



Position Paper | SA Bullion Facilities and Regulatory Compliance

14 Feb 2018 - Hilton Davies

Email: corporate.affairs@sabullion.co.za

The SA Bullion Facilities

SA Bullion offers two facilities - the BullionGold Facility and the HasanaGold Facility. Both facilities comprise of two components:

1. A segregated call account (bank deposit) in the name of the client;
2. A vaulted stock of one-ounce Krugerrands title-held by the client.

The Call Account

The purpose of the segregated call account is to accumulate contributions made by the investor (whether by monthly debit order or lump sums) so as to make purchases of indivisible one-ounce bullion Krugerrands.

When sufficient funds have been accumulated in the call account, SA Bullion deals on the client's behalf to acquire the equivalent value of Krugerrands from Rand Refinery.

The Krugerrand

SA Bullion only deals in brand-new, freshly-minted, one-ounce gold bullion Krugerrands, acquired directly from source – namely Rand Refinery.

The Krugerrand is Legal Tender in South Africa and is a product of the South African Reserve Bank. Rand Refinery acts as agent of the central bank in the production and distribution of new bullion Krugerrands.

SA Bullion customers acquire their Krugerrands directly from Rand Refinery and have them vaulted

on Rand Refinery's premises in a high security and fully-insured facility.

Client Krugerrands are tangible and physically present in the vault. Clients of SA Bullion own their Krugerrands outright. Fractional ownership of Krugerrands, where a Krugerrand would have more than one owner, is not permissible, by ruling of the Financial Services Board. A single owner, however, may be a married couple, a partnership or a company.

Company Governance

SA Bullion is authorised by the South African Reserve Bank and the Financial Services Board and regulated by these entities. The firm is required to procure a full Category 2 FSP audit each year. In keeping with best practice, SA Bullion has rotated auditors every 5 to 7 years. Beginning in 2005 the firm had five unqualified audits from Ernst & Young and seven unqualified audits from Grant Thornton. Future audits will be performed by BDO.

South African Laws governing investment into Krugerrands

Any Natural Person may invest as much of their personal wealth in Krugerrands as they wish, but SA Bullion would typically guide investors to a maximum exposure limit of 10%. Regulated savings vehicles in South Africa have the following Krugerrand exposure limits: pension funds 10% (Regulation 28 of the Pension Funds Act), life insurance policies 10% (Schedule 1 of the Long Term Insurance Act), and collective investment schemes 20% (Collective Investment Schemes Control Act).

SA Bullion is an authorized Financial Services Provider.

SA Bullion Management (Pty) Ltd | Company Reg. No. 2005/015617/07 | FSP Licence 21984 | Directors: Helen Davies, Hilton Davies, Imran O'Brien, Clint O'Brien
SA Bullion Investor Services (Pty) Ltd | Company Reg. No. 2008/002366/07 | FSP Licence 45151 | Directors: Helen Davies, Hilton Davies, Imran O'Brien, Clint O'Brien

SA BULLION



SA Bullion Facilities – Permissible for promotion by Financial Advisors

The Financial Advisory and Intermediary Services Act (“FAIS Act”) regulates financial services and governs individuals who perform regular financial services and advice as part of their business.

The FAIS Act specifies permissible investments in a list of Financial Products, but beyond that Financial Advisors offer a broad scope of advice and services upon which their client may rely.

Such advice might include investing in a home, holding cash reserves, investing in a tank container or budgeting cashflows.

The Krugerrand falls within this area i.e. it is not a defined Financial Product. In this regard the Deputy Registrar of Financial Services Providers (Mr Gerry Anderson) corresponded to SA Bullion on 14 August 2007: “this does not preclude SA Bullion from entering into Krugerrand agreements with clients”.

The SA Bullion facility call accounts are defined as Financial Products in terms of the FAIS Act

The SA Bullion Facilities - Compliance and Advice

Taking guidance from the Pension Funds Act, the Long Term Insurance Act and the Collective Investment Schemes Control Act it would be prudent for Financial Advisors to restrict their advice to investment of a maximum of 10% of client net worth in Krugerrands.

The Krugerrand is not a defined Financial Product and clients should be advised that the Krugerrand is not regulated by the FAIS Act.

The FSB’s Deputy Registrar Mr Gerry Anderson indicated with respect to the gold investment: “prospective clients should be made aware that Krugerrands are similar to cash and are exposed to the risk of gold price movements and exchange rate movements”.

The call account component of SA Bullion facilities is a defined Financial Product and requires of Financial Advisors that they have licencing under Category 1.18 of FAIS (i.e. Short Term Deposits).

Financial Advisors are required to make the relevant risk disclosures with respect to Short Term Deposits and bank accounts.

All SA Bullion forms and materials make the relevant disclosures as discussed above. Furthermore, these disclosures are made to all financial advisors and direct investors.

In the pursuit of high ethical standards and treating customers fairly, financial advisors are encouraged to complete, at their own discretion, the addendum “SA Bullion: FAIS Declaration” with their clients and to retain these completed documents for purposes of good recordkeeping.