information.

POPIA provides minimum requirements, known as the eight conditions for the lawful processing of personal information:

1. Accountability
2. Processing limitation
3. Purpose specification
4. Further processing limitation
5. Information quality
6. Openness
7. Security safeguards
8. Data subject participation

Processing includes:

| DATA SUBJECT ON-BOARDING | |
|---|--|
| collecting, retrieving, recording | organising, collating, storing |
| ↓ | |
| DATA SUBJECT MAINTENANCE | |
| updating, modifying, retrieving, altering, consulting | using, disseminating, distributing, merging, linking |
| ↓ | |
| DATA SUBJECT EXIT | |
| erasure and destruction of information linked to purpose for processing | limited processing clause allows retention of PI into perpetuity for the burden of proof |

Personal information may only be processed if:

- the data subject has agreed to it (consent must be voluntary, explicit and informed)
- it is necessary to carry out a service or contractual obligation
- it has to be done under obligation by the law

The rules for lawful processing are summarised below

1. Collection directly from the data subject
Personal information must be collected directly from the data subject, unless:
 - the information is taken from public record
 - consent has been given to collect from another source
 - collection is required to comply with an obligation imposed by law
2. Collection for a specific purpose
Personal information must be collected for a specific and clearly defined purpose that is related to the service being provided or contractual obligation that was agreed upon. It is important to ensure that the data subject understands the purpose for which his/her personal information was collected.
3. Retention and restriction of records
Personal information must not be retained for longer than is required, unless:
 - it is authorised or required by law
 - It is stipulated in a contract with a data subject
 - the data subject consented to the retention of his/her PI
 - PI must be destroyed as soon as the authority to retain it is concluded
4. Further processing must be compatible with the purpose of collection
Where PI is used for a purpose other than that for which consent was initially obtained, the data subject would have to provide specific consent for such further processing.
5. Quality of information
The correctness of the PI must be maintained
6. Compliance with the security measures on integrity and confidentiality of personal information
7. Information may only be processed by an operator or person acting under authority
8. Compliance with the security measures regarding information processed by an operator
9. Due notification of security compromises
10. Access to personal information is regulated
11. Correction of personal information as required i.e. on request of a data subject

What is regarded as “personal information”?

According to the Act, ‘personal information’ encompasses the following:

The 48 Data Elements

- | | |
|------------------------------------|---|
| 1. First Name | 27. Financial History |
| 2. Middle Names | 28. Criminal History |
| 3. Last Names | 29. Employment History |
| 4. Initials | 30. Any Identifying Number |
| 5. Birth date | 31. Identifying Symbol |
| 6. Age | 32. E-mail address |
| 7. Race/ Colour | 33. Physical Address |
| 8. Gender | 34. Telephone Number |
| 9. Sex Life | 35. Location Information |
| 10. Pregnancy | 36. Online Identifier |
| 11. Marital Status | 37. Other particular assignment to a person |
| 12. Nationality | 38. Political Persuasion |
| 13. Ethnic Origin | 39. Blood Type |
| 14. Social Origin | 40. Biometric Information |
| 15. Sexual Orientation | 41. Trade Union Membership |
| 16. Physical Health | 42. Personal Opinions |
| 17. Mental Health | 43. Personal Views |
| 18. Well-being | 44. Personal Preferences |
| 19. Disability | 45. Correspondence sent of a private or confidential nature |
| 20. Religion | 46. Views/ opinions of /another individual about a person |
| 21. Conscience | 47. The name of the person if it appears with other personal information relating to the person |
| 22. Beliefs/ Philosophical Beliefs | 48. If disclosure of the name itself would reveal information about the person. |
| 23. Culture | |
| 24. Language | |
| 25. Education | |

You need to determine when and how you interact with data subjects and their personal information. We suggest that you engage with your IT provider to ensure that your security measures are robust enough to safeguard the personal information of your clients.

IN SUMMARY

Jacques Coetzer, General Manager of Broker Distribution at Sanlam Personal Finance maintains that intermediaries who render a professional service, place clients’ needs at the core of their financial planning processes and stay abreast of regulatory developments will thrive in the new world. To do so, however, requires some forward thinking, planning and action. Being equipped for this transition is not an endeavour any advice practice can achieve overnight and consequently the biggest risk any intermediary can take is leaving it too late.

Be assured that you’re partnering with dedicated professionals who remain committed to assisting you in all aspects of regulatory and other changes.

This document is intended for use by financial intermediaries. The information in this document is provided for information purposes only and should not be construed as the rendering of advice to clients. Although we have taken reasonable steps to ensure the accuracy of the information, neither Sanlam nor any of its subsidiaries accept any liability whatsoever for any direct, indirect or consequential loss arising from the use of, or reliance in any manner on the information provided in this document.

Glacier Financial Solutions (Pty) Ltd. | A member of the Sanlam Group | Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Twitter @GlacierBySanlam | Reg No 1999/025360/07 | Licensed Financial Services Provider

Sanlam Life Insurance Ltd. | Email life@sanlam.co.za | Tel + 27 21 916 5000 / 0860 726 526 | Fax +27 21 947 9440 | Reg No 1998/021121/06 | Licensed Financial Services Provider

glacier
by Sanlam