

FAIS Conflict of Interest Policy

Note:

The scope of this policy is in respect of conflicts of interest as it relates to Discovery Bank and its clients; and is a requirement in terms of the Financial Advisory and Intermediary Services Act. The wider conflicts of interest policy for Discovery Bank is contained in the *Discovery Bank Compliance Manual*.

Approval of this document:

This manual has been presented to the Discovery Bank Audit and Compliance Committee for approval.



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Policy administration

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Policy approval

This policy has been approved as follows:

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Discovery Bank Audit and Compliance committee	Discovery Bank Conflicts of Interest Management Policy	Version1	June 2018
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Glossary

The definition of **'Associate'** is as follows:

a) In relation to a **natural person**, it means:

- i) A person who is recognised in law or in the tenets of religion as the spouse, life partner or civil union partner of that person
- ii) A child of that person, including a step-child, adopted child and a child born out of wedlock
- iii) A parent or step-parent of that person
- iv) A person in respect of which that person is recognised in law or appointed by a court as the person legally responsible for managing the affairs of or meeting the daily care needs of the first mentioned person
- v) A person who is the spouse, life partner or civil union partner of a person referred to in subparagraphs (ii) to (iv)
- vi) A person who is in a commercial partnership with that person.

b) In relation to a **juristic person**:

- i) Which is a **company**, means any subsidiary or holding company of that company, any other subsidiary of that holding company, and any other company of which that holding company is a subsidiary
- ii) Which is a **close corporation** registered under the Close Corporations Act (Act No. 69 of 1984), means any member of that corporation, as defined in section 1 of the Act
- iii) Which is **not a company or a close corporation**, as referred to in subparagraphs (i) or (ii), means another juristic person which would have been a subsidiary or holding company.

'Distribution channels' means:

- (a) Any arrangement between a product supplier or any of its associates and one or more Providers or any of its associates in terms of which arrangement any support or service is provided to the provider or providers in providing a financial service to a client
- (b) Any arrangement between two or more Providers or any of their associates, which arrangement facilitates, supports or enhances a relationship between the provider or providers and a product supplier
- (c) Any arrangement between two or more product suppliers or any of their associates, which arrangement facilitates, supports or enhances a relationship between a provider or providers and a product supplier.
Note: Definition of 'distribution channel' inserted by section 2(b) of BN 58 of 2010.

'Employees' include any full-time, temporary, contract, outsourced, suspended or absent employees, partners, agents and any representatives under the Discovery Bank licence.

'Financial interest' means any cash, cash equivalent, voucher, gift, service, advantage, benefit, discount, domestic or foreign travel, hospitality, accommodation, sponsorship, or other incentive or valuable consideration other than:

- (a) An ownership interest
- (b) Training that is not exclusively available to a selected group of providers or representatives, on:
 - (i) Products and legal matters relating to those products
 - (ii) General financial and industry information
 - (iii) Specialised technological systems of a third party necessary for providing financial service; but excluding travel and accommodation associated with that training.

'Immaterial financial interest' means any financial interest in which the monetary value can be determined; the aggregate of which does not exceed R 1000 in any calendar year from the same third party.



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'Ownership interest' means:

- (a) Any equity or proprietary interest, for which fair value was paid by the owner at the time of acquisition, other than equity or a proprietary interest held as an approved nominee on behalf of another person
- (b) Any dividend, profit share or similar benefit derived from that equity or ownership interest.

'Provider' means an authorised financial services provider, and includes a representatives of Discovery Bank.

2.8 **'Third party'** means:

- a) Product supplier
- b) Another provider
- c) An associate of a product supplier or a provider
- d) A distribution channel
- e) Any person who in terms of an agreement or arrangement with a person referred to in paragraphs (a) to (d) above provides a financial interest to a provider or its representatives.

2.9 **'Responsible person'** is a key individual, representative, employee, manager or director of that financial services provider.

2.10 **'New entrant'** means a person who has never been authorised as a financial services provider or appointed as a representative by any financial services provider.

Introduction

The Discovery Group (including Discovery Bank Holdings) is a multi-service organisation with a diverse client base and a wide variety of products and services. As a result of this, Discovery Bank may encounter situations where actual or potential conflicts of interest may arise.

A **'conflict of interest'** as defined in section 3 of the General Code of Conduct for Financial Services Providers is essentially a situation where an employee or business unit have competing professional and personal interests, which make it difficult to perform their duties in an impartial manner.

In line with Discovery Bank's commitment to maintaining the highest levels of ethics and good values, the Bank is committed to implementing controls to manage conflicts of interest in a transparent manner in keeping with the Group's reputation of operating with integrity and objectivity.

Purpose

The Discovery Bank Limited Board of Directors (Discovery Bank Board) fully recognises their responsibility in terms of the Financial Advisory and Intermediary Services Act (FAIS Act) to ensure that an appropriate control framework and governance is in place for the management of conflict of interest situations.

Additionally, Discovery Bank in association with the wider Discovery Group supports consumer protection and measures to improve the overall fairness to customers by taking the necessary steps towards compliance with consumer protection legislation. The FAIS Act is a key component of the consumer protection legislative landscape aimed at protecting customers, and in general, regulating market conduct within the industry.

The purpose of this policy is to address conflict situations that may arise between Discovery Bank as a financial services provider and clients, or between Discovery representatives and a client. The FAIS Act General Code of Conduct requires a provider and a representative to avoid, and where this is not possible, mitigate any conflict of interest between the provider and a client or the representative and a client.



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This policy establishes a framework within which actual or perceived conflict of interest situations must be identified and reported and determines the appropriate steps required to manage or mitigate the risk associated with that conflict.

Scope

This policy applies to all Discovery Bank employees.

It also applies to:

- Any independent financial services provider (FSP) which acts as a distribution channel of Discovery Bank products or services, as well as responsible Persons of such FSP, that has signed a distribution agreement with Discovery
- Any product supplier
- Any third party, as defined in Board Notice 58 of 2010, and its employees who may approve or accept the giving and receiving of any financial interest, on behalf of that entity
- Any representative or key individual of entity mentioned above, mandated to provide financial services or to manage and oversee the rendering of financial services, as defined in the FAIS Act
- Relevant entity or stakeholder that has contracted with Discovery Bank to deliver its products or services.

Conflict of interest

What is conflict of interest in the financial advisory and intermediary services environment and what is the duty of a financial services provider in this context.

A conflict of interest can be defined as any situation, relationship or transaction in which an FSP or a responsible person in the FSP has an actual or perceived interest (including financial interest, ownership interest or any interest through a relationship with a third party) that may, in rendering a financial service to a client:

- a) Influence the objective performance of their obligations to that client
- b) Prevent that FSP or a responsible person in the FSP from rendering an unbiased and fair financial service to a client, or from acting in the interest of a client. Including but not limited to
 - i) A financial interest
 - ii) An ownership interest
 - iii) Any relationship with a third party.

Duty of financial services provider discovery bank

In terms of the FAIS Act General Code of Conduct, the requirements under specific duties of the financial services provider:

'3(1)(c) A provider or a representative must, in writing, at the earliest reasonable opportunity:

(i) Disclose to a client any conflict of interest in respect of that client, including:

(aa) the measures taken, in accordance with the conflict of interest management policy of the provider referred to in [section 3A\(2\)](#), to avoid or mitigate the conflict;

[Item (aa) substituted by BN 58/2010 w.e.f. 19 April 2011]

(bb) any Ownership Interest or Financial Interest, other than an immaterial Financial Interest, that the provider or representative may be or become eligible for;



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(cc) the nature of any relationship or arrangement with a Third Party that gives rise to a conflict of interest, in sufficient detail to a client to enable the client to understand the exact nature of the relationship or arrangement and the conflict of interest; and

(ii) inform a client of the conflict of interest management policy referred to in section 3A(2) and how it may be accessed.

d) the provider must disclose to the client the existence of any personal interest in the relevant service, or of any circumstance which gives rise to an actual or potential conflict of interest in relation to such service, and take all reasonable steps to ensure fair treatment of the client;

e) non-cash incentives offered and/or other indirect consideration payable by another provider, a product supplier or any other person to the provider could be viewed as a potential conflict of interest.'

'Section 3A(1A)

(a) A Category I provider that is authorised or appointed to give advice may not receive a sign-on bonus from any person.

(b) No person may offer or provide a sign-on bonus to any person, other than a new entrant, as an incentive to become a Category I provider that is authorised or appointed to give advice.'

'Section 3A(2)

(f) A provider must publish its conflict of interest management policy in appropriate media and ensure that it is easily accessible for public inspection at all reasonable times.

Section 3A(3) states:

3) A provider or representative may not avoid, limit or circumvent or attempt to avoid, limit or circumvent compliance with this section through an associate or an arrangement involving an associate.'

Policy statement

The business of Discovery Bank is built on trust and integrity in relation to all stakeholders, including our clients, staff, shareholders, suppliers and regulators. Importantly, this trust and integrity is aligned to our values, which we have adopted Group-wide.

Discovery Bank will implement an appropriate framework, including procedures and controls, to identify and manage conflict situations and will not deliberately act in a manner that will result in a contravention of the Discovery Bank holding company's or Discovery Group's regulatory obligation in respect of conflicts of interest.

The Discovery Bank Board confirms that the following principles apply when interacting with the distribution channels:

Independent intermediaries or distribution channels and other third parties.

In respect of independent distribution of the Discovery Bank offering, remuneration in relation to independent intermediaries will be subject to:

- The limits prescribed in the relevant legislation governing the administration of Discovery products
- The amount agreed to between the intermediary and the client, which will be communicated to Discovery Bank from time to time.

In addition to the above, any financial interest, (other than that allowed for in terms of the FAIS Act's General Code of Conduct), including Section 3A(1)(a)(i) to (iv) will not be paid or provided to independent intermediaries.



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Tied distribution channels

Any remuneration to a Discovery Bank employee for the distribution of Discovery Bank products will meet principles of 'equivalence of reward'. This will be in line with the principles defined for this purpose at Discovery Bank in the remuneration documents that apply.

No remuneration to any individual will vary as a result of:

- Preference given to quantity of business written, to the exclusion of the quality of services rendered to Discovery clients
- Preference given to a specific Discovery Bank product, where more than one product may be recommended to a client
- Preference given to a specific Discovery Bank product of a product supplier, where a representative may recommend more than one product of that product supplier to a client.

Exco and Discovery Bank compliance will define any recognition programme that applies to the distribution of Discovery Bank products on an annual basis.

Implications of non-compliance

Discovery Banks views any non-compliance to this policy as well as any non-compliance with its obligations in terms of how to deal with conflicts of interest and concomitant provision in relevant legislation in a serious light.

Any deliberate action by a responsible person in an FSP, associates and third parties to contravene the above will be subject to disciplinary action or termination of a distribution agreement and can ultimately result in the dismissal or debarment. All instances of non-compliance will be included within the regular risk reporting process.

Standards

Identification management and reporting of conflict situations

Improper management of conflicts of interest could lead to reputational damage for Discovery Bank as well as legal action or loss of revenue to the client and Discovery Bank. Discovery Bank will therefore introduce controls to properly identify and manage potential conflicts of interests:

- I. Implement and maintain an effective *Conflicts of interest policy or manual*
- II. Create and maintain a record of services and activities undertaken by the various areas of Discovery Bank which may give rise to a conflict of interest
- III. A mandatory requirement that the nature of any conflict of interest be disclosed to a client before commencing any business or transaction for that client – this is important where the conflict management measures are insufficient to ensure, on a reasonable basis, that damage to the client's interests can be avoided
- IV. All business areas which provide financial advice as regulated by FAIS, must maintain a *Conflict of interest procedure manual* which provides a description of the circumstances that could give rise to a conflict of interest as well as the measures used to manage such conflicts
- V. All employees need to declare their outside business interests.



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To enable the effective management of all actual or perceived conflict situations the following procedures or systems are in place to identify, analyse and record conflict situations:

- All responsible persons within Discovery Bank need to complete a notification detailing any actual or perceived conflict situation that may arise from day-to-day operations. These notifications will be recorded centrally on the relevant registers, together with an analysis of the implications of the situation, to determine the most appropriate actions necessary to effectively manage the conflict situation
- All responsible persons within Discovery Bank will need to complete a notification detailing any immaterial financial interest provided to an independent intermediary, or a responsible person of that FSP. These notifications will be recorded centrally and the implications of the situation analysed to determine the most appropriate actions required to effectively manage the conflict situation
- All responsible persons within Discovery Bank will need to complete a notification (with attendance registers), detailing any training that will be provided to independent intermediaries. These notifications will be recorded centrally and the validity of the programme assessed
- All responsible persons within Discovery Bank will need to complete a *Declaration of Conflict*, disclosing any association or relationship they may have with a third party that may result in a situation of conflict or the perception of one.

Management of conflicts of interest

Where there are conflicts of interests that are unavoidable, measures must be in place to mitigate their detrimental effects to clients, Discovery Bank and Discovery Group. These conflicts of interest must be reported to executive management, and compliance and must include:

- I. An explanation of why the conflict of interest is unavoidable
- II. A description of the conflict of interest risk, including potential reputational risks
- III. A description of proposed risk mitigation measures
- IV. Where appropriate, the communication that will be sent to client, which must be approved by the Legal department
- V. The details of the owner of the conflict of interest risk.

Therefore, all notifications received in line with paragraph 6.1 will be analysed, assessed and discussed with management to agree the appropriate controls and actions that must be in place to effectively manage the conflict of interest.

Effective controls

The controls to manage conflicts of interest must be designed in such a way so as to ensure the necessary level of independence:

- I. Measures to control the exchange of information within the Bank where that information may harm the interests of one or more clients
- II. Supervision of employees whose primary functions involve activities that may give rise to conflicts of interest
- III. Measures to prevent or limit any person from exercising any inappropriate influence over other persons
- IV. Involvement of senior management and the use of reporting and management information as deemed appropriate for each business
- V. Controls must be put in place to ensure that employees do not work on simultaneous or subsequent tasks that lead to a conflict of interest
- VI. Employees must keep all 'Need-to-Know' information secure in terms of the *Confidential Information Policy*.



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An employee must not work on a matter where there is an actual or perceived conflict of interest until the line manager approves work on the matter in writing and confirms that the necessary controls are in place. Any decision to authorise or decline an actual or potential conflict of interest must be recorded and referred to Compliance for guidance.

Controls and actions would be dependent on the severity of the situation and could include the following:

- Agreement not to continue with a transaction or to terminate an arrangement, due to the severity of the impact that it may have on Discovery Bank's operations
- Providing specific guidelines to the business involved on how to manage the transaction;
- Requiring specific disclosure to client by the intermediary involved in the transaction.

Controls and actions agreed with management will be recorded against each notification. The Group Compliance Department will monitor whether they are being observed.

Monitoring of implementation of this policy

The Discovery Bank FAIS Act Compliance Officer will be responsible for ensuring that the relevant Discovery Bank Compliance team conducts appropriate and periodic monitoring reviews. This will ensure that the principles of this policy are applied and adhered to.

Training and awareness

Employees

Appropriate training will be provided to all staff within Discovery Bank during the Discovery Bank induction process, and refresher training will be conducted annually.

Independent intermediaries

Discovery Bank will provide general training programmes relating to Discovery Bank's products, system and infrastructure, as well as general financial industry information to contracted independent intermediaries.

The training attendance register and relevant assessments (where applicable) will be recorded to be able to demonstrate compliance.

Annual compliance report

- a) A compliance officer or where the provider need not in terms of the Act have a compliance officer, the provider must include a report on the provider's conflict of interest management policy in compliance reports submitted to the registrar under the Act.
- b) The report referred to in paragraph (a) must report on at least the implementation, monitoring and compliance with, and the accessibility of the conflict of interest management policy.

