



29 January 2018

Honorable Carrim, Chairperson: Standing Committee on Finance

Honorable Godi, Chairperson: Standing Committee on Public Accounts

Honorable Mathale, Chairperson, Portfolio Committee on Public Service and Administration

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Dear Honorable Chairpersons of the Joint Committee,

BRIEFING ON STEINHOFF INTERNATIONAL HOLDINGS N.V.

The JSE shares the Joint Committee's concerns regarding the serious impact that the recent disclosures by Steinhoff International Holdings N.V. ("SNH") has had on investors and we welcome the Committee's attention to this issue.

It is indeed disappointing that, notwithstanding South Africa's highly regarded corporate governance and accounting standards, an event such as this could happen in one of our largest companies. That said, our current regulatory environment has, we believe, sufficient tools to investigate and sanction (whether criminally or civilly) improper behavior or a failure of any entity or person to exercise their legal responsibilities properly.

We have set out in this letter our understanding of the issue, the status of our investigations to date and a clarification of the way ahead. In this latter regard, we think it is necessary to look beyond only investigation and sanction to whether there is more that should be expected from the various stakeholders in a company. We address this in the final section of this letter.

The JSE is prohibited in terms of section 73 of the Financial Markets Act, 2012 ("the FMA") from sharing confidential information obtained in the performance of our functions as a licensed exchange. Consequently the information relating to the JSE's investigations shared in our submission to the Joint Committee is limited to public information and information that is not confidential. The JSE has, however, made full disclosure of all relevant information in its possession to the responsible regulatory authorities to ensure that these authorities are able to conduct a comprehensive and thorough investigation into the affairs of the company.

1. SNH on the JSE

Steinhoff International Holdings Limited ("SIH") was first listed on the JSE in 1998. After a series of corporate transactions, SIH established, in 2015, a limited liability company (naamloze vennootschap) incorporated under the laws of the Netherlands - Steinhoff International Holdings N.V., ("SNH") and moved its primary listing to the Frankfurt Stock Exchange ("FSE"). SNH retained a secondary listing on the JSE and its head office in South Africa.

SNH's primary regulators in respect of its listing in Germany are the FSE and the German Federal Financial Supervisory Authority (BaFin). As a company incorporated in the Netherlands, SNH and its auditors are subject to the relevant authorities in the Netherlands.

In 2017, a South African subsidiary of SNH, Steinhoff Africa Retail Limited ("STAR") listed on the JSE. Steinhoff Services Limited, another South African subsidiary of SNH has established a domestic medium-term note programme under which 11 bonds ("Steinhoff bonds") are listed on the JSE. Steinhoff Services Limited is in the process of seeking noteholder approval to amend the terms of the Steinhoff Bonds in order to allow for early redemption of the bonds. If the amendment is approved, the bonds will be redeemed before the end of February 2018.

Executive Directors: NF Newton-King (CEO), A Takoordeen (CFO)

Non-Executive Directors: N Nyembezi (Chairman), AD Botha, VN Fakude, Dr M Jordaan, Dr SP Kana, DM Lawrence, Dr MA Matoane, AM Mazwai, NP Mnxasana, NG Payne

Alternate Directors: JH Burke

Group Company Secretary: GA Brookes

Steinhoff Investment Holdings Limited, also a South African subsidiary of SNH has listed a perpetual preference share on the JSE. The JSE is the primary regulator in respect of STAR, Steinhoff Investment Holdings Limited preference share and the Steinhoff bonds.

2. Market abuse

The Financial Markets Act contains legislative prohibitions regarding market abuse. The three most common forms of market abuse offences as provided for in the FMA are –

- trading in a listed share while in possession of unpublished price sensitive information (“insider trading”);
- publishing or making false statements in respect of the performance of a listed company which the person knows or ought to know is false, which could include -
 - a listed company knowingly or negligently publishing false financial statements
 - any other person making false statements about the performance of a listed company (“false statements”)
- Using a manipulative trading practice which creates a false appearance of the level of trading activity or an artificial price for a listed share (“market manipulation”)

3. Role of the JSE

In support of the objectives of South Africa's financial markets legislation, set out in the FMA, the role of the JSE, as a licensed exchange, includes ensuring that the markets that it operates are fair and transparent, and that investors in these markets are adequately protected. In regulating its securities markets, the JSE's regulatory functions include –

- the monitoring of listed entities' ongoing adherence to the JSE's Listing Requirements and the enforcement of the Listing Requirements;
- the identification of false statements published by listed entities; and
- the surveillance of trading in securities listed on the JSE to identify potential insider trading or market manipulation.

3.1 Issuer Regulation

The regulation of JSE listed companies is performed by the Issuer Regulation Division of the JSE. Companies listed on the JSE are required to adhere to the JSE's Listing Requirements. The main objective of these Listing Requirements is to ensure that listed companies make full, equal and timeous disclosure on matters that are important to investors when making investment decisions. This includes disclosure on the financial position of a listed company.

In alignment with global standards, the exchange on which a company has a primary listing takes the lead in regulating that company. A company with a primary listing on the JSE is subject to all the JSE's Listing Requirements on an ongoing basis. A company with a secondary listing on the JSE is required to comply with the requirements of the exchange where it is primarily listed, subject to a few exceptions; provided that the primary exchange is a member of the World Federation of Exchanges.

The JSE's Listing Requirements contemplate a suspension of trading in a listed company's shares under the following circumstances:

- if the listed company has breached the Listings Requirements and it is in the public interest to suspend the listing; or
- if it will further the objectives of the FMA, including promoting a fair and transparent market and the protection of investors, again giving consideration to whether it will be in the public interest to suspend the trading in a listed company's shares.

The Issuer Regulation Division also monitors company reports to identify false statements made by a listed company in respect of the performance of that company. The Issuer Regulation Division reports all potential false statements identified to the Directorate of Market Abuse (“DMA”) at the Financial Services Board (“FSB”) for further investigation and, if necessary, prosecution. The DMA may also initiate an investigation into false statements made by a listed or false statements made by another party based on information from any other source.

3.2 Market Regulation

The JSE’s Market Regulation Division monitors trading in listed shares to identify potential insider trading and market manipulation. Suspicious trading activity is referred to the DMA for further investigation and, if necessary, prosecution, as the FSB has the necessary investigative and enforcement powers.

4. JSE investigations

Following the announcements by SNH in early December 2017, the JSE launched two investigations, by the Issuer Regulation and Market Regulation Divisions, to respectively –

- determine whether there have been any breaches of the JSE’s Listing Requirements, including any breaches in relation to previous financial disclosures and any potential false statements made by SNH; and
- identify any instances of potential insider trading in SNH shares ahead of announcements on 4, 6 and 10 December 2017.

4.1 Issuer Regulation

The Issuer Regulation Division has conducted a high-level review of the following annual financial statements (“AFS”):

- in respect of SIH - June 2012, June 2013, June 2014 and June 2015; and
- in respect of SNH - September 2016.

The review was focused on compliance with International Financial Reporting Standards (“IFRS”) and the Division considered allegations, including those in the Viceroy report to identify possible ‘flags’ that could be relevant when reviewing the AFS. No explicit IFRS transgressions were noted; however a review of the AFS is unlikely to uncover the alleged fraud, as fraud is aimed at concealing information.

4.2 Market Regulation

The Market Regulation Division completed its preliminary review of trading in SNH shares ahead of the SNH announcements on 4, 6 and 10 December 2017 and provided the details of the review to the DMA for further investigation into possible insider trading.

Once SNH publishes its 2017 AFS, the PWC forensic investigation has been completed and any accounting irregularities are disclosed, the Market Regulation team will conduct a broader review of trading activities. The scope of the review will be determined by the DMA in the course of its investigation, once it has been determined which individuals had knowledge of the accounting regularities or alleged fraud and at what time the said individuals became aware of the irregularities.

5. Stakeholder engagement

5.1 SNH

The JSE has engaged extensively with SNH to ensure that full, equal and timeous disclosure is made regarding matters that are price sensitive. The engagement with SNH is ongoing.

5.2 Frankfurt Stock Exchange

The JSE has also engaged with the FSE a number of times to understand their approach to regulating issues such as we now have with SNH. In summary, the FSE takes the same approach as the JSE, focusing first on timeous disclosure and suspending as a last resort.

The JSE has considered whether a suspension of trading in SNH's shares would be in the public interest if it could help to promote a fair and transparent market and protect the interests of investors. We believe that under the circumstances where SNH has disclosed as much price sensitive information as it is able to, it would be detrimental to the interest of investors to prevent them from trading SNH shares on the JSE.

It should also be noted that the FSE has not suspended trading in SNH shares. This means that if the JSE were to suspend trading in SNH, it would place investors trading on the JSE at a disadvantage to those who are able to trade the SNH share on the FSE.

6. Way forward

The JSE is unable to complete its investigations until SNH publishes its 2017 AFS, the PWC forensic investigation has been completed and any accounting irregularities have been disclosed. Once this information is made public the Issuer Regulation Division will conduct a comprehensive review of SNH's compliance with the Listing Requirements and the extent to which SNH published false financial statements. An assessment of the outcome of the investigations will be conducted to determine whether any changes are required to the JSE's Listing Requirements or internal processes.

The Market Regulation Division will conduct a further review of the trading in SNH shares once it receives further guidance in this regard from the DMA.

As we look to the way ahead, there are two separate areas of focus for the JSE -

- to complete the investigations once the necessary information becomes available. This will determine whether any criminal or civil sanctions are appropriate; and
- a review of whether this incident indicates that the role of other stakeholders in a company (large shareholders; analysts; ETF managers; auditors; board members) should be strengthened. We have started consultations in this regard.

There is a long road ahead before the cause of this event is clear and the relevant sanctions have been taken. The JSE will continue to engage with SNH, the FSE, the FSB and the DMA to bring our investigations to a conclusion as soon as is reasonably possible.

Yours sincerely

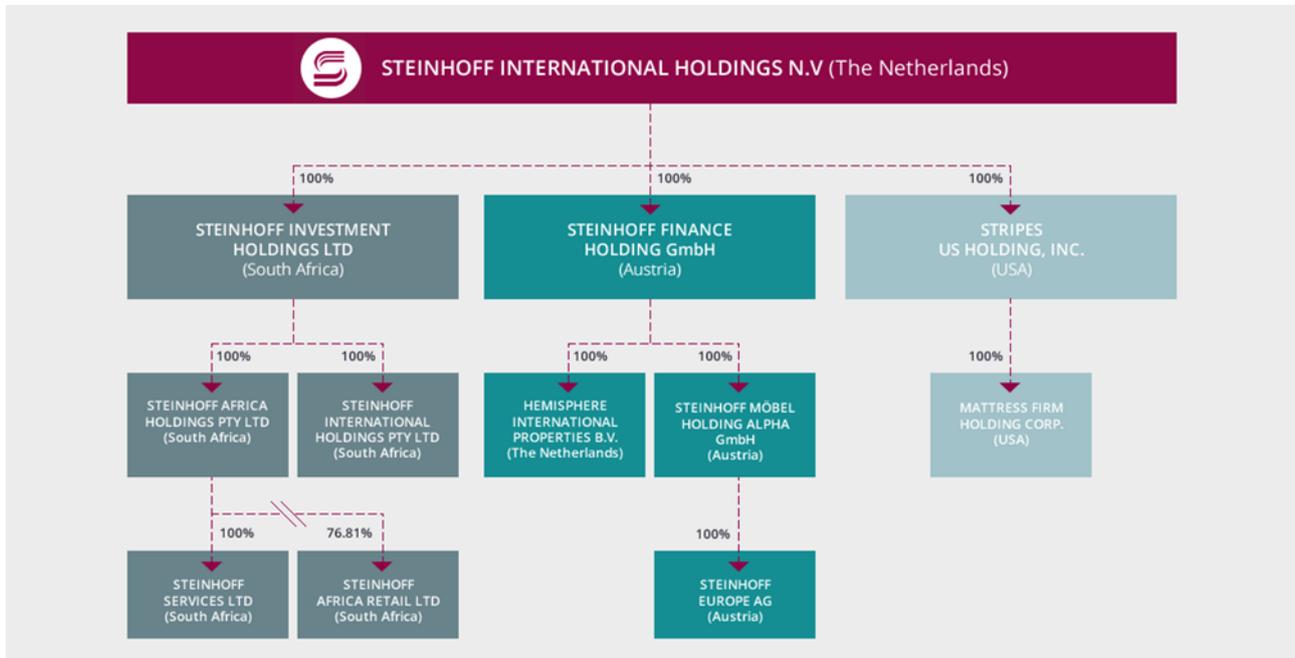
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N NEWTON KING

CEO

Steinhoff International Holdings NV – Corporate Structure¹



¹ <http://www.steinhoffinternational.com/group-structure.php>