ANNUAL REPORT 2008

Vision

To promote and maintain a sound financial investment environment in South Africa.

Mission

- To continuously develop an effective regulatory framework.
- To ensure effective supervision of our regulated entities.
- To facilitate consumer education regarding financial products and services.
- To collaborate with other government agencies, both locally and internationally.
- To comply with international standards.
- To promote effective competition in the Industry.

Values and Guiding Principles

We at the FSB will act professionally at all times in all that we do and say. To this end, we undertake to:

- Demonstrate the highest level of technical competence.
- Conduct all our business in the highest level of confidence.
- Collaborate effectively as team members to deliver effective services.
- Enhance stakeholder synergy through collaboration.
- Apply the regulatory framework in a consistent and fair manner.
- Treat all fairly with respect and empathy.

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CHAIRPERSON'S REVIEW

Dr CDR (Cyrus) Rustomjee

The year under review has represented another extraordinarily active year for the Financial Services Board, as reflected in the Executive Officer's review. Regulatory and supervisory activity has been set against the backdrop of significant turmoil in international financial markets, the emergence of a period of higher international and domestic inflation, the slowing of domestic growth and a higher interest-rate environment.

Internationally, the financial crisis that commenced in early 2007 and originated in the US sub-prime mortgage market, gathered momentum and spread beyond the US, with several financial institutions in Western Europe experiencing significant losses on their holdings of asset-backed securities and collateralised debt obligations linked to the sub-prime market. The crisis has also precipitated disruptions in international credit markets and a withdrawal of liquidity in financial markets in emerging and other developing economies. In this context, the robustness of efforts made in recent years to strengthen both prudential and conduct of business regulation in South Africa, has served us well, with the regulatory framework and domestic financial markets proving resilient to these global developments. The FSB will continue to monitor the regulatory and supervisory trends, as well as several recent international proposals for regulatory reform, which are emerging from this global episode of financial turmoil.

South Africa's financial regulatory landscape continues to evolve robustly, with extensive and far-reaching proposals for retirement fund reform, an emerging regulatory framework for micro-insurance business, and the review of a number of aspects of the regulatory framework for insurance. In the period ahead, the FSB will continue to contribute actively, collaboratively and substantially to the development of these elements of our regulatory framework, in the interest of a continuous strengthening of our financial system and its effective regulation.

The process of enhancing the FSB's implementation of the range of new legislation enacted in the past five years has also continued apace, with particularly strengthened implementation of the provisions of the Financial Advisory and Intermediary Services (FAIS) Act. The risk-based supervision framework, initiated three years ago, has continued to enhance and strengthen the FSB's supervisory approach and has improved the utilisation of the organisation's limited resources.

"...built on the foundation of a committed, inspired and extraordinarily hard-working management team and staff."

"...inspired..."

In addition, strong further strides have been made in the year under review, as part of a continuous effort to build and to maintain a highly competent, skilled, enthusiastic, healthy and representative workforce. Recruitment and secondment efforts have been further strengthened and training programmes are being expanded and more closely linked to staff personal development programmes. In addition, there have been more focused and concerted efforts to obtain critical skills and a closer monitoring of the FSB's reward strategy to ensure that staff continue to be remunerated in line with market trends.

In the year under review, the FSB has also maintained its high-level representation in several of the international standard-setting institutions associated with the sectors regulated by the FSB, including the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the International Organisation of Pension Supervisors (IOPS) and has remained fully compliant with these international standards of regulatory and supervisory practice. The FSB has also contributed actively to the updating of relevant aspects of the 2008 joint World Bank and IMF Financial Stability Assessment Programme for South Africa.

Appreciation

The close of the financial year coincides with the conclusion of the term of office of Mr Rob Barrow, Executive Officer since 1 July 2005. Mr Barrow completes his term, as well as an eleven-year career at the FSB, having successfully steered the organisation and making a significant contribution towards an extraordinarily intensive period of domestic review, revision and improvement of the non-banking financial sector regulatory architecture in South Africa. During his term at the helm of the FSB, he has succeeded in further modernising the FSB, equipping the organisation with a long-term, focused strategic programme relevant to the challenges of modern regulation and, with the collaboration of an outstanding management team and staff, has transformed the FSB into a highly-regarded, successful and internationally recognised regulator. On behalf of the FSB Board and myself, I congratulate him on these achievements and wish him every success in the next chapter of his career.

The Minister of Finance has appointed Mr Dube Tshidi, Deputy Executive Officer Investment Institutions, to succeed Mr Barrow as Executive Officer from 1 July 2008. On behalf of the FSB Board, I congratulate Mr Tshidi on his appointment. He brings to this central role in South Africa's financial sector regulation many years of experience and accomplishment, and a long, well-established relationship with management, staff, the Board and financial markets. I look forward to continuing this relationship and wish him every success in his new role.

The many achievements of the FSB in recent years have been built on the foundation of a committed, inspired and extraordinarily hard-working management team and staff. I would like to take this opportunity to thank the Deputy Executive Officers, the Executive Committee and all of the staff of the FSB, for their ongoing tireless work and, more recently, for their outstanding support of both the outgoing and incoming Executive Officers. I look forward to their continuing contribution as the FSB strives to meet the challenges that inevitably lie ahead. I would also like to express my appreciation to members of the Board for their unwavering and detailed support and contributions to the ongoing work of the FSB.

Dr Cyrus Rustomjee
Chairperson

MEMBERS OF THE BOARD

Dr CDR (Cyrus) Rustomjee, Chairperson
BA (Hons) CAIB (SA) BCom BProc MSc PhD.
Joined the Board in July 2003.

Ms JV (Jabu) Mogadime
BA Marketing Diploma MBA.
Joined the Board in March 2004.

Prof PJ (Philip) Sutherland
BCom LLB PhD.
Joined the Board in April 2002.

Ms LM (Louisa) Mojela
BCom.
Joined the Board in January 2002.

Mr BM (Brian) Hawksworth
CA (SA).
Joined the Board in March 2004.

Ms HS (Hilary) Wilton
BCom MBA FCII.
Joined the Board in July 1997.

Ms T (Tshidi) Mokgabudi
BCom (Hons) CA (SA).
Joined the Board in January 2006.

Mr AM (Abel) Sithole, Deputy Chairperson
BA MBA CFP.
Joined the Board in January 2002.

EXECUTIVE COMMITTEE

Mr RJG (Rob) Barrow
Executive Officer. CA (SA)
Joined the FSB in 1997 as
Deputy Executive Officer:
Investment Institutions

Mr DP (Dube) Tshidi
Deputy Executive Officer:
Investment Institutions
since May 2006. LLM.
Joined the FSB in 1994.
Became Deputy Executive
Officer: Retirement Funds and
Friendly Societies in January
2002.

Mr GE (Gerry) Anderson
Deputy Executive Officer:
Market Conduct and Consumer
Education. Nat Dip BCom (Law)
BAdmin (Hons).
Joined the FSB in June 1991 as
Head: Management Services.
Became Deputy Executive
Officer in January 2002.

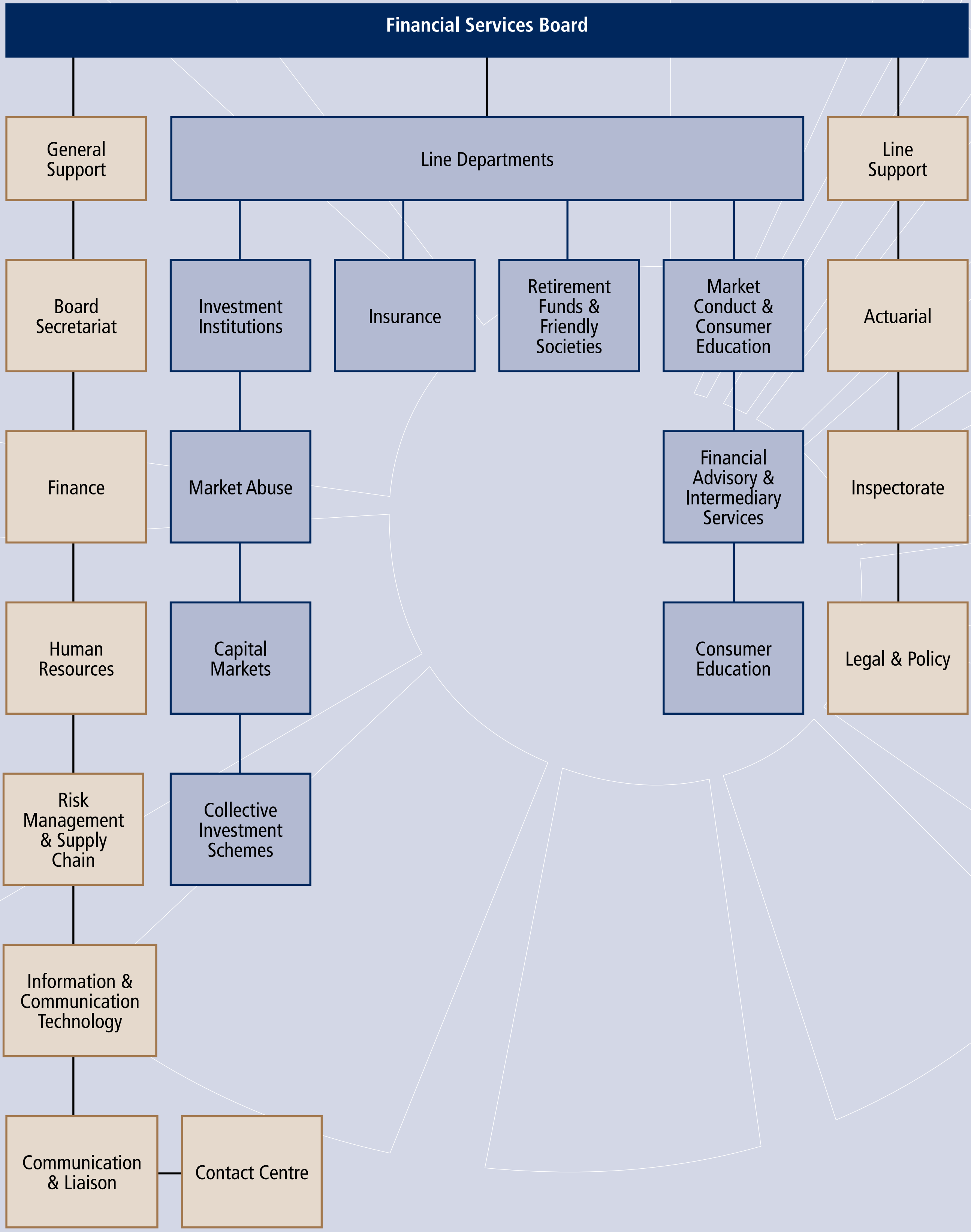
Mr MM (Marius) du Toit
Chief Actuary. B.Com., F.I.A.
Joined the FSB in May 2007.

Mr JA (Jurgen) Boyd
Deputy Executive Officer:
Retirement Funds and Friendly
Societies since May 2006.
BCompt (Hons) CA (SA).
Joined the FSB in 2000 as Head:
Collective Investment Schemes.

Mr J (Jonathan) Dixon
Deputy Executive Officer:
Insurance
B.Bus.Sci, MSc, CFA
Joined the FSB in April 2008.

Ms CWN (Nosipho) Molope
Chief Financial Officer.
BSc (Med) B Compt (Hons) (CTA)
CA (SA).
Previously a member of the FSB
Board (March 2004)
Appointed Chief Financial Officer
of the FSB in August 2005.

FSB STRUCTURE



REPORT BY THE EXECUTIVE OFFICER

Left to right, standing:

Elias Phiyega
Head:
Legal and Policy

Marius du Toit
Chief Actuary

Christiaan Ahlers
Head:
Actuarial Pensions

Hantie van Heerden
Head:
Actuarial Insurance

Dawood Seedat
Head:
Inspectorate

Willemien de Jager
Head:
Supply and Risk Management

George Beyl
Head:
Information and Communication Technology

Left to right, seated:

Russel Michaels
Head:
Communication and Liaison

Nosipho Molope
Chief Financial Officer

Rob Barrow
Executive Officer

Jabulane Hlalethoa
Head:
Human Resources

Introduction

This section of the report deals with the operational and administrative activities of the FSB's support departments. Reports on market conduct and consumer education, the industries we supervise, market abuse and our financial statements follow this section. The report covers the period 1 April 2007 to 31 March 2008, although some of the statistics and information relate to other periods, as explained. While the divisional and departmental reports deal with issues in detail, my comments focus on the more significant issues. Where issues have been dealt with in the Chairperson's report, my comments will be brief.

The year under review has been a challenging and exciting year for the FSB. We have seen a significant increase in the scope of work and have increased capacity to improve efficiency and to cope with new responsibilities and organisational changes to ensure that we are well positioned to meet new challenges. The Financial Advisory and Intermediary Services division (FAIS) has caught up with the backlog of registrations of Financial Services Providers and the emphasis has now turned to ongoing supervision. More than 14 500 entities have been licensed in terms of the FAIS legislation and we have increased our staff complement to cope with supervisory requirements. It is encouraging to note that an increased degree of professionalism is being recognised in the conduct of financial services intermediaries.

In 2008 and beyond, the environment can be expected to be even more challenging as growth in the economy slows and as inflationary pressures intensify. Increased volatility in the markets will continue to be a feature. The challenge for macroeconomic policy will be to sustain steady growth while reigning in inflation.

In this challenging environment, the financial sector has demonstrated its resilience and a high level of performance. The CIS industry, for instance, once again attracted record inflows in spite of volatile markets. This is commendable as there had been outflows in other global industries. The strengthening of the equity market has led to a notable move from equity investments to money market funds. More importantly, the financial sector has been able to perform its intermediation function and thus support the growth and development process.

Regarding the Fidentia curatorship, it is pleasing to note that the National Prosecuting Authority (NPA) became involved early in the process and through their timeous intervention, action has already been taken against certain people involved. The curators of the Fidentia and Ovation Groups have continued to secure the recovery of investors' funds and have made good progress in winding up the affairs of these businesses. It is anticipated that the majority of issues will be dealt with by the end of this year. Unfortunately investors in these entities will suffer significant losses. The lessons learnt from these events have been thoroughly assessed and steps have been taken to intensify regulatory and supervisory processes in order to avoid failures of this nature in the future.

Likewise the pension funds secret profit (bulking) issue has been referred to South African Police Services (SAPS) for the prosecution of criminal actions committed. In the Lifecare Pension Fund (P Ghavalas) case significant effort has gone into the investigation, which has led to a number of arrests. The matter is ongoing.

People remain central to the success of the FSB even during tough market conditions we have been able to both attract and retain talent within the organisation. During the reporting period we have promoted several staff members and it is pleasing to note that staff skills development efforts have gathered momentum to the extent that a number of management positions are now filled by individuals who were developed through our own development programmes. The majority of these people are from the 'previously disadvantaged' sector. We will continue to place emphasis on the development of our staff.

During the year we had employed external consultants to develop a long-term Information Technology Strategy for the Board to ensure that our computer-based systems meet industry standards and will remain sound and relevant into the future. A number of recommendations are being implemented and future developments will be guided by this strategy.

We have implemented a risk-based approach to all of our supervisory processes in order to direct our efforts to areas where issues are most likely to occur. We will continue to develop and refine the risk-based methodology and to interact with regulatory bodies in other jurisdictions to ensure that our standards are world class. The FSB actively participates in both international and regional regulators' forums for benchmarking purposes and to encourage the continued enhancement of regulatory standards.

We have ensured that our internal standards and procedures remain robust. A review of our corporate governance procedures was conducted by an external agency which awarded us an 'AA' rating. Certain minor issues mentioned in this review are being addressed. Our quality-management procedures subjected to regular audits by the South African Bureau of Standards and we have retained our ISO2001 rating.

This will be my last annual report as I will be retiring at the end of my contract on 30 June 2008. Dube Tshidi, who has been with the Board for many years, will succeed me as Executive Officer and I have every confidence that he will excel in this position.

Appreciation

I owe a debt of gratitude to all the FSB staff for their hard work, loyalty and support during my tenure as Executive Officer. In particular I would like to thank my fellow Executive Committee members for their unstinting efforts.

I also wish to thank the members of the FSB Board and, in particular, the Chairperson Dr Cyrus Rustomjee, for their ongoing support.

Finally, I would like to thank the Honorable Minister of Finance, the Deputy Minister of Finance and the Director General of the National Treasury and his office staff for their guidance, cooperation and support.

Human Resources

Staff complement

The staff complement, including contract staff, was 322 on 31 March 2007. By 31 March 2008 this figure had increased by 16% to 373. In terms of our commitment, we intended employing 420 staff members by 31 March 2008, but were unable to reach our target due to operational reasons such as lack of office space and staff turnover.

The workforce (including contract staff) at 31 March 2008 was as follows:

	2008	%	2007	%	2006	%	2005	%	2004	%
Black female	144	39	111	40	101	33	71	28	70	29
White female	51	13	40	12	61	20	57	23	40	17
Black male	140	38	125	34	97	31	81	32	73	31
White male	38	10	46	14	50	16	42	17	54	23
TOTAL STAFF	373	100	322	100	309	100	251	100	237	100

Employment Equity

The FSB employed 52% female staff and 77% black staff at 31 March 2008. At the executive level, representation was 57% black and 43% white. Following the resignation of one of the executives, the percentage changed to 50% black and 50%

white. At senior management level, including senior specialists, representation was 59% white and 41% black. The FSB has invested in various initiatives, such as mentorship programmes and formal training, to develop potential talent at middle management level to ensure the advancement of black talent.

Recruitment and selection

From 1 April 2007 to 31 March 2008, the department filled 99 vacancies.

Organisational band	Narrative	Total number
Band A	Executives	1
Band B	Senior management and senior specialists	0
Band C	Middle management and professional staff	24
Band D	Junior management and professional staff	46
Band E	Administrative and professional staff	23
Fixed-term contract	Administrative and professional staff	5

Internal Promotions

A total of 32 staff members were promoted to various senior positions during the financial year. The majority of the employees that were promoted were from the designated groups.

Significant appointments and terminations

The following senior appointments were made in the year under review:

- Mr Marius Du Toit was appointed Chief Actuary (external appointment) in May 2007.

The following resignation occurred at senior level:

- Mr Mashudu Munyai (DEO: Insurance) resigned at the end of June 2007.

Staff turnover

From April 2007 to March 2008, the total staff turnover was 15% and comprised of the following:

- Employer-controllable (retirement, dismissals) - 1%
- Employee-controllable (resignation/other) - 14%

Employment practices

The FSB complies with the provisions of Employment Equity (EE), skills development legislation and labour laws in general. EXCO holds staff meetings regularly to ensure ongoing communication. The FSB's policies and procedures are reviewed annually to ensure compliance with best HR and labour practices.

The FSB has adopted non-discriminatory practices and is committed to employing people with disabilities.

Employee well-being

A healthy working environment is maintained by protecting the physical and emotional health and well-being of all employees. The utilisation of the FSB wellness programme is at 11%, which is on par with industry. Various initiatives have been introduced by the department to communicate wellness programmes. Besides the structured Wellness Programme, the FSB has recreational and sports committees. Registered clubs are Road Running, Golf, Soccer and Netball.

Performance management

During the year under review, the Executive Committee (Exco) rewarded exceptional performance by awarding incentives in the form of performance bonuses and non-cash incentives to deserving employees. During the same period the FSB Board also awarded performance bonuses to EXCO members.

Training, bursaries and other development programmes

A total of R3,6 million was spent on various training programmes during the period under review. Staff members attended several training programmes, which included:

Course	Number of attendees
Money Laundering	16
Compliance Management	47
Media Training	41
Work-life Balance	23
Executive Development Programme	3
New Managers' Programme	2
Sexual Harassment and Diversity Management Programme	239

In addition to the above, Mr Dube Tshidi, the Deputy Executive Officer responsible for Investment Institutions, attended the senior executive programme run by the London Business School.

A study policy dedicated towards encouraging FSB employees to pursue studies as Chartered Accountants was approved.

Bursaries

The FSB has awarded study bursaries to a number of employees to enable them to further their studies in fields related to the core business of the FSB.

One external bursary was awarded to a final-year student who is pursuing a degree in actuarial sciences at the University of the Free State.

Disciplinary hearings

During the period under review, three disciplinary hearings relating to gross misconduct were held. All three cases resulted in dismissals.

Financial Report

The FSB is funded entirely from levies and fees that it charges regulated entities. The FSB prepares its budget annually based on its operational requirements, which are in turn informed by its business plan that incorporates a resource plan. In view of the significant accumulated surplus and improvement in cash flow, the FSB Board resolved to pass a rebate to certain industries.

For the year under review, the total levies were R234,5 million (2007: R224,4 million) after taking into account levy rebates of R24,9 million (2007: Rnil). The total levies include levies raised for funding the Office of the Pension Funds Adjudicator (PFA) R23,4 million (2007:R21,8 million) and the Office of the Ombud for Financial Services Providers (FAIS Ombud) R16,9 million (2007: R11,2 million). The increase in FSB levies accounts for 20% (2007: 75%) (after factoring in the levy rebates) of the overall increase of 5% (2007:20%) and the increase in levies raised to fund the Offices of the PFA and the FAIS Ombud accounts for the balance of 80% (2007: 25%).

The net surplus for the year is R35,2 million (Restated 2007: R58,5 million) against a budgeted deficit of R22,7 million (2007: R346 000 Deficit). The FSB budget included the budgets for the Offices of the PFA and the FAIS Ombud as well as a R20 million levy rebate (2007: Rnil).

The analysis of the net surplus is set out below.

Income – Favourable variance of R30,1 million

The favourable variance comprises the following:

- A net over-recovery of R2,8 million (2007: R4,8 million) in levy income after accounting for the unfavourable variance in the levy rebate of R4,9 million (2007: Rnil). The over-recovery of levies is due to the fact that for some industries, the levy budget was based on historical industry information available at the time of the budget whilst levy invoices are based on updated information. In addition, the number of regulated entities may have increased during the year, which is normally the case with FAIS;

- An over-recovery of R1,6 million in levies raised to fund the operations of the Office of the PFA and an under-recovery of R987 000 in levies raised to fund the operations of the Office of the FAIS Ombud ;

- A favourable variance of R3,7 million (2007: R10,1 million) in fee income compared to budget. This is due to the nature of fees as these depend on the amount of profile changes that are requested by clients as well as the number of applications received and processed. Fees include claims from the Directorate of Market Abuse (refer to note 24);

- Fines and penalties of R3,8 million (2007: R1,9 million). Fines and penalties are levied on regulated entities for non-compliance with submission deadlines. Fines and penalties are not normally budgeted for due to their nature. The inconsistency or volatility of this line item from year to year makes it difficult to gauge with any certainty as to what level of activity is expected in any given year;

- A favourable variance of R5,1 million (2007: R560 000) in Inspection cost recoveries. Only R450 000 was included in the budget.

- A favourable variance of R2,9 million (2007: R4,8 million) in other income and cost recoveries. Other income and cost recoveries include legal fees recovered and monies recoverable from the Directorate of Market Abuse. An amount of R410 000 was budgeted for;

- A favourable variance of R11,2 million (2007: R9,2 million) in income from investments. This comprises R4,9 million (2007: R5,4 million) of interest earned from the bank and intrerest charge on outstanding FAIS debtors as well as monies recoverable from the Directorate of Market Abuse. The balance of the variance is made up of investment income of

R6,3 million (2007: R3,8 million) earned from the post retirement medical (PRM) portfolio (R5,3 million) and discretionary funds (R914 000) both of which were not budgeted for;

Expenditure –Favourable variance of R27,8 million

- A savings of R4,5 million and R2,9 million in respect of expenditure relating to the Offices of the PFA and FAIS Ombud respectively;
- Savings of R20,4 million in FSB expenditure. This comprises a savings of R21,7 million relating to staff and general expenditure. Discretionary expenditure of R1,3 million was incurred during the year. This expenditure item is not normally budgeted for. 97% of the R21,7 million savings relates to staff expenditure in particular, salaries. The FSB continues to face a challenge with regard to recruitment of suitably qualified individuals to fill in the positions and vacancies budgeted for.

Information and Communication Technology (ICT)

The ICT department plays an essential role in the daily functions of the FSB by providing access to information and services. The department's aim is to enable and support the FSB in its task as regulator by ensuring the optimum utilisation of technology and creating effective communication between business units and regulated industries.

ICT Strategy

During the year, the FSB engaged external consultants to develop a long-term ICT Strategy. The purpose of the strategy is to ensure that the FSB's ICT infrastructure and systems support the FSB's business strategy. The strategy document outlines the main focus and effort required by the FSB in the short, medium and longer term to establish effective ICT attributes which will enhance business effectiveness. Shorter-term bridging objectives were identified to enable the ICT department to align itself with the business needs without disrupting operations and services. The bridging phase focuses mainly on the organisational structure, governance and enterprise architecture of the ICT with a view to improving its infrastructure and services.

Systems development

The department developed a new Workflow system to incorporate all the supply-chain management processes of the FSB. This includes the processing of all requisitions and orders pertaining to capital expenditure, assets, services, consumables, suppliers, procurement, tendering, etc. The system is being tested. Once implemented, it will be used by all the departments. All documents received or generated during the various processes will be stored in the FSB's document management system and will be automatically linked to a particular requisition.

The FSB has embarked on a project to receive financial statements electronically from pension fund administrators, in Extensible Business Reporting Language (XBRL) format. The FSB is a member of XBRL South Africa, a non-profit organisation working towards the promotion of XBRL as a standard for all electronic financial reporting in South Africa. This initiative builds on the already established mechanisms for electronic submission of various data sets to the FSB from different industries, including the pensions, insurance, financial advisory and intermediary, as well as collective investment schemes industries. Changes and further developments were also implemented in some of these existing mechanisms during the reporting period, for instance the development of a new package for the submission of FAIS compliance reports, online quarterly submissions for the Insurance department, and Regulation 2 actuarial returns.

Various new business processes were developed, or changes introduced in existing business processes in the Workflow systems of the Pensions, FAIS, CIS and Insurance departments.

Document management

The document management system that was introduced at the FSB during 2006 was fully integrated with all the FSB's Workflow systems during 2007. This entailed the development of interfaces to automatically open the relevant documents when working in Workflow, and also the storage of documents generated from Workflow into the document management repository. The department developed special software to transfer legacy Workflow documents to the new document management system. Various mechanisms for automatic indexing and storage of documents received in bulk, together with various electronic submissions of data, e.g. financial statements, were also developed and implemented.

Network infrastructure and data storage

The department successfully implemented the Storage Attached Network (SAN) solution during 2007. The SAN system includes a fully duplicated disaster recovery setup of the production environment, which enhances the disaster recovery and business continuity processes.

The department upgraded MS-SQL databases for the Hummingbird Document Management system and the integrated Workflow systems to the latest versions.

A mechanism for mass mailing of letters was developed and incorporated into the FAIS System. This mechanism allows for different letters to be generated and automatically sent to all or only a subset of financial services providers, based on various criteria. All letters sent successfully are automatically indexed and stored in the FSB's document management system against the number of every FSP and all letters where emailing or faxing failed are flagged for follow up.

Inspectorate

The Inspectorate department is a service department of the FSB tasked with supporting, supplementing and complementing actions by the FSB and other regulatory authorities in order to ensure high standards of supervision.

The Inspectorate department had 20 ongoing inspections brought forward from the previous reporting period. During this period, 33 new inspections were requested by the various line departments. Thirty two inspections were finalised, two inspections were suspended and 19 inspections are ongoing.

The following table summarises the number of completed inspections per line department:

Department	Number of inspections
Financial Advisory and Intermediary Services	12
Insurance	6
Retirement Funds	11
Collective Investment Schemes	1
Capital Markets	2
Total	32

Inspection requests involved a variety of issues, which included conducting business as a financial services provider without a licence, misappropriation of client funds, the collapse of a large hedge fund and other contraventions of legislation administered by the FSB, such as the Pension Funds Act, the Collective Investment Schemes Control Act and the Securities Services Act. A number of complaints relating to the manner in which private equity was marketed and sold to the public were also dealt with. We were also requested to assist a foreign regulator to trace an individual who was eventually arrested in that jurisdiction.

We spent considerable time conducting an inspection into the affairs of the Progressive Investment Trust. On the basis of our inspection report, the Registrar launched an application with the High Court to have the business placed under curatorship.

Another inspection report resulted in the Registrar launching an application in the Durban High Court interdicting Mr R Thorpe from breaching a previous court order issued on 26 November 1999. Mr Thorpe had been interdicted from being either directly or indirectly involved in any short-term insurance business. The interim application was unopposed and an interdict was granted on 29 August 2007. The action for contempt of court is proceeding to trial with an anticipated court date in 2009.

The department has acquired a specialised scanner and customised software to be used during search and seizure operations. This scanner will be used to scan original documents instead of removing them from inspected parties' premises, thereby minimising the disruption of business. To retain the evidentiary chain, the department together with a computer specialist company, developed a unique document imaging system to authenticate documents seized for possible use in resultant litigation. This will result in a paperless inspection process.

The department is proposing certain amendments to the Inspection of Financial Institutions Act, 1998.

For the first time a member of the department attended an international seminar, the Securities Exchange Commissions' annual conference in Washington.

Liaison with law-enforcement authorities and other regulators

The department continued to support the investigating law enforcement agencies and the curators of Fidentia and Ovation. Four individuals have been charged in connection with the Fidentia investigation. One of the perpetrators, Mr Graham Maddock, Fidentia's financial director, has pleaded guilty on several fraud, theft and money-laundering charges, for which he has been sentenced in the Bellville Specialised Commercial Crime Court in terms of a plea agreement to an effective seven years' imprisonment. The trial against other accused in the matter is proceeding. Warrants of arrest have been issued for two persons who have left South Africa. One of them, Mr S Goodwin, has been arrested in Los Angeles and is awaiting extradition to South Africa.

The department also assisted the NPA in the prosecution of the Lifecare Pension Fund matter. A trustee of one of the funds, Mr Rowland Bailey, has pleaded guilty to and was convicted of fraud and contravening provisions of the Financial Institutions (Protection of Funds) Act. On the fraud charge, Mr Bailey was sentenced to ten years' imprisonment, wholly suspended for five years on condition that he fully complies with the settlement agreement that he had entered into with the liquidator and is not convicted of fraud or theft during the period of suspension. Mr Bailey was fined R200 000 or three years' imprisonment, suspended for five years for contravening the Financial Institutions (Protection of Funds) Act. In place of the fine, he must pay the liquidator of the Mitchells Cotts Pension Fund R300 000 for the direct benefit of the existing pensioners. On the money-laundering charge, he was fined R3 million or six years' imprisonment, suspended for five years on condition that he is not convicted of the same offence during the suspension period and that he must pay the liquidator of the Mitchell Cotts Pension Fund R500 000 for the direct benefit of the existing registered pensioners. His wife, Ms Shirley Bailey, has been fined R1 million, suspended on condition that she pays the liquidator of the Mitchell Cotts Pension Fund R200 000. In terms of the plea- bargain agreement, the Baileys have agreed to transfer, cede and assign all their worldwide assets, together with the balances of all other bank accounts and investments to the liquidator. The total amount paid over to the liquidator is R20 648 990. The trial against the other accused is proceeding in the High Court.

Actuarial

Pensions

This area of the department deals primarily with transfers between funds, actuarial valuation reports and surplus schemes in terms of the Pension Funds Act.

This area is affected by the Pension Funds Amendment Act 11 of 2007, which was promulgated on 13 September 2007. The amended legislation clarifies many aspects relating to surplus schemes and transfers between funds. Therefore, Circulars that are no longer relevant will be withdrawn and replaced by Directives.

Transfers between funds

The department largely maintained a turnaround time of less than 30 days for the processing of section 14 applications. These applications are often pended for the following reasons:

- incorrect and incomplete documentation;
- the submission of applications outside of 180 days of the effective date; and
- valuators not renewing their practice certificates.

This lack of compliance and attention to detail causes significant delays. A total of 1 605 applications have been pended as at 31 March 2008.

Courtesy follow-ups are made, but where no response is received within 180 days of the Registrar's query, these are cancelled in terms of the Act.

As a result of the amendment Act, the Registrar anticipates a decrease in the number of applications as applications for transfers between valuation exempt funds no longer need to be submitted.

Actuarial valuation reports

These reports are scrutinised to assess the financial condition of funds. Where a report reflects that a fund is not financially sound, such fund must submit a scheme explaining how its financial soundness will be restored. As a result of the recent favourable investment returns, most funds are in a sound financial condition.

In addition, the reports must be carefully considered to ensure that the valuation basis and method adopted in the post-surplus valuation are in broad terms consistent with that used in the valuation at the surplus apportionment date. Major unjustified deviations will not be allowed.

Surplus schemes

During the financial year, the Registrar of Pension Funds issued two Information Circulars providing guidance on surplus schemes. The Registrar reviewed Board Notice 44 of 2006 and re-issued it as Board Notice 37 of 2007 in terms of which a schedule of economic statistics is regularly updated on the FSB website.

Nearly six-and-a-half years have passed since the Pension Funds Second Amendment Act came into being on 7 December 2001. All funds have already passed their surplus apportionment dates and should already have submitted their surplus schemes.

The Chief Actuary has on several occasions met and corresponded with administrators to expedite the process. However, there is still a substantial number of schemes outstanding. At 31 March 2008, 988 surplus apportionment schemes had been submitted and the Registrar has approved the apportionment of actuarial surplus amounting to R12,8 billion.

The Chief Actuary continues to interact with administrators and fund advisors in order to finalise the process.

Insurance

Improvements to internal processes were made, both on the long-term and on the short-term side. The statutory return now includes validation tools to enhance the quality of the data received from the insurers. Progress has been made in automating the calculations necessary to do an actuarial analysis of an insurer's submitted returns.

Long-term insurance

The Chief Actuary and the Head: Actuarial Insurance have assisted National Treasury in developing new draft regulations and finalising the Insurance Acts Amendment Bill. During February 2008, new draft Regulations 3 and 5, which proposed changes to commission regulations and minimum termination values (as envisaged in the issues paper on contractual savings), were issued for industry comment. The Insurance Acts Amendment Bill will be discussed in Parliament during May/June 2008.

The Statutory Actuary Task Force investigated the role of the statutory actuary in a life insurer. The committee's initial recommendations were presented to the Long-term Advisory Committee in January 2008. The industry will now be engaged to discuss these issues. The Actuarial Society of South Africa, SAICA, LOA and the Institute of Directors were invited to nominate members for the task force.

Short-term insurance

Various comments were received on the Financial Condition Reporting (FCR) issues paper released for industry comment during December 2006. Based on the comments received, it was decided to recalibrate the proposed prescribed model. Work to this effect has already commenced.

Relationship management

The department continues to develop and maintain sound industry relationships. The Chief Actuary has enjoyed substantial media coverage regarding surplus apportionment schemes. He also made presentations at the Institute of Retirement Funds Conference, the Actuarial Society of South Africa (Actuarial Society) Retirement Matters Seminar and the Pension Lawyers Conference.

The Chief Actuary is a member of various committees of the Actuarial Society, namely the Retirement Matters Committee, the Life Assurance Committee and the International Affairs Committee.

On the international front, the Chief Actuary is involved with the International Actuarial Association (IAA) and serves as a member of various committees, namely the Pension Benefits and Social Security (PBSS) Section (as secretary), the Insurance Regulation Committee and the Solvency Sub-committee.

The Chief Actuary attended the International Association of Insurance Supervisors (IAIS) Conference in Fort Lauderdale from 14 – 19 October 2007 and IAA meetings in Dublin from 24 – 28 October 2007, where he also visited the Irish regulator.

The Head: Actuarial Pensions attended the PBSS Colloquium and the International Conference of Social Security Actuaries and Statisticians of the International Social Security Association (ISSA) in Helsinki from 21 – 25 May 2007.

The Head: Actuarial Pensions is a member of the Retirement Matters Committee of the Actuarial Society.

At the end of 2007, the insurance team made a presentation to the Actuarial Society on the results of an investigation into the typical long-term valuation basis used by statutory actuaries during 2006.

The Head: Actuarial Insurance continues to serve on the Short-term Insurance and Life Assurance committees of the Actuarial Society.

The Head: Actuarial Insurance is a member of the IAIS Solvency and Actuarial Sub-committee and actively participates in its work.

Objectives for 2008

The department's main objectives over the next year are to:

- address the prevalent non-compliance with the Pensions Funds Act with respect to section 14 transfers in order to reduce the number of pended applications;
- encourage industry to finalise the submission of all surplus schemes;
- assist National Treasury with the Retirement Reform process and investigations regarding social security, as required;
- assist National Treasury with the development of the Micro-insurance framework, as required;
- continue developing proposals with industry to introduce Financial Condition Reporting for short-term insurers;
- continue with an investigation regarding the role of the statutory actuary in a life insurer;
- start a process to determine new solvency requirements for long-term insurers; and
- assist with legislative changes to the Long-term and Short-term Insurance Acts.

Communication and Liaison

The function of the Communication and Liaison department is the planned and sustained effort to establish and maintain mutual understanding between the FSB and its various stakeholders. It entails managing the organisation's media exposure and branding, enhancing communication with internal and external stakeholders, providing information to consumers and facilitating interaction between the FSB and the media.

During the review period, the department issued several media releases on topics ranging from consumer alerts, FAIS licence updates and court determinations involving FSB litigation, to important industry issues.

Media coverage of the FSB during the year was equivalent to an Advertising Value Equivalent (AVE) of R6,3 million (2007: R11,4 million).

Other activities of the department included producing the in-house staff newsletter, Regulators Rumours, serving on the editorial committee of the FSB Bulletin, and assisting with the production of the FSB annual report.

The head of the department is a member of the Public Relations Institute of Southern Africa (PRISA), the Gauteng North region of the International Association of Business Communicators (IABC) and the National Press Club, Pretoria, and has served as a judge for the Institute of Retirement Funds' Communication Challenge for the past four years.

Contact Centre

The FSB Contact Centre, which is part of the Communication and Liaison department, also manages the Call Centre for the Office of the Ombud for Financial Services Providers. Jointly, the two centres received 95 862 (2007: 114 935) calls during the year under review, a 16.6% decrease from the previous year.

The abandonment rate was 11% compared to 15.6% in the previous review period, a decrease at 4.2%. During the period, the Contact Centre employed 15 consultants. Due to the nature of contact centres generally, we experienced high staff turnover and we are currently filling vacant positions.

	Calls received	Calls answered	Calls abandoned
FSB	87 491	78 104	9 367
FAIS	8 371	7 221	1 148
TOTAL	95 862	85 325	10 515

During the review period, the FSB Contact Centre dealt with a variety of call types. A large number of calls were FAIS-related (compliance reports, new applications and financial statements). The Contact Centre still receives calls relating to pension fund surplus. Enquiries by fax, mail, e-mail, voice-mail and walk-in clients also increased during this period.

The Contact Centre has an arrangement to consistently manage the level of service provided to internal and external clients. It strives to keep the abandonment rate to less than 10% of the total calls received. Other service areas include responding to e-mails, faxes and letters within 48 business hours.

Legal and Policy

The Legal and Policy department performs a variety of roles crucial to the proper functioning of the FSB. It comprises an in-house counsel, a litigation section, a legislative section and an information centre.

Legal Proceedings

Curatorships

The Fidentia, Ovation and Common Cents curatorships continued during the year under review and, despite opposition, a final curatorship order in the Ovation matter was granted on 14 June 2007. The provisions of the final order relating to the funding of the curatorship and the remuneration of the curators were appealed by three retirement funds listed on the Ovation platform. The appeal was dismissed in May 2008.

Civil damages claims against the FSB

The Registrar of Pension Funds' exception to the claim for R1.9 billion by the Joint Municipal Pension Fund for the recovery of losses resulting from injudicious investments in agricultural derivative products was considered by the High Court during the financial year. Judgment was reserved and is expected in the next financial year. The prominent issue for decision is whether or not there is a duty on the Registrar as regulator to prevent a regulated entity from acting contrary to its own interests when making high-risk investments.

Three further actions for damages instituted against the FSB received attention during the year. Two of these matters, namely the claim by Magnus Heystek for R1 million and the claims by Basil Armugga and Sagren Chetty for R60 000 and R131 000 respectively, were settled when the actions against the FSB were withdrawn. The third claim instituted against the FSB by Isebel King for R15,85 million is based on alleged damages suffered as result of inspections carried out by the FSB's inspectors. The matter is being defended.

Civil appeal

The appeal by the Executive Officer against the decision of the Pretoria High Court to refuse the application to place the business of Fedbond Participation Mortgage Bond Managers (Pty) Ltd and Fedbond Nominees (Pty) Ltd under curatorship was withdrawn during July 2007. The decision to withdraw the appeal was not based on a view that the curatorship application was not justified, either when launched in December 2003 or when argued in October 2005, but was taken after advice from senior counsel had been obtained, and with particular consideration of the passing of time since the judgment was issued in December 2005 and the changing circumstances and improved position of the Fedbond scheme during the years 2006 and 2007.

Review applications

A number of review applications were brought against decisions of the Board of Appeal where it had upheld decisions of the Registrar. A first for the FSB was when the Registrar of Financial Services Providers successfully launched an application to the High Court to review and set aside a portion of the determination by the Board of Appeal in the Three Diamonds Trading (Pty) Ltd appeal.

A number of applications to review the decision of the Registrar of Pension Funds in approving the surplus apportionment schemes of various pension funds were also launched during the year. All of these applications relate to factual inaccuracies or calculation errors that were uncovered by the funds subsequent to the approval of their surplus schemes.

Criminal prosecution

The preparation for the criminal prosecution of persons charged with offences relating to the unlawful surplus asset stripping of various pension funds during the 1990s continued throughout the year. The main trial against Mr Peter Ghavalas, his company and family members has been set down for hearing in May 2009. The FSB and its officials were subpoenaed to supply various documents, which were supplied with due reference to the secrecy provisions of Section 22 of the FSB Act. Certain of the accused approached the prosecuting authority with a view to proposing plea bargains that entailed a non-custodial sentence. The FSB, as complainant expressed the view that it could not support plea bargains.

Following the FSB's investigation into the practice of bulking and the alleged secret profits that were derived by various pension fund administrators, the matter was referred to the South African Police Services for further investigation.

The FSB Board of Appeal

The FSB Appeal Board ensures that decisions of the various Registrars and the FAIS Ombud are subjected to review by an independent and impartial tribunal. As reported in the previous financial year, the number of appeals against decisions of the Registrar continued to increase as a result of the implementation of the licensing procedure in terms of the Financial Advisory and Intermediary Services Act, 2002, as well as the pension surplus legislation. However, ground-breaking rulings by the Board of Appeal in respect of surplus issues in the appeals by the Standard Bank Group Retirement Fund and Romatex Pension Fund, as well as the promulgation of the Pension Funds Amendment Act, 11 of 2007 on 13 September 2007, solved and clarified a number of interpretation issues. The result was a significant decrease in the number of new appeals lodged during the last six months of the year under review.

Leaderguard investigation

The legal department and members of the FAIS division created a task team to study and assess the inspection reports and responses from 210 brokers involved in the marketing of forex instruments on behalf of Leaderguard. Investors lost almost R300 million when the Leaderguard entities were liquidated in South Africa and Mauritius.

Legislation

During the review period, the FSB, as part of enhancing its regulatory capacity, initiated amendments to various laws that it administers. The amendments were incorporated into an omnibus bill, the General Financial Services Laws Amendment Bill, 2008 which is aimed inter alia, at creating an Enforcement Committee for the FSB, extending the membership of the FSB Appeal Board, and other measures aimed at strengthening the various Registrars' powers.

The amendments are currently in parliamentary legislative process.

Furthermore, the Legal department received, scrutinised and made inputs into the following proposed laws: Financial Intelligence Centre Amendment Bill, Corporate Laws Bill, Public Finance Management Bill, Insurance Laws Amendment Bill, 2008 and a variety of subordinate laws emanating from the various departments of the FSB.

Financial Intelligence Centre Act (FICA)

Schedule 2 of the FICA has designated the FSB as a supervisory body. This designation is aimed at ensuring that the FSB has the mandate and capacity to enforce compliance with FICA by entities regulated by it and which are subject to the FICA.

Although not a requirement of the FICA, South Africa is subject to the Financial Action Task Force (FATF), an international organisation dedicated to ensuring that there is a world-wide regime whose objective is to combat money-laundering and terrorist financing. FATF requires its member countries to regularly undergo mutual assessment. The mutual assessments are aimed at ensuring that countries maintain high standards in combating money laundering and terrorist financing. South Africa will be assessed in the latter part of 2008.

The FSB, as the supervisory body of the non-banking financial services industry is required to lead and coordinate activities aimed at ensuring that both the non-banking financial services sector and the FSB are ready for the assessment.

The Legal department has been designated to lead the process of preparing the FSB and the non-banking financial services sector for the mutual evaluation. During the period under review, the Legal department coordinated meetings and workshops between the Financial Intelligence Centre (FIC), the non-banking financial services sector and National Treasury.

The department and other supervisory bodies also attended meetings and workshops organised by FIC. At such meetings and workshops supervisory bodies and the FIC formulated strategies to ensure that South Africa is ready for the assessment.

The FSB had to complete a mutual evaluation questionnaire to be submitted to the FIC for incorporation into the South African government's response to the FATF. This questionnaire spanned the whole spectrum of compliance with the FATF recommendations by the FSB as a supervisory body.

Left to right, standing:

Manasse Malimabe
Head:
FAIS Enforcement

Olivia Davids
Head:
Consumer Education

Left to right, seated:

Wendy Hattingh
Head:
FAIS Supervision

Gerry Anderson
Deputy Executive Officer:
Market Conduct and Consumer Education

Felicity Mabaso
Head:
FAIS Registration

Financial Advisory and Intermediary Services (FAIS)

Introduction

The FAIS division supervises the financial advisory and intermediary activities in the financial services sector in terms of the Financial Advisory and Intermediary Services Act, 2002 (FAIS Act). The purpose of the Act is to regulate and supervise, in the interest of consumer protection, the provision of advice and intermediary services to clients in respect of a range of financial products and services.

The division consists of three departments, namely Registration, Supervision and Enforcement. At the end of the reporting period, it employed 81 staff members, comprising of one deputy executive officer, three heads of department, one legal manager, six managers, two specialist analysts, ten senior analysts, 29 analysts, nine junior analysts, 17 support staff and three secretaries.

Industry overview

In terms of the FAIS Act, the FSB approves of and renders ongoing supervision over three categories of Financial Services Providers (FSPs). Category I consists of financial advisers and intermediaries without discretionary mandates. Category II consists of individuals or entities that are involved in mainly the management in a discretionary capacity of securities and instruments on behalf of clients (both individual and institutional). Category III represents administrative FSPs, specialising mainly in the bulking of collective investments on behalf of clients (linked investment services providers).

The total number of approved FSPs as at 31 March 2008 was:

Category I	13 964
Category II	541
Category III	24

The total assets under management of the II and III FSP categories exceeded R3 104 billion at 30 June 2007.

During the reporting period, the Registrar authorised 1 366 licence applications from FSPs, bringing the total number of approved FSPs to 14 529 on 31 March 2008.

Recognised representative bodies

Section 6(3)(iii) of the Act makes provision for the Registrar of Financial Services Providers to delegate any of his powers in terms of the Act to any body recognised by the Act. Two such functions, the consideration of licence applications under section 8 and the consideration of applications for approval of compliance officers under section 17(2) of the Act, were delegated to the following three recognised representative bodies:

Moonstone Information Refinery
Financial Intermediaries Association of Southern Africa
Forum for Assistance Business.

There were no further approvals of recognised bodies during the reporting period.

Section 7 exemptions

The Registrar of Financial Services Providers granted an exemption in respect of certain applicants who were in the process of applying or had applied for authorisation on 23 September 2004. The purpose of this exemption was to accommodate late applicants for authorisation in terms of section 8 of the Act whose applications might not have been finalised by 30 September 2004, when the Act became fully operative. The exemption permitted such applicants to continue with their business activities relating to the rendering of advisory and intermediary services until the finalisation of their respective applications. Where licences were finally granted, applicants were entitled to carry on such business activities as if they were licensees under the

FAIS Act without any further need for exemption. In the case of final refusal of applications, the carrying on of their business activities regarding the rendering of financial services would have had to cease. During the reporting period, the division finalised all outstanding applications operating under the aforementioned exemption, rendering the exemption redundant.

Regulatory developments

Advisory Committee on Financial Services Providers

The Minister of Finance appoints the Advisory Committee on Financial Services Providers, whose function is to investigate and report or advise on any matter relating to matters covered by the FAIS Act. With the exception of the Registrar, who is an ex officio member, the members of the Advisory Committee hold office for a period determined by the Minister. The Committee met three times during the review period .

Determination of Fit and Proper requirements

The aim of the Fit and Proper project, which started in November 2006, is the redesigning of the current requirements regarding the Determination of Fit and Proper requirements for FSPs. The current requirements are applicable only until 31 December 2009.

During 2007, the Fit and Proper Industry Consultation Forum was split into eight working groups, focusing on different groupings within the industry. As a result of the work done by these groups, the following topics were identified and received attention:

- Differences between the competency requirements of key individuals and representatives
- Differences between competency requirements required in giving advice and rendering of intermediary services
- Experience requirements
- Entry-level (minimum) qualification requirements
- Development of qualifying criteria setting the competency standards that must be met by key individuals and representatives
- Development of an examination process, referred to as professional designated examinations, including issues relating to legislation and product related skills and knowledge
- Developing a process to register examining bodies to develop and administer the professional designation examinations
- Amending requirements regarding the financial soundness and operational ability of FSPs
- Developing a continuous professional development programme
- Identifying the need to create an additional category for assistance business products in order to enable the differentiation between funeral insurance brokers and funeral administration business
- Identifying the need to amend the classification applied in Fit and Proper to the Category II environment, with the differentiation based on the functions of the various role players in this environment.

Since December 2007, the approach has been to consult on topics outside the working group. A series of industry workshops have been held in Pretoria and Cape Town, ensuring that the full spectrum of stakeholders, from assistance business to investment managers, were included in the consultation process.

The Advisory Committee has been kept informed of the developments. We expect the project to be finalised by mid 2008. This will ensure that all FSPs and new entrants are informed timeously of all requirements.

Other changes to subordinate legislation include:

- The determination of compliance reports by compliance officers of authorised financial services providers
- Amendments to the Administrative Code of Conduct
- Determination of Fit and Proper requirements for FSPs
- Application form to introduce the separate regulation of a new category of providers, namely hedge fund managers (Category II A).

Supervisory developments

Risk-based supervision

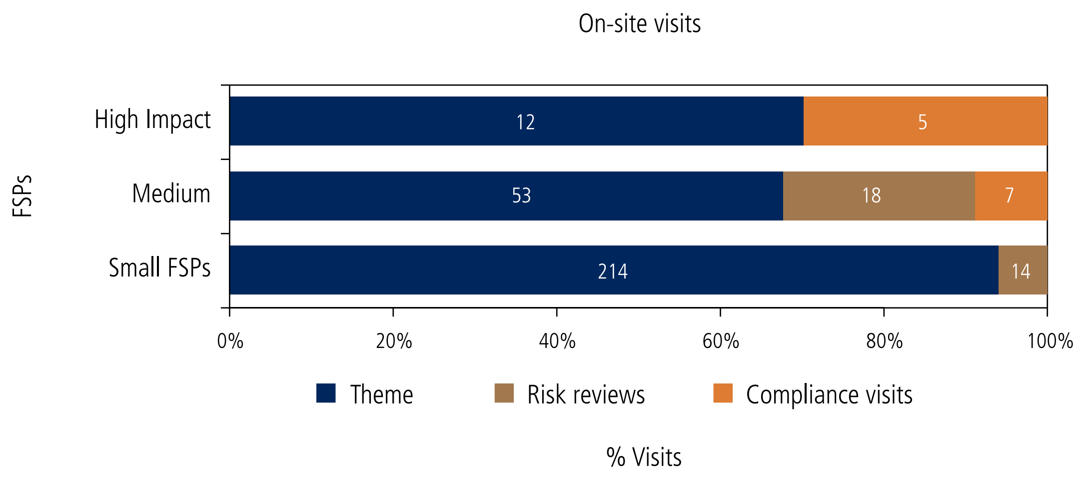
The risk-based supervision framework of the Supervision department was reviewed and an extensive training programme was successfully completed during the review period. On-site risk assessment visits were introduced as part of the practical training. One of the departmental managers attended the Risk-based Regulation Conference held by the Financial Services Authority in the UK. The department is integrating the new information gained at this conference into its processes.

Submission of compliance reports and financial statements

From time to time, all FSPs are required to submit compliance reports to the Registrar as prescribed. In addition, all licence holders are required to submit financial statements annually. A large number of providers did not submit their reports timeously and a project was started to create greater awareness and to take regulatory action, which includes imposing penalties and suspending the licences of providers that fail to submit their reports.

On-site visits

In terms of the risk-based supervision framework, the division performed the following on-site visits during the period under review:



Risk-assessment visits

The department undertook 32 risk-assessment visits during the period under review.

Compliance visits

Staff from the Supervision department and the CIS department conducted four on-site visits to FSPs who had applied to establish white-label CIS funds. The purpose of these reviews was to assess the capability and ongoing general compliance with the FAIS Act. This process was spurred by the recent expansion of white labelled funds by category I FSPs. A further eight compliance reviews were conducted on FSPs before the implementation of the risk assessment on-site visits to monitor general compliance with the FAIS Act.

Theme-based visits

During the period under review, the division conducted three sets of theme-work visits. These included FICA theme work, the compliance function in small FSPs and hedge fund FSP visits.

The focus on theme work regarding the compliance function in small FSPs was at the general level of compliance with the requirements of FAIS. In certain instances small FSPs were reviewed as a result of complaints, or as a result of information provided in their compliance reports.

The overall conclusion was that small FSPs, especially sole proprietors, have a distinct lack of knowledge regarding the compliance requirements of the FAIS Act and subordinate legislation.

It is clear that small FSPs rely heavily on the guidance provided by their product suppliers, as well as by compliance practices and networks. This is both useful and a hindrance, as FSPs who have multiple contracts sometimes find it difficult to adhere to all the requirements of the different product suppliers. They tend to follow the guidelines of the product supplier with the simplest/easiest requirements. What is also apparent is that they route client business to the product supplier that finds it easiest to follow the latter's requirements. The influence of broker networks was not studied in-depth, but both FSPs affiliated to a network and those not affiliated regularly referred to the power of the network. The department will conduct theme work on the effect of networks during mid 2008.

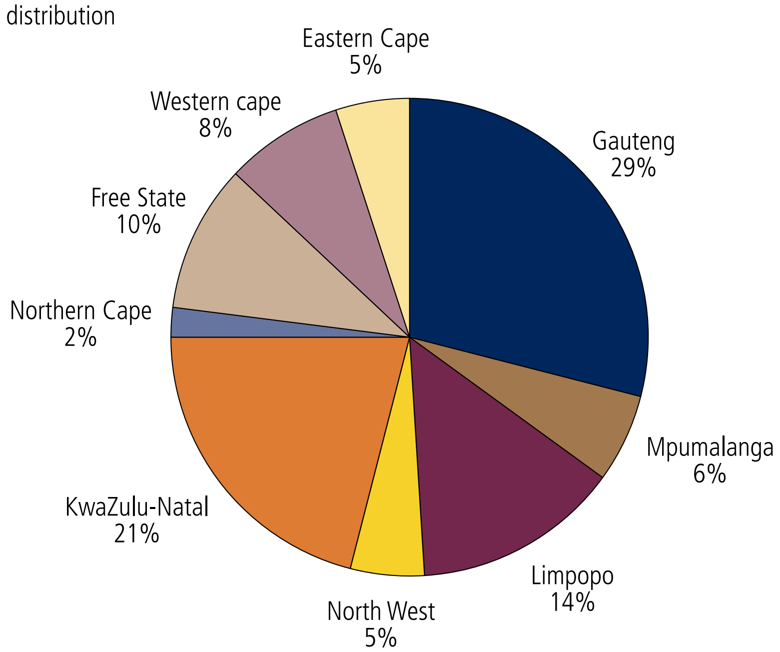
As part of the theme work, the department sent letters highlighting the findings of the theme work on small FSPs' compliance function to all small FSPs. These letters have proved to be fruitful in raising awareness.

The focus of the hedge fund visit theme work that started in January 2008 was to ascertain the level of compliance of applicants for managers of hedge fund FSP licences.

Financial Intelligence Centre Act
The department continued to demonstrate strong commitment to supervising compliance with anti-money-laundering legislation by financial services providers. The theme-based on-site visit programme that started in March 2007 continues. A further 111 FSPs were visited during the period under review to assess general compliance with FICA and other anti-money laundering legislation.

The visits took place across all nine provinces. The geographical distribution of the visits is depicted in the following graph:

FICA visits geographical distribution

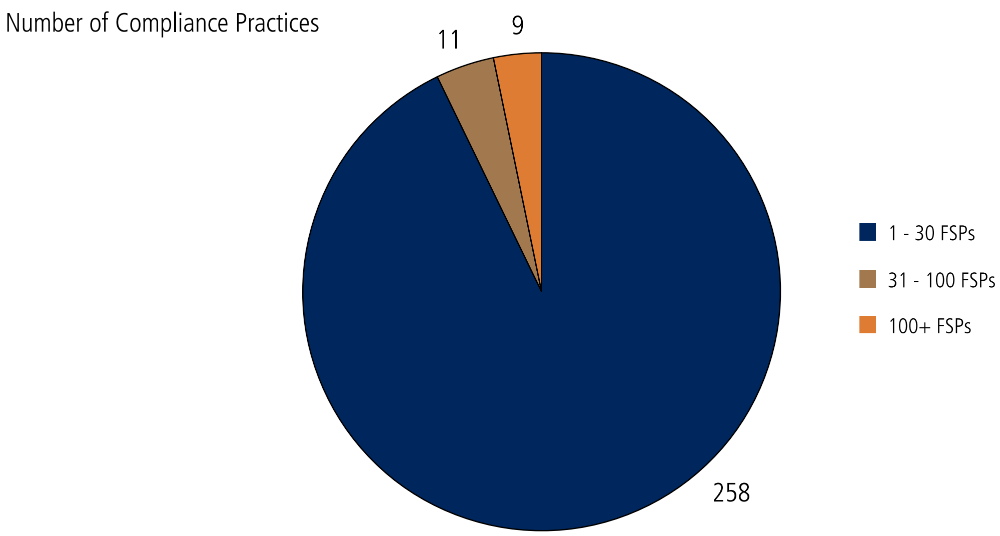


The theme visits revealed good intent and strong commitment by FSPs to comply with anti-money-laundering legislation, and highlighted a need for further guidelines. A substantial number of providers voiced their frustrations in relation to the continued struggle to develop, incorporate and implement FICA requirements, which they attribute to the absence of a guidance note. The department is drafting guidelines for FSPs.

The supervision of FSPs' compliance with FICA forms part of the risk supervision framework and will in future be incorporated in on-site risk- assessment processes.

Compliance practice on-site visits

There are 421 approved independent compliance practices, which can be distinguished as follows:



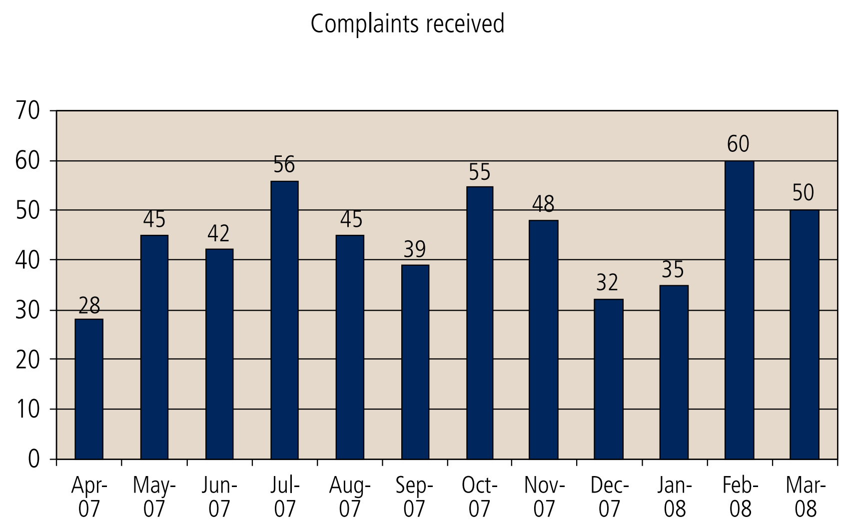
During the reporting period, the department reviewed 28 independent compliance practices, starting with the nine largest followed by 11 medium-sized practices. Lastly, some of the sole proprietor-type compliance practices were reviewed. The reviews considered the following issues:

- The type of organisational structure, including physical resources and requisite support necessary for an effective compliance service;
- knowledge of the industry and of the applicable legislation;
- the type of compliance services provided, and its contractual limitations;
- risk-management activities on behalf of clients;
- compliance tests and monitoring procedures;
- reporting to clients and the regulator;
- record-keeping;
- fees; and
- the management of conflicts of interest.

Most compliance practices are well managed and provide an acceptable compliance service to their clients. The top five practices include a mixture of larger practices with many clients, as well as small, one–person practices with a few clients. An important finding made by the department was that small providers engaging outsourced compliance practices tend to be better informed than those without such services. The conclusion is that compliance practices make a positive contribution to the industry.

Complaints

The Enforcement department deals with complaints regarding bad or inappropriate advice given before 30 September 2004, and with complaints regarding contravention of the FAIS Act by both authorised and unauthorised FSPs. During the period under review the department received 535 complaints of which 13 were still being attended to as at 31 March 2008.

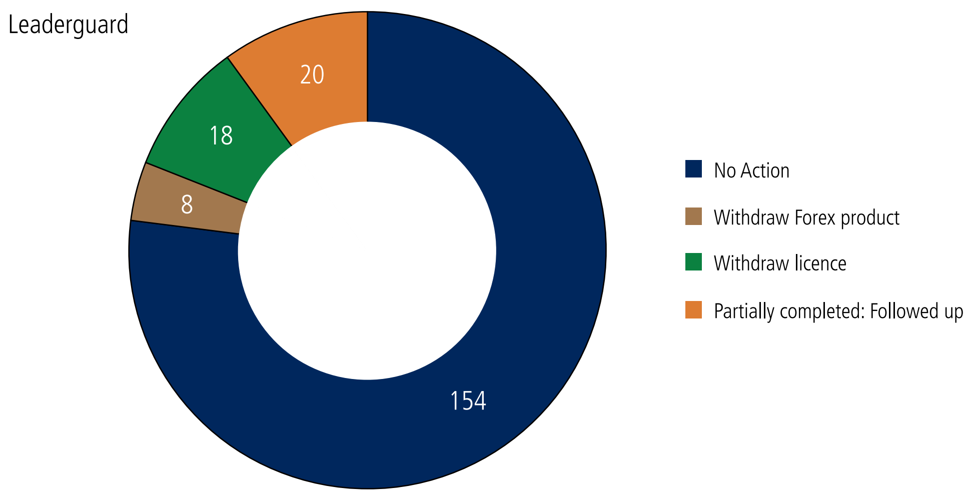


Regulatory action

Inspections
The FAIS Enforcement department requested formal inspections to be conducted into the affairs of 11 entities. The inspections were mainly to investigate *prima facie* material contraventions by authorised and unauthorised entities.

Leaderguard inspection
The FSB investigated 210 intermediaries who assisted clients in placing funds in Leaderguard's foreign exchange investment products. The investments turned out to be a scam, causing enormous losses to investor funds. Leaderguard was eventually liquidated for failing to meet its financial obligations due to substantial losses made.

During the review period, a task team was appointed to consider the brokers' responses to the findings of the inspection and advise the Registrar on the appropriate action to be taken regarding each intermediary. Two hundred of these cases have been dealt with and disposed of. The remainder will be finalised shortly. The following chart illustrates how these cases were dealt with:



Suspensions

The Registrar may suspend a licence if he is satisfied that the licensee no longer meets the fit and proper requirements. Such suspension has to be proceeded by due process. The Registrar has to notify the licensee of the intention to suspend the licence and the reasons for the decision, and must grant the licensee an opportunity to respond to the notice. The Registrar will consider the licensee's response and will suspend the licence if it is found that the licensee no longer meets the fit and proper criteria. During the reporting period the Registrar suspended 19 licences. The suspension of two licenses was lifted.

Withdrawals

The Registrar may at any time withdraw any licence if satisfied that the licensee –

- did not make full disclosure of all relevant information to the Registrar, or furnished false or misleading information when applying for a licence; or
- has, since being issued with a licence, contravened or failed to comply materially with any provisions of the Act.

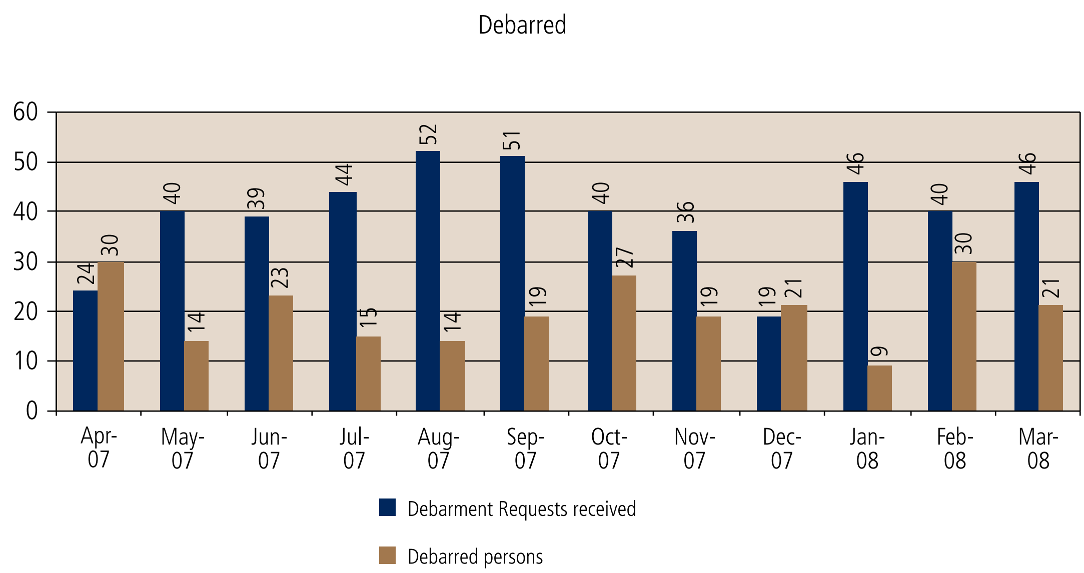
The Registrar applies the same due process when dealing with withdrawals. During the reporting period, 59 licences were withdrawn.

FAIS Ombud determinations

The Enforcement department analysed 18 determinations issued by the FAIS Ombud during the reporting period. Where FSPs were found to be at fault, the necessary action was taken. This entailed getting the affected providers to implement the necessary mechanisms to avoid any recurrence of the incidents, compliance with Section 14 of the FAIS Act, and, in one instance, the withdrawal of a licence arising from a determination made in 2005. Although no action was taken where complaints were dismissed, such determinations were analysed to determine if there were any issues relating to contraventions of the FAIS Act.

Debarments

FSPs are required to ensure that representatives who no longer comply with the fit and proper criteria are prohibited from rendering any new financial services. This is done by withdrawing the authority of such representative by removing the representative's name from the FSP's representative register. The FSP is also required to inform the Registrar within 30 days of such debarment. Upon receipt of notification of debarment, the representative will be placed on the central register of debarred representatives which is maintained by the Registrar. The Registrar will also debar any person whose licence has been withdrawn in terms of Section 10 of the FAIS Act. During the review period 242 persons were placed on the register and at 31 March 2008 there were 367 persons on the register.



Curatorship
During the review period the curatorships of Fidentia, Ovation and Common Cents continued.

Nominee companies
Nominees who wish to register or hold any assets of long-term insurers, short-term insurers or pension funds; the nominee of an administrative and discretionary financial services provider who wishes to hold assets on behalf of long-term insurers, short-term insurers, pension funds or hold clients' securities in the Strate environment; or any other nominee that wishes to hold securities in terms of Section 36(2) of the Securities Services Act, 2004 (Act No 36 of 2004) require prior written approval of the Registrars of Long-term Insurance, Short-term Insurance, Pension Funds, Financial Services Providers or Securities Services, as the case may be. The department approved nine nominees, extended two approvals and withdrew one during the reporting period.

CONSUMER EDUCATION

Introduction

The Financial Services Board Act, 1990, as amended in 2000, provides the FSB with a mandate to promote financial education programmes for consumers. Section 3 (c) of the Act outlines the consumer education function of the FSB as follows: 'to promote programmes and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users and potential users of financial products and services'.

The long-term vision of the FSB's consumer education strategy is to enable all South Africans to manage their personal and family financial matters soundly, to eradicate irresponsible financial behaviour, to ensure that unscrupulous and unlicensed financial services providers and institutions are not supported but reported, and to advise consumers on financial services and products on their rights and responsibilities, as well as available recourse mechanisms.

The two target areas for the promotion of financial education by the FSB are educational institutions, through the formal education system, and community education.

Formal education
During the past year, the Consumer Education department (CED) of the FSB continued to expand its network within the various sectors of the National and Provincial departments of Education. The CED held discussions with Provincial departments of Education in each province. These discussions have resulted in strong support for the teaching of personal financial management in schools. In addition, the objective of the FSB and the South African Insurance Association's (SAIA) partnership to produce lesson plans and other immediately usable teacher resources on financial education, as well as the planned workshops to review this National resource with teachers, was enthusiastically received. In partnership with SAIA, the CED facilitated the development of a mathematical literacy resource for Grades 10 and 11 teachers into which personal financial management material was integrated. The 'Managing Your Money' teacher resource is a high-quality tool designed to assist teachers in improving the quality of teaching and learning in their classrooms. This resource is aligned to the National Curriculum Statement for Further Education and Training and was developed with teacher focus groups and the Department of Education. The next step is to conduct workshops on the use of this resource with teachers in all provinces.

The FSB and financial sector representative organisations produced three consumer education booklets as part of the FSB's consumer-education strategy in 2001. These booklets have been periodically revised and are being made compliant with the requirements for outcomes-based education. The booklets will be digitised into a CD-ROM format for easy access as a supplementary resource for teachers.

The department prepared a strategy for the financial education of students with disabilities. This strategy will be implemented in partnership with the relevant organisations in the coming year.

Community education

The department has interacted continuously with churches, pensioners, unions, traditional leaders, teachers and students in the various provinces, and with the community at large. The department communicates with consumers through road shows, educational material, multilingual radio talk shows, presentations and workshops.

During the review period, the department reprinted the Funeral Policies brochure and translated it into 10 official languages. In a co-branding exercise, provincial consumer affairs offices reprinted the brochures at their own cost in the official language(s) of their respective provinces for use in their consumer education programmes.

The contents of both the role of the trustee brochure and the collective investment schemes brochure have been finalised and the material is ready for translation and printing. The department participated with other regulators in capacity building workshops for staff of provincial consumer affairs offices. The different regulators prepared a resource file containing information about their responsibilities and presentations on educational topics, applicable legislation affecting consumers and other information to assist provincial staff in responding to queries and making effective referrals. The FSB's resource file is being digitised to enable more cost-effective updating and distribution.

The department held regular meetings with the South African Social Security Agency (SASSA) to introduce financial consumer education at all social grant pay points in South Africa. The CED is working in partnership with the Gauteng Department of Economic Affairs and Tourism (which houses the Gauteng provincial consumer affairs office) to plan a strategy to educate members of the South African Police Services (SAPS) on legislation administered by the FSB and Gauteng provincial consumer affairs office.

The CED was invited to participate in workshops and made presentations at schools, tribal authorities, burial societies, mine workers' organisations, nurses' organisations, municipal structures, pension pay points and exhibitions. Information about these activities follows.

Consumer education workshops/presentations - 1 April 2007 to 31 March 2008

PROVINCE	TOPIC	NUMBER OF WORKSHOPS/ PRESENTATIONS
	Funeral Assistance Business	
North West		85
Gauteng		10
Limpopo		17
	Personal Financial Management (including funeral assistance business)	
Kwazulu-Natal		20
Gauteng		26
North West		13
Mpumalanga		8
Limpopo		7
Northern Cape		4
Western Cape		15
Eastern Cape		6
Free State		9
	Resource File Training	
Limpopo/Gauteng/Mpumalanga		1
Eastern Cape/Western Cape/Kwazulu-Natal		1
Free State/Northern Cape/North West		1
Limpopo/Gauteng/Mpumalanga		1
Eastern Cape/Western Cape/ Kwazulu-Natal		1
TOTAL		225

More than 13 000 consumers attended the 225 face-to-face interactions while more than 52 000 brochures were used and distributed as part of these educational programmes.

Partnerships

The South African Insurance Association (SAIA)
In addition to the production of the mathematical literacy teacher's resource in partnership with SAIA, the FSB engaged in further partnerships with SAIA and other stakeholders.

Commuter education
The commuter education project, aimed at commuters at taxi ranks and train stations throughout South Africa, was repeated for the third time in 2007. Using huge television screens at taxi ranks, broadcasts on train stations and in taxis, as well as interactive consumer education at kiosks and stage trailers throughout South Africa, consumers were educated about money management and budgeting, the responsible use of credit, short-term insurance and the rights and responsibilities of financial consumers. Fifty-six taxi rank facilitators and conveyers of consumer education information were trained. These workshops were very successful, with participants actively involved in, for example, role-play sessions to demonstrate how to convey messages at the taxi ranks.

The evaluation of the taxi rank project indicated the following: There is a high degree of commuter misunderstanding about the distinction between long-term and short-term insurance, saving and budgeting are regarded as the most sensible way to be financially responsible, and there is a high level of trust for banking institutions regarding accessing information and advice on financial matters. Of significance is that commuters indicated that they do not understand the contracts they are signing due to a lack of knowledge and understanding. Some said that they did not know how to manage their small salaries without going to loan sharks, especially after the festive season when children go back to school in January.

Judging from the questions asked, these commuters are ready for more in-depth engagement on financial management topics. Plans are underway to address the need for possible on-site workshops at taxi ranks, or having more expert knowledge present at these campaigns.

Shopper education
As part of the CED's shopper education initiative with SAIA, 12 facilitators were trained in conveying financial messages. The training focused on the role of the FSB, short-term and long-term insurance and money management. SAIA trained facilitators in Mzansi short-term insurance. Shopper education took place at mall stands where shoppers were informed on personal financial management matters through brochures. These shopper education activities took place at malls adjacent to major taxi ranks throughout the country.

Radio programmes
The CED negotiated a proposal with KAYA FM 95.9 to participate in an interview/call-in programme on the FSB's regulatory and consumer protection roles. The proposed programme will last for six months and be broadcast weekly in Gauteng. FSB staff who will participate in this programme will undergo media training.

Selecting an umbrella fund
The Sanlam Employee Benefits section and the FSB partnered to produce a brochure containing 21 important questions to ask your broker or financial adviser when selecting an umbrella fund. The brochure deals with seven topics, namely governance and member representivity; the fund sponsor; communications; investments; insured benefits; costs and advice.

Savings month
The South African Savings Institute (SASI) coordinated a discussion on a combined effort to include savings education in schools. Representatives from Citibank, Nedbank, the Banking Association, SASI and the FSB participated in a conference call to Operation Hope in the US. This organisation provided information about an American Bankers' Association project in which bankers visit schools to inform learners about the importance of saving. This project is being adapted for implementation in South Africa.

Questions to ask when purchasing funeral policies

The FSB and the Life Offices' Association developed a brochure on funeral policies which Liberty Life has printed at their cost for distribution to their clients.

Review of the consumer education strategy

The FSB invited senior officials of industry bodies, regulators and government to participate in a forum to give input on its consumer education strategy. We expect the new strategy to be in place by August 2008.

Measurement of consumer education programmes

The department is reviewing tenders for research into the measurability of consumer education programmes. The successful candidate will undertake research into the most effective and efficient ways to measure the success of consumer education programmes. The research will produce information about the best ways to measure whether consumers have gained any knowledge through different methods such as workshops, television, radio, and websites.

Funding consumer education

Although the FSB has a legislative mandate to promote the education of consumers, industry levies are not used to fund promotional activities. The CED is provided with an operating budget sourced from such levies, but works to identify and negotiate with possible funding partners in the financial services sector to embark on joint cooperative undertakings.

Financial Services Consumer Education Foundation

The FSB facilitated the formation of the Financial Services Consumer Education Foundation as an independent trust where funds could be deposited and used for consumer education projects. The Foundation has adopted several policies for the efficient and effective management of income and expenditure by appointing an audit committee and independent external auditors, and by introducing a number of policies to ensure good corporate governance. The Foundation is a non-executive foundation and has the primary role of managing donations and disbursements appropriately. The Foundation is registered as a non-profit organisation (NPO) and is awaiting approval of its application for donor tax benefit status under Section 18A of the Income Tax Act. The FSB supports the Foundation in terms of administrative, secretarial, legal and financial functions. The Foundation has established a project proposals subcommittee which reviews recommended proposals for financial literacy initiatives and approves appropriate projects for funding. This subcommittee has recently approved a number of projects for 2007, 2008 and 2009.

The following is a list of projects:

Funding approved in 2007/08 for 2008/09

	Project	Year	Cost (R)
1	Digitisation of consumer education booklets	2007/8	R 1 770 805,32
2	National Financial Consumer Education Workshops	2008/9	R 2 025 000,00
3	Digitisation of booklets – Phase 2: Teacher Development	2008/9	R 788 310,00
4	School Leavers' Financial Guide	2008/9	R 1 206 120,00
	TOTAL	2008/9	R 5 790 235,32

Financial Services Board Discretionary Fund

Fines for late filing of reports and other non-compliance issues are deposited in the FSB's Discretionary Fund. The CED can access these funds by making submissions on a project basis to the Executive Committee and, following approval, to the Audit and Risk Management Committee. Generally, the Discretionary Fund has covered the cost of printing brochures and has made nominal financial contributions to the partnership projects with SAIA.

Uses of Discretionary Funds to February 2007/08

No	Project	Amounts (R)
1.	Printing brochures	543 335,28
2.	Teacher development	866 250,00
3.	Commuter education	866 250,00
4.	Shopper education	300 000,00
5.	Consumer education strategy revision	193 530,96
6.	National consumer education workshop pilot	450 000,00
	Total	3 219 366,24

Financial Services Board Cost Centre

As indicated, the FSB does not use funds obtained through levies to promote consumer education projects. However, it does fund the operational costs of the CED, which aims to promote consumer education in South Africa. These costs amounted to R4 811 000 for the year ended 31 March 2008.

Left to right, standing:

Jacky Huma
Head:
Insurance Compliance

Patrick Ward
Head:
Insurance Registration

Left to right, seated:

Jonathan Dixon
Deputy Executive Officer:
Insurance

Suzette Vogelsang
Head:
Insurance Prudential

Introduction

The Insurance division of the FSB supervises the long-term and short-term insurance industries in terms of the Long-term Insurance Act, 1998, and the Short-term Insurance Act, 1998. In South Africa only insurers registered in terms of these Acts may conduct insurance business.

The Insurance division consists of four departments, which focus on registration requirements, the financial soundness of insurance companies, compliance, and policy and research respectively. The compliance department deals with unregistered insurance business, policyholder complaints and other market-conduct matters.

The staff complement of the Insurance division is as follows:

Office of Deputy Executive Officer	2
Heads of Department and Managers	10
Specialists	4
Analysts	27
Administrative staff	5
Total	48

This report deals with an overview of the long-term and the short-term insurance industries. The general section deals with matters common to both.

Long-term insurance industry overview

During the year under review, the division registered two new long-term insurers. One long-term insurer had been registered during the previous financial year.

The number of long-term insurers registered at 31 March was as follows:

Types of insurers	2007	2008
Insurers		
Typical insurers	27	26
Niche insurers	9	9
Linked insurers	14	15
Cell captive insurers	7	7
Assistance insurers	9	10
Insurers in run-off	9	9
Reinsurers		
Long-term only	3	3
Long- and short-term (composite)	4	3
Total	82	82

Note: Every insurer or reinsurer is required to be registered for a specific class or classes of business, namely assistance, disability, fund, health, life, and/or sinking fund.

The following are challenges facing the long-term insurance industry:

External
- Increased lapses and surrenders owing to economic conditions
- Increased competition from savings products in other sectors

Internal
- The need to update information and administrative systems
- Attracting and retaining skilled staff

Regulatory
- Adequate compliance with general regulatory requirements
- Matters arising from the Panel of Enquiry into the conduct of credit insurance business
- Developments with respect to International Financial Reporting Standards (IFRS)
- Adequate asset liability matching of long-dated annuity contracts and investment guarantees, due to the limited supply of suitably long-dated fixed income assets

Transformation
- Financial Sector Charter dealing with broad-based black economic empowerment targets
- Addressing the needs of the low-income market by introducing appropriate products

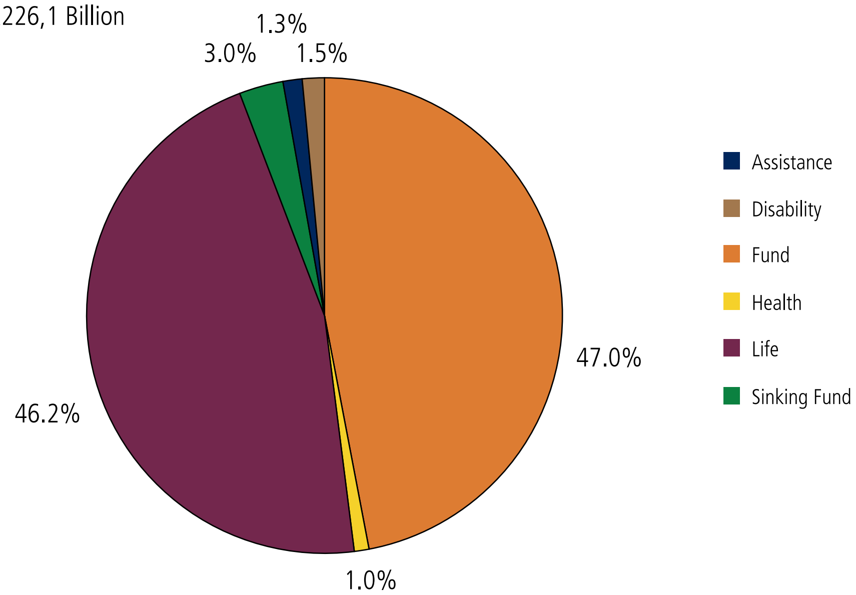
FINANCIAL OVERVIEW

- ### Premium income

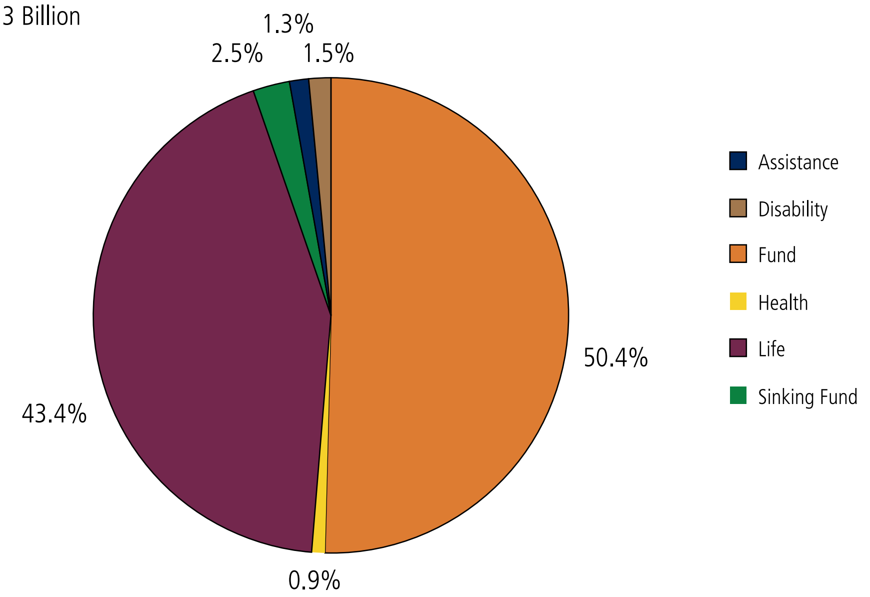
Unaudited figures indicate that net premium income for long-term insurers at their financial year-ends during the calendar year 2007 totaled R226,1 billion (2006: R220,3 billion). Premiums originating from business that was transferred between insurers could not be identified separately.

The following diagrams illustrate the spread of the 2007 and 2006 net premiums:

2007 NET PREMIUMS TOTAL: R226,1 Billion



2007 NET PREMIUMS TOTAL: R220,3 Billion

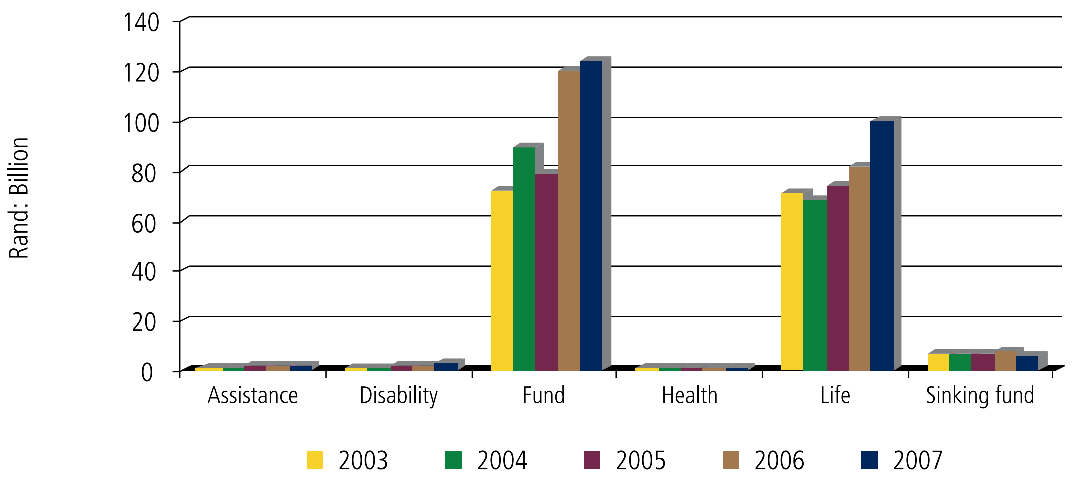


- ## Benefits

Unaudited figures indicate that long-term insurers paid R233,9 billion in benefits as shown at their financial year-ends during the calendar year 2007 (2006: R214,3 billion). Benefits paid resulting from business transferred between insurers could not be identified separately.

The following diagram gives details of benefits paid:

BENEFITS TOTAL: R233,9 Billion



Assets

Unaudited figures indicate that the total assets of the long-term insurance industry in South Africa increased by 9,1% to R1 420,3 billion, as reported at the financial year-ends of long-term insurers during the calendar year 2007 (2006: R1 302,1 billion).

	Calendar years					
	2005		2006		2007	
	R million	%	R million	%	R million	%
Fixed interest rate stock, deposits and cash	274 770	25	296 950	23	313 856	22
Shares	560 307	52	678 424	52	711 184	50
Fixed properties	37 953	3	41 838	3	50 128	4
Miscellaneous assets, loans and mortgages	108 057	10	138 081	11	191 696	13
Foreign approved assets	104 718	10	146 782	11	153 430	11
Total	1 085 805	100	1 302 075	100	1 420 294	100
% Increase		19,7		19,9		9,1

- ### Surplus assets to capital adequacy requirement

The ratio of surplus assets to capital adequacy requirement (CAR) gives an indication of the financial strength of a long-term insurer, or how many times the CAR is covered by surplus assets. The median for long-term insurers as at 31 December 2007, for which data was available at the time of writing, was 2,8 (2006: 2,8). This compares favourably with the minimum requirement of one.

The following table gives an indication of the financial strength of the long-term insurance market at December 2005, 2006 and 2007:

Surplus assets to CAR	Number of insurers		
	2005	2006	2007
Covered 0-1 times	1	1	3
Covered 1-2 times	20	24	21
Covered 2-5 times	36	33	31
Covered 5-10 times	11	15	12
Covered 10+ times	3	2	3
Total	71	75	70

Insurers with a CAR cover below one have been requested to implement corrective measures.

Transfer of business

- A group of pension funds opposed the proposed transfer of policies from Investec Employee Benefits (IEB) to Capital Alliance. These pension funds are former policyholders who have an unresolved claim against IEB. The amount of the claim is estimated at more than R3 billion.

- The transfer of certain policies and related assets from Momentum to a Namibian insurer, Swabou, which had previously been delayed due to objections, was finalised. The objections were resolved and the transfer is proceeding with the support of the FSB, the Namibian regulator and the court.

- The High Court of South Africa approved the transfer of all policies from Sage Life to Momentum Group Limited on 12 June 2007. The effective date of the transfer was 1 July 2006.

- The Registrar of Long-term Insurance approved the transfer of policies from NIB Life Insurance Limited to BoE Life Limited on 31 March 2008 in terms of section 37(2) of the Long-term Insurance Act, 1998. The effective date of transfer was 31 December 2006.

Regulatory Developments

Important regulatory developments include the release of draft regulations dealing with revised commission structures and enhanced consumer protection for contractual savings products.

Contractual savings in the life insurance industry

The release of a Discussion Paper in March 2006 was followed by a timetable, dividing the projects into three work-streams, which would be addressed over the short, medium and long term. Regulations implemented on 1 December 2006 gave effect to the first phase, which encompassed retrospective measures to improve policyholder value for both policies written in the past and existing policies.

During the period under review, the Insurance division had further interactions with National Treasury to attend to the next phase of the reform, which deals with changes to the structure of commission payable on investment policies and prescribes enhanced minimum values in cases where contractual changes take place for policies written in the future.

Enhanced prescribed minimum values are necessary to provide a safety-net against extremely poor policy values in cases where contractual changes to policies take place. The introduction of revised commission regulations, where commission payments will no longer be paid only on an up-front basis, but will be spread over the term of the policy, will support further enhancements to these minimum values.

On 28 February 2008, the division simultaneously distributed the two sets of regulations for public comment after they had been approved by the Minister of Finance. The closing date for public comment was 31 March 2008. We expect an implementation date by the end of 2008.

Implementation of Statement of Intent (SoI)

The SoI signed between the Minister of Finance and the life industry in December 2005 committed life companies to retrospective measures to improve policyholder values for investment policies written in the past, as well as for existing policies, in cases where contractual changes resulted in values that failed to meet policyholders' reasonable benefit expectations. This was given effect through regulations implemented on 1 December 2006, covering contractual changes to investment policies that occurred after 1 January 2001.

At the time of signing the SoI, the estimated cost of policy enhancement was approximately R3 billion, to be funded from shareholder funds. Retrospective improvements to policyholder values of investment policies should be implemented within three years of the effective date of regulations, i.e. by 1 December 2009.

Information requested from insurers reflected that at 1 December 2006 the adjustments required in terms of the regulation to retrospectively enhance policy values where contractual changes occurred between 1 January 2001 and 1 December 2006 amounted to about R1,2 billion. The major part of the outstanding balance of the R3 billion commitment relates to enhancements to policyholder values that may apply as a result of possible future contractual changes to policies already in existence before 1 December 2006. The Insurance division will continue to monitor the implementation of the SoI.

Micro-insurance

A National Treasury discussion paper on 'The Future of Micro-insurance Regulation in South Africa' was released for public comment on 7 April 2008. The deadline for comments was 31 July 2008.

The Technical Committee of the International Association of Insurance Supervisors (IAIS) approved their Issues Paper on Micro-insurance at a meeting in Basel, Switzerland in May 2007. The Joint Working Group on Micro-insurance conducted a survey on the role of mutuals and cooperatives in micro-insurance. A representative of the Insurance division participated in workshops arranged by the IAIS on micro-insurance. An IAIS guidance paper on micro-insurance was released and the organisation has drafted principles on the regulation of micro-insurance, much along the lines of the principles contained in the National Treasury discussion paper. IAIS has also indicated that it will pay attention to training possibilities in micro-insurance.

Advisory Committee

The Advisory Committee on Long-term Insurance is a statutory committee appointed by the Minister of Finance to investigate and advise on matters relating to the long-term insurance industry. The Committee held three meetings during the review period.

Supervisory Developments

Information letters

The Insurance division issued Information Letter 3/2007(LT & ST) on 28 February 2008. The purpose of this letter was to request more detailed information from insurers on the quantum and manner in which credit risk is being transferred to the long- and short-term insurance industry.

Inspections

The FSB investigated the escalations in the unit prices of one of the funds of a registered long-term insurer. The inspection revealed that an administrative error had occurred and that no material contraventions had taken place.

Prosecutions

During the period under review, seven cases of unregistered insurance business and two cases relating to the contravention of commission regulations were referred to the Commercial Crime Investigating Unit for investigation and referral to the National Prosecuting Authority for prosecution.

One prosecution case was concluded. The entity was found guilty and was given a fine and a suspended sentence for specific portions of the fine.

Unregistered insurance business

The Insurance division embarked on a campaign to 'name and shame' entities conducting unregistered insurance business by publishing their details in a national newspaper. The notices also called on the public to be cautious when buying funeral insurance policies by ensuring that the entities are underwritten by a registered long-term insurer. The entities investigated have been referred to the National Prosecuting Authority for prosecution.

During the period under review, three lists of such entities were published:

- Daily Sun 22 June 2007 - Five entities
- Daily Sun 24 August 2007 - 16 entities
- Daily Sun 06 February 2008 - Eight entities.

Statutory Actuary Task Force

The FSB set up a Statutory Actuary Task Force to investigate the role of the statutory actuary in a life insurer, the issue of compulsory peer review and the appointment of the statutory actuary. Besides making recommendations, the task force will consider the availability of actuarial resources to determine the practicality of the implementation of the recommendations. The task force consists of members of the Actuarial Society of South Africa (in their personal capacities) and the FSB.

Short-term insurance industry overview

During the year under review, the division registered three new short-term insurers. Three short-term insurers had also been registered during the previous financial year.

The number of short-term insurers registered at 31 March was as follows:

Types of insurers	2007	2008
Insurers		
Typical insurers	23	25
Niche insurers	33	34
Cell captive insurers	10	10
Captive insurers	10	10
Insurers in run-off	19	15
Other	3	3
Reinsurers		
Short-term only	5	6
Short- and long-term (composite)	4	3
Total	107	106

Note: Every insurer or reinsurer is required to be registered for a specific class or classes of business, namely accident and health, engineering, guarantee, liability, miscellaneous, motor, property and/or transportation.

The following are challenges facing the short-term insurance industry:

External

- Increased competition from new entrants
- Premium pressures due to economic conditions
- Limited reinsurance capability available in the local market.

Internal

- Effective management of costs.

Regulatory

- Adequate compliance with general regulatory requirements
- Matters arising from the Panel of Enquiry into the conduct of credit insurance business
- The proposed introduction of a risk-based approach to regulatory capital
- Developments with respect to International Financial Reporting Standards (IFRS).

Transformation

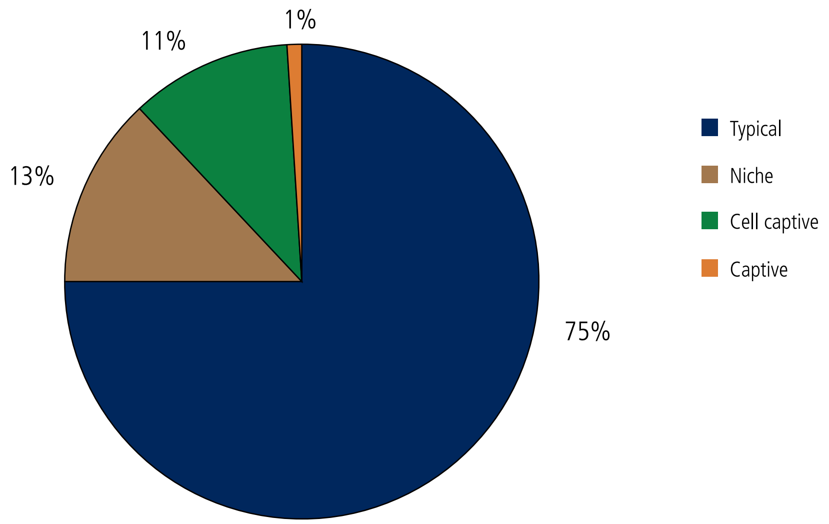
- Financial Sector Charter dealing with broad-based black economic empowerment targets
- Addressing the needs of the low-income market by introducing appropriate products.

FINANCIAL OVERVIEW

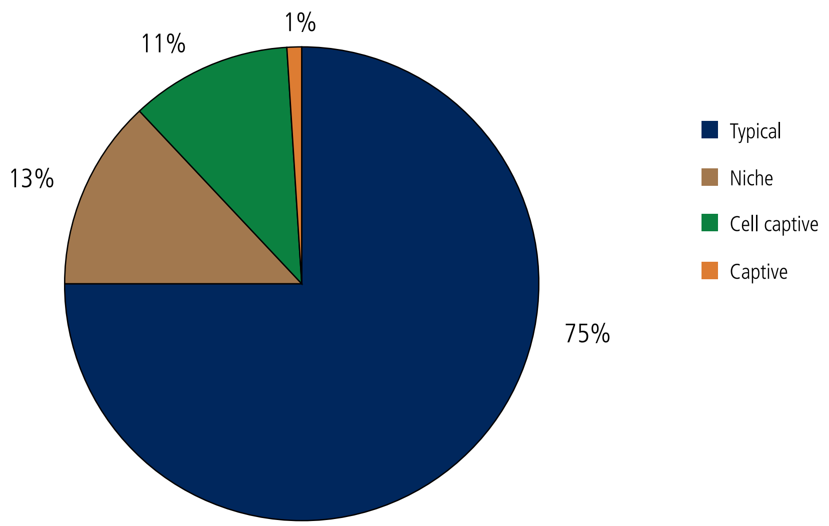
- Premium income

Unaudited figures for 2007 indicate an increase of 15% (2006: 12%) in gross premiums written by primary short-term insurers. The following charts show the split between gross premiums written by typical insurers and by specialist and captive insurers respectively, excluding that of Sasria Limited (Sasria), for the calendar years 2006 and 2007.

2007 GROSS PREMIUMS WRITTEN: R58,4 Billion

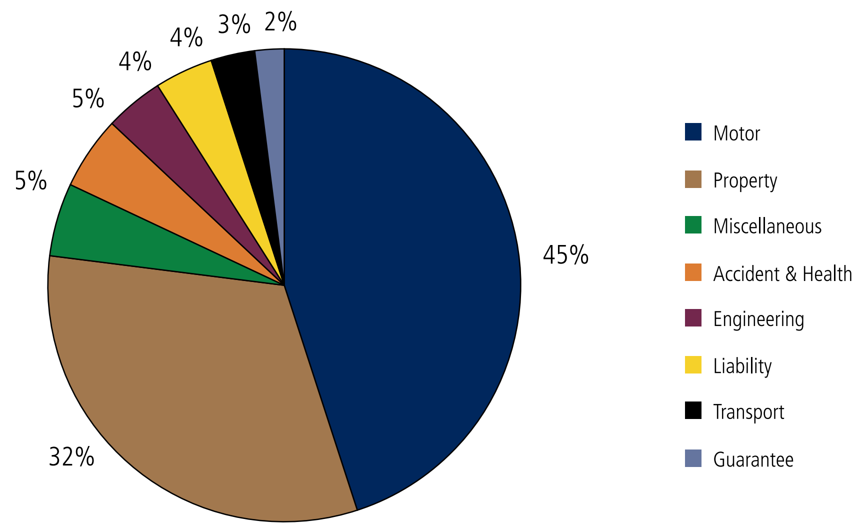


2006 GROSS PREMIUMS WRITTEN: R51,0 Billion

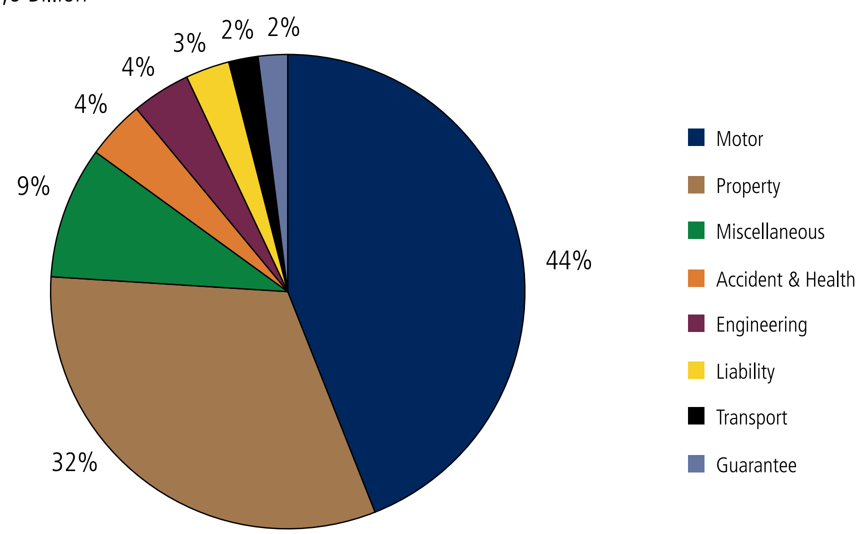


The following charts show the unaudited net premiums per class of short-term insurance business for short-term insurers at their financial year-ends during the calendar years 2006 and 2007, excluding that of Sasria.

2007 NET PREMIUMS PER CLASS TOTAL R42,6 Billion



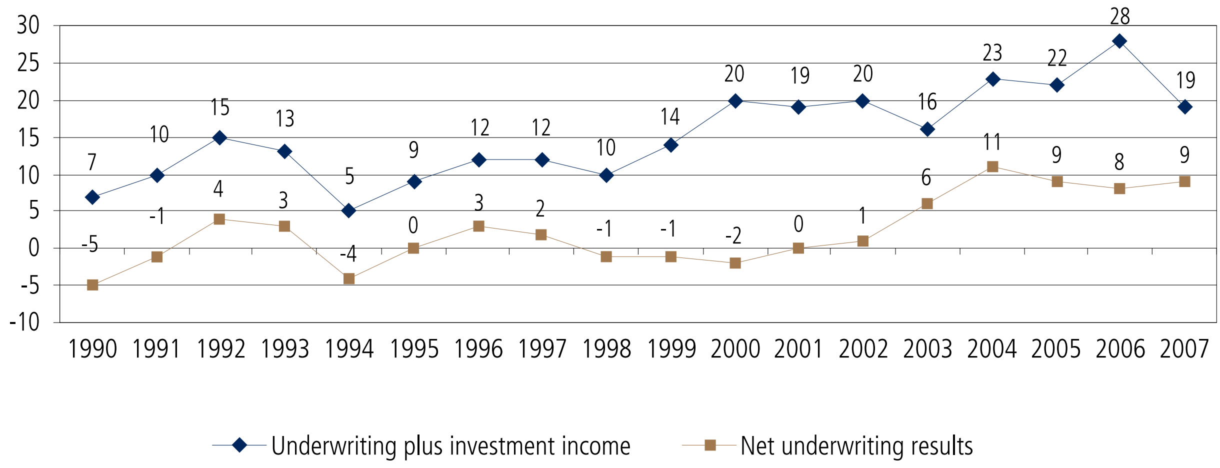
2006 NET PREMIUMS PER CLASS TOTAL R37,6 Billion



- Operating results

The following graph shows how underwriting results of primary insurers, excluding Sasria, have fluctuated over the past 18 years and how the combined underwriting and investment results compare over the same period (figures for 2007 are unaudited).

Underwriting results and investment income
(As a percentage of net premiums)



- Assets

Unaudited 2007 figures indicate that the total value of investments of the short-term insurance industry, excluding that of Sasria and reinsurers, increased by 17,5% as reported at December 2007 (2006: 2,9%).

	2005		2006		2007	
	R million	%	R million	%	R million	%
Shares	20 140	37	18 955	34	23 949	36
Debtors and debentures	9 161	17	12 647	22	13 112	20
Stocks	5 521	10	4 998	9	5 570	9
Cash and deposits	19 236	35	18 955	34	22 678	34
Fixed assets	505	1	575	1	658	1
Total	54 563	100	56 130	100	65 967	100
% Increase		17,2		2,9		17,5

- Surplus asset ratio

Short-term insurers, excluding Sasria, who submitted unaudited quarterly reports at 31 December 2007, disclosed significant surplus asset ratios, with the median surplus asset ratio at 74% (2006: 86%), which is well above the required minimum of 15%. The following table gives an indication of the financial strength of the short-term insurance market at December 2005, 2006 and 2007, expressing net surplus assets as a percentage of net premiums written by the institution.

Surplus asset ratio	Number of insurers		
	2005	2006	2007
Below 15%	1	0	0
Between 15% and 20%	1	1	1
Between 20% and 25%	2	3	3
Between 25% and 30%	3	4	7
Between 30% and 40%	7	8	6
Between 40% and 50%	5	8	11
Between 50% and 100%	22	15	20
Above 100%	30	33	34

Curatorship

South Union Reinsurance Company Limited was placed under final curatorship on 5 October 2004. The curator was expected to file his seventh report to Court on 28 February 2008. However, the finalisation of the curatorship has been complicated due to the filing of a case in the High Court of the Witwatersrand in December 2007 by the shareholders of South Union Reinsurance Company Limited, Zimre Holdings Limited (Zimbabwe registered company). Zimre Holdings has requested the court to consider the lifting of the curatorship. The matter brought by Zimre will appear before court only in November 2008. At this hearing the curator will also submit his seventh report to Court.

South Union Reinsurance Company Limited was placed under curatorship to protect the interests of policyholders following the inability of the company to submit annual financial returns. It was apparent that the company required additional capital to continue its business as a going concern.

One of the major reasons for the curatorship was the company's inability to obtain additional capital from its holding company in Zimbabwe. Other factors that contributed to the curatorship included high loss ratios as a result of bad underwriting practices, fast growth in business, questionable corporate governance principles, unreliable financial data and doubtful intergroup loans made by the company.

Transfer of business

The Registrar of Short-term Insurance approved the transfer of a policy from Investec Specialised Insurance Limited to Emerald Insurance (Mauritius) Limited in terms of section 36(2) of the Short-term Insurance Act, 1998.

REGULATORY DEVELOPMENTS

The regulatory focus has been on the drafting of possible legislative changes to introduce financial condition reporting for short-term insurers, incorporating a risk-based approach to regulatory capital. Certain practices in the motor warranty business also received regulatory attention.

Financial Condition Reporting (FCR)

The FCR Issues Paper was released for public comment on 15 December 2006. The deadline for comments was 31 May 2007. On 2 May 2007 the division sent letters to each short-term insurer to demonstrate the effect of the proposed prescribed method on the company, based on 2005 data received on the statutory returns. This was intended to assist insurers to assess the possible effect of the proposed prescribed method. The division received 28 separate sets of comments.

A separate task group has been established to look at the following aspects of the proposed prescribed model:

- possible modifications to address issues specific to smaller insurers;
- a more appropriate allowance for non-proportional reinsurance;
- allowance for financial years that are either less than or more than 12 months;
- allowance for a phasing-in period;
- calculation of the capital requirement for business inside and outside South Africa respectively; and
- the type of dispensation that can be granted to new insurers (i.e. new insurance licences) and insurers in run-off.

This group's first meeting took place on 4 July 2007. The group consists of representatives from the FSB, SAIA, Deloitte and ASSA.

A number of insurers are already developing their internal models and have been in regular discussions with the FSB concerning their processes. The limited availability of reliable and sufficient industry data is proving a challenge at this stage of the process.

The FSB is reviewing the comments received and will consider refinements to the proposed new framework, with specific emphasis on the prescribed method. The FSB will be working with National Treasury on assessing the potential industry and economic effect of the introduction of FCR.

Amendments to the Short-term Insurance Act have been proposed to accommodate the future introduction of FCR.

Policyholder Protection Rules

A Notice was published in the Government Gazette on 29 February 2008 to invite interested parties to comment on the proposed variation of Rule 7.4 of the Policyholder Protection Rules (Short-term Insurance), 2004. The Rule amendment proposed that the current minimum requirement of a 90 days time-barring period be replaced with a minimum 180 days time-barring period during which a policyholder can challenge the rejection by the insurer of a claim, or cases where the quantum of a claim is disputed. The Advisory Committee on Short-term Insurance agreed that the Rule should be amended. The closing date for comment was 31 March 2008. The proposed amendment is to be submitted to the Minister for approval.

Advance repair payments

From the analysis of the quarterly returns of insurers for the period ending 31 December 2007, it was noted that in the case of a number of insurers selling motor warranty policies, a major part of claims paid related to advance payments to motor dealers. An investigation was undertaken on the market practices regarding these advance payments. The results of the investigation pointed to possible contraventions of commission regulations and inconsistent accounting treatment.

It was alleged that the warranty company is using enhanced commission mechanisms to incentivise dealers to generate insurance business. The FSB discussed the matter with SAIA and the Advisory Committee on Short-term Insurance and agreed to issue a directive.

The Insurance division drafted a directive setting out the office's views on lawful business conduct together with reference to the relevant sections in the Short-term Insurance Act, 1998, which must be adhered to. The draft directive requires insurers to report to the FSB if they are underwriting extended motor warranty cover and to confirm their compliance with the Act.

The comments on the draft directive by the members of the Advisory Committee on Short-term Insurance were discussed in February 2008. The division issued the draft directive to the short-term insurance industry with a deadline for comment of 26 March 2008.

Micro-insurance

The developments regarding micro-insurance reported under regulatory developments in the long-term insurance industry will include short-term insurance business.

SUPERVISORY DEVELOPMENTS

Directives

The Insurance division issued Directive 149.A.i on 9 July 2007. The Short-term Insurance Act determines that no person shall render services as an intermediary in relation to a short-term policy, unless such person does so with the approval of the Registrar. The Directive outlines a new process of submitting applications in terms of Section 8(2)(d) with effect from 1 September 2007 and advises on the process in terms of which South African policyholders can approach offshore insurers (without the assistance of an intermediary) to place their business with them.

Information letters

The Insurance division issued Information Letter 3/2007(LT & ST) on 28 February 2008. The purpose of the letter was to request information from insurers on the quantum and manner in which credit risk was being transferred to the long-and short-term insurance industry.

Inspections

During the year under review, the Insurance division requested the inspection of one short-term insurer. The insurer was found to be conducting a class of business for which it was not licensed. Investigations are ongoing.

ROAD ACCIDENT FUND (RAF)

The RAF is a public entity established by the Road Accident Fund Act, 1996 (Act No. 56 of 1996) to administer the payment of compensation for loss or damage wrongfully caused by the driving of motor vehicles.

The FSB is empowered to supervise the RAF in terms of the Financial Supervision of the Road Accident Fund Act, 1993. The intention of the Act is to subject the RAF, as far as possible, to supervision appropriate to its insurance function.

The total liabilities of the fund as at 31 March 2007 exceeded its assets by R20,2 billion, which places the fund in a technically insolvent position. The following table reflects the financial position of the RAF over the past six years:

	31 March 2002 11 months R'million	31 March 2003 R'million	31 March 2004 R'million	31 March 2005 R'million	31 March 2006 R'million	31 March 2007 R'million
Total assets	1 632	1 250	768	1 708	4 357	4 208
Total liabilities	12 757	16 680	19 325	21 559	22 728	24 385
Surplus assets	(11 125)	(15 430)	(18 557)	(19 852)	(18 370)	(20 177)

The Portfolio Committee on Transport (PCoT) held a public hearing on the RAF on 18 March 2008. The FSB was requested to present its view on the current financial situation of the RAF and its opinion on the RAF's proposed rescue plan. The PCoT stressed the importance of an accelerated implementation of the RAF reform programme. The challenge for the FSB relates to the fact that the RAF, as a public entity with statutory funding, cannot be supervised on the same basis as a private-sector commercial insurer.

The PCoT requested the FSB to become involved in the reform process and to pay attention to appropriate supervision of the RAF.

LLOYD'S BUSINESS

The Act permits Lloyd's to carry on short-term insurance business in South Africa through Lloyd's correspondents. The authorisation of the correspondents is the responsibility of the Lloyd's Representative Office in South Africa.

Lloyd's correspondents do not submit individual returns to the FSB. The reporting function has been consolidated and the Lloyd's Representative Office in South Africa submits a single return. Lloyd's conducted business in all eight classes of business and the unaudited total gross premium income during 2007 amounted to R1 381 million (2006: R1 438 million).

ADVISORY COMMITTEE

The Advisory Committee on Short-term Insurance is a statutory committee appointed by the Minister of Finance to investigate and advise on matters relating to the short-term insurance industry. The Committee held four meetings during the period under review.

The Advisory Committee appointed a subcommittee to propose recommendations on the matter regarding the 'Demarcation between health insurance and medical schemes'.

The subcommittee made the following recommendations:

- Policy clarity needs to be sought as the insurance industry has been operating without certainty in the health policy sector
- The policy process should take note of the potential for medical schemes and health insurance products to co-exist
- The policy process should be consultative, through alignment between the Ministries of Finance and Health, and further engagements at the level of the Registrar of Medical Schemes and the FSB.

The Advisory Committee submitted their recommendations on the demarcation between health insurance and medical schemes to the Minister on 4 December 2007.

GENERAL

Risk-based supervision

The Insurance division has finalised its initial risk assessment on all registered insurers. Risk-based supervision has been integrated into the normal operational activities of the Insurance division. The risk-based supervision approach is ongoing and the Insurance division continues to assess areas for further improvement, including enhanced stress-testing capability.

On-site visits

The Insurance division continues to conduct on-site visits. These visits focus on the various risk areas of insurers and include the following:

- Solvency and liquidity
- General balance sheet risk management
- Regulatory compliance
- Underwriting
- Systems and operations
- Financial reporting
- Corporate governance
- External audit
- Strategic management
- Market risks.

During on-site visits, the ability of management to properly implement risk management procedures is evaluated. The on-site visits revealed different risk management procedures across companies and highlighted an increased awareness of the need for proper risk management.

The following areas of concern were identified during on-site visits:

- Poor corporate governance in some small insurers
- Poor oversight over outsourcing arrangements
- Undue reliance on individuals within companies, i.e. key person risk
- IT system challenges.

Insurance Group Supervision

The FSB continues to perform reviews on insurance groups with the cooperation of the insurers' management. The reviews are performed annually, except in the case of the five larger groups where reviews are performed quarterly.

The FSB is continuing its research on the introduction of a formal approach to insurance group supervision. International developments are closely monitored.

Financial Intelligence Centre Act

To discharge our regulatory and supervisory responsibilities in terms of the Financial Intelligence Centre Act (FICA), the Insurance division conducted on-site visits to all affected insurance institutions during the period under review.

In general, it was found that the management of insurers had implemented procedures to meet the requirements of FICA. However, the appropriate policies had not been adopted at board level. As a result, the standard of implementation was not as strong as it could have been. The division recommended that reporting and monitoring of compliance with this legislation should be elevated to board level.

Prohibition on inducements

In the previous report it was mentioned that one company sought a declaratory order since the company did not agree with the FSB's view that certain aspects of the benefits provided in a product constituted an inducement. The application was heard by the High Court on 16 April 2008. The ruling is awaited.

Survey on cross-border operations

The Insurance division conducted a survey to establish the extent of cross-border operations of registered insurers with a view to:

- Monitoring the group operations of insurance companies

- Identify jurisdictions with which the FSB may need to co-operate
- Assessing key risks to insurance companies.

Insurers were requested to provide unaudited information on their global activities and business conducted within the SADC region for their financial years ending in 2006. The information included cross-border reinsurance business.

Some insurers' systems need to be adjusted to provide this information to the FSB. For the financial year-ends ending in 2007, the cross-border information will be reported on in the annual statutory returns and be audited.

The survey revealed a steady increase in South African insurers' penetration levels in foreign markets.

Survey on payment of commissions in excess of regulation

The Insurance division conducted a survey on the payment of commission for credit insurance business by insurers and held discussions with possible transgressors with a view to necessary supervisory action. This has led to the FSB referring two matters to the SAPS for investigation of possible transgressions of insurance legislation.

Industry enquiry on market practices related to credit insurance

During July 2007 it was reported that some insurance companies active in the consumer credit insurance market were contravening commission and administration fees prescribed in Part 3 of the Regulations under the Long-term Insurance Act.

Consequently, the LOA, joined by the SAIA, resolved to co-sponsor an enquiry to identify problem areas in the credit insurance market and to assist in eradicating undesirable practices with a view to ensuring better consumer protection.
The terms of reference of the panel included the investigation of:

- improper and inappropriate marketing and distribution practices;
- the payment of excessive commissions or other improper fees or incentives;
- the fairness of standard terms and conditions;
- the adequacy of the overall value provided to consumers;
- pre- and post-sale disclosures and information provided to consumers; and
- consumer awareness that they are paying for and are covered for death and disability.

The industry appointed a Panel of Enquiry, chaired by Judge Peet Nienaber. The FSB was briefed on their report on 21 April 2008. The report was released on 22 April 2008. The division is studying the report and is in discussions with National Treasury on the way forward.

Draft Insurance Laws Amendment Bill, 2008

The Insurance division drafted proposed changes to the Long-term and Short-term Insurance Acts in order to update existing legislation, to close regulatory gaps identified in existing statutes and to effect improvements to certain provisions. The Insurance division submitted the proposed amendments to National Treasury on 11 March 2008.

Consumer complaints (short-term and long-term insurance)

During the period under review, the Insurance division received 98 complaints, of which 75% were resolved. The outstanding complaints are being investigated.

INTERNATIONAL COOPERATION

Committee of Insurance, Securities and Non-banking Financial Authorities for SADC

The Committee of Insurance, Securities and Non-banking financial Authorities (CISNA) was established in June 1998. It is a subcommittee of the Committee of Senior Treasury Officials within the SADC structures and its members are the supervisory authorities of capital markets, retirement funds, collective investment schemes, insurance companies and providers of intermediary services from SADC countries. CISNA also addresses consumer education matters. The CISNA secretariat is located at the FSB in South Africa. CISNA conducts its business through meetings and meets at least bi-annually. It consists of two subcommittees, namely the Insurance and Retirement Funds Subcommittee and the Capital Markets Subcommittee.

The CISNA met twice during the reporting period. The first meeting was held in Windhoek, Namibia from 9 to 11 May 2007 and the second in Arusha, Tanzania on 1 and 2 November 2007. Matters discussed included harmonisation initiatives; training opportunities; information relating to the international organisations; cross-border activities; and market developments in the various jurisdictions.

The FSB developed a CISNA website for sharing of member information.

International Association of Insurance Supervisors

Established in 1994, the International Association of Insurance Supervisors (IAIS) represents insurance regulators and supervisors of about 180 jurisdictions worldwide. Its objectives include cooperation to improve supervision; to maintain efficient, fair, safe and stable insurance markets; and to contribute to global financial stability.

Two staff members of the Insurance division attended the tri-annual meeting of the IAIS and the IAIS 14th Annual Conference that was held in Fort Lauderdale, Florida, USA from 14 to 19 October 2007.

Association of African Insurance Supervisory Authorities

The Association of African Insurance Supervisory Authorities (AAISA) is an independent forum for the insurance supervisory authorities in African countries to exchange views on common issues and to promote cooperation among supervisory authorities.

One staff member of the Insurance division attended the 34th Conference of the African Insurance Organisation (AIO) in Libreville, Gabon from 21 to 23 May 2007. A meeting of the AAISA also took place at the same venue. The subject of the 2007 conference was 'Insurance and its role in poverty reduction in Africa'.

African Insurance Organisation

The FSB is a member of the African Insurance Organisation (AIO), an organisation that promotes the development of strong institutional leadership in Africa. A representative of the Insurance division attended its annual conference in Libreville Gabon in May 2007. The AIO and AAISA's meetings are held simultaneously.

Left to right:

Corlia Buitendag
Head:
Enforcement and Surveillance

Fikile Mosoma
Head:
Licensing and Registration

Alta Marais
Head:
Research and Policy

Jurgen Boyd
Deputy Executive Officer:
Retirement Funds

Wilma Mokupo
Head:
Prudential Supervision

Introduction

The Retirement Funds and Friendly Societies division of the FSB is mandated by the Pension Funds Act and the Friendly Societies Act with the supervision of such retirement funds and friendly societies.

The four departments of this division are tasked with the following responsibilities:

Department	Responsibilities
Licensing and Registration	• Registration of the rules and amendments to the rules of funds and friendly societies • Approval of pension fund administrators
Prudential Supervision	Analysis of annual financial statements
Surveillance and Enforcement	Conduct of compliance visits and management of risk-based supervision
Research and Policy	Conduct of research and establishment of policy

At 31 March 2008 the division had 71 staff members comprising 1 Deputy Executive Officer, 4 Heads of Department, 1 senior specialist, 7 managers, 18 specialist analysts, 5 senior analysts, 13 analysts, 9 junior analysts, 10 support staff, 2 secretaries and 1 contractor.

The main issues faced by the pension fund industry during the review period were:

- Implementation of the 2007 amendments to the Pension Funds Act, in particular:
  - bringing all unregistered bargaining council funds under the regulatory net of the Pension Funds Act and
  - the introduction of the 'clean break' principle in respect of divorce orders
- Curatorship applications and matters incidental thereto
- Compliance by pension funds with the requirements of surplus apportionment legislation.

Industry Overview

At 31 March 2008 a total of 12 690 registered retirement funds were being supervised by the FSB. The latest available statistics for the year ended 31 December 2006 are in respect of the official (State) funds, Transnet and Telkom funds, bargaining council funds not registered with the FSB and 45% of the registered funds that submitted financial statements.

The main reason given for the funds' failure to submit financial statements revolves around the auditing profession's inability to meet the increased demand for their services following the FSB's lifting of audit exemptions granted previously to certain categories of funds.

Financial Overview

The following statistics pertain to Retirement Funds and Friendly Societies for the year ended 31 December 2006.

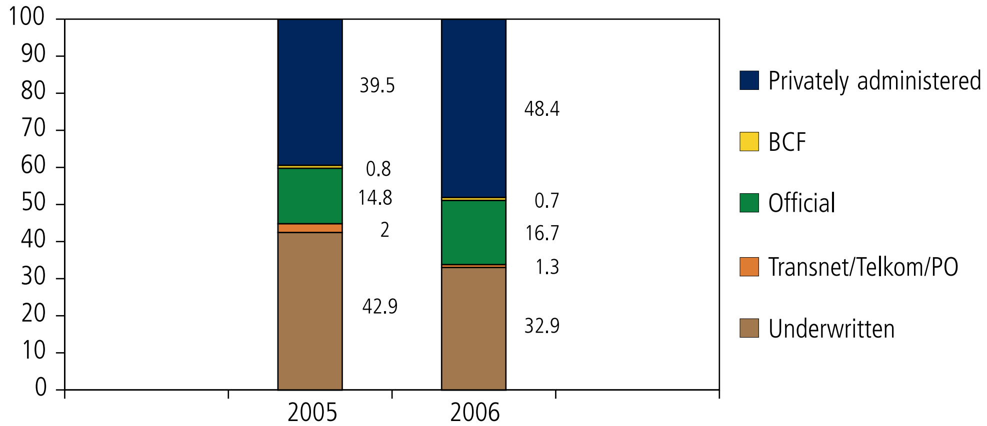
RETIREMENT FUNDS: FINANCIAL YEAR ENDING 31 DECEMBER						
Financial year ending	2004	Change %	2005	Change %	2006	Change %
Number of funds	13 618	(1.0)	13 390	(1.7)	13 325	(0.5)
Membership ('000)	9 858	10.1	9 271	(6.0)	9 342	(0.8)
Contributions (R'm)	72 826	12.3	75 131	3.2	72 009	(4.2)
Benefits paid (R'm)	86 195	17.6	85 937	(0.3)	84 024	(2.2)
Assets (R'm)	1 091 807	20.1	1 283 921	17.6	1 454 827	13.3

FRIENDLY SOCIETIES: FINANCIAL YEAR ENDING 31 DECEMBER						
Financial year	2004	Change %	2005	Change %	2006	Change %
Number of funds	87	7.4	98	12.6	92	(6.1)
Membership ('000)	466	1.7	558	19.7	551	(1.3)
Contributions (R'000)	38 803	(8.1)	47 514	22.4	52 423	10.3
Benefits paid (R'000)	29 332	(5.5)	36 217	23.5	43 502	20.1
Assets (R'000)	330 983	6.4	353 769	6.9	462 804	30.8

Note: In addition, 98 (2005: 104) friendly societies were exempt from submitting returns in 2006.

Membership

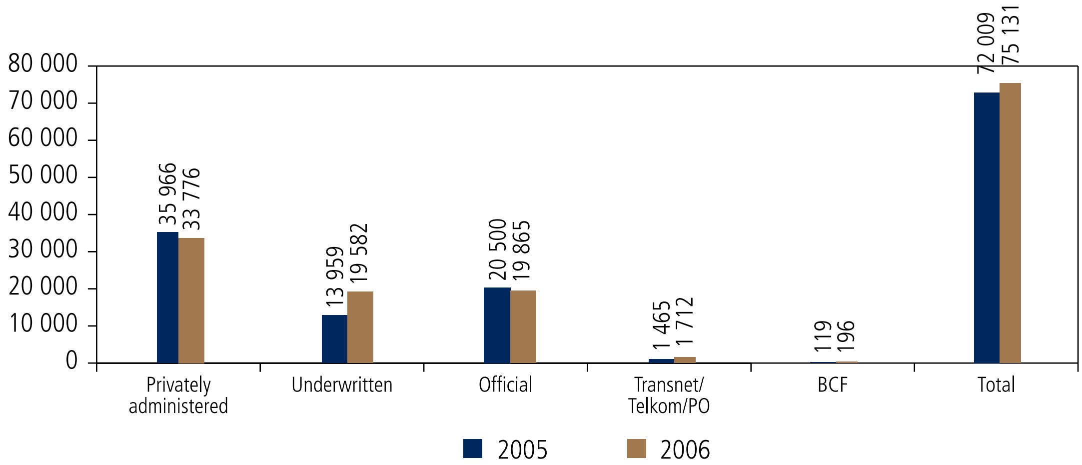
Membership of retirement funds at 31 December 2006 was 9 342 118, of which 7 370 436 were active members and 1 089 000 pensioners, deferred pensioners and dependants. The figures do not reflect the total number of individual members of funds, since some are members of more than one fund.



Contributions

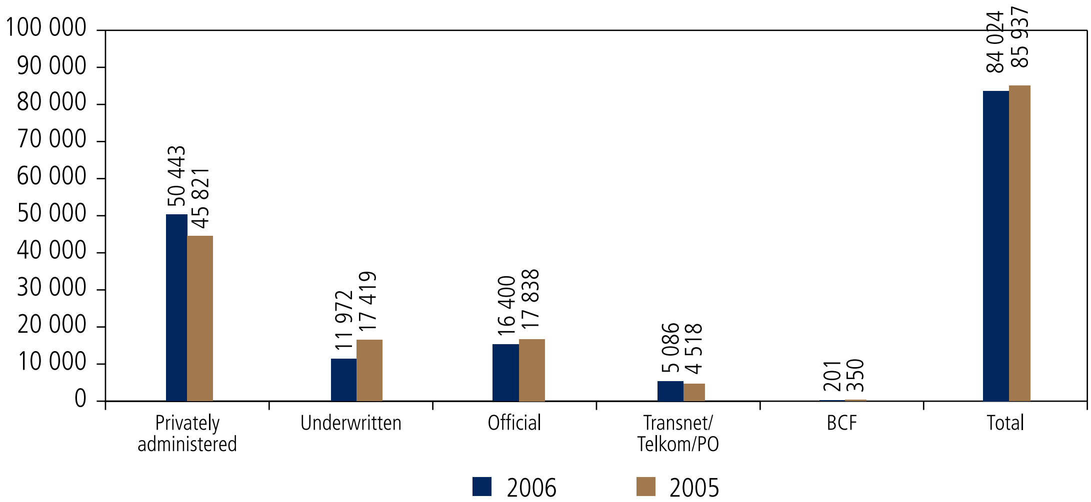
Contributions received decreased by 4, 2% from R75 131 million in 2005 to R72 009 million in 2006. Contributions to official (State), Transnet, Telkom and Post Office funds decreased by 14.4%, while contributions to privately administered, underwritten and bargaining council funds in the private sector decreased by 6.6%.

CONTRIBUTIONS (R million)



Benefits

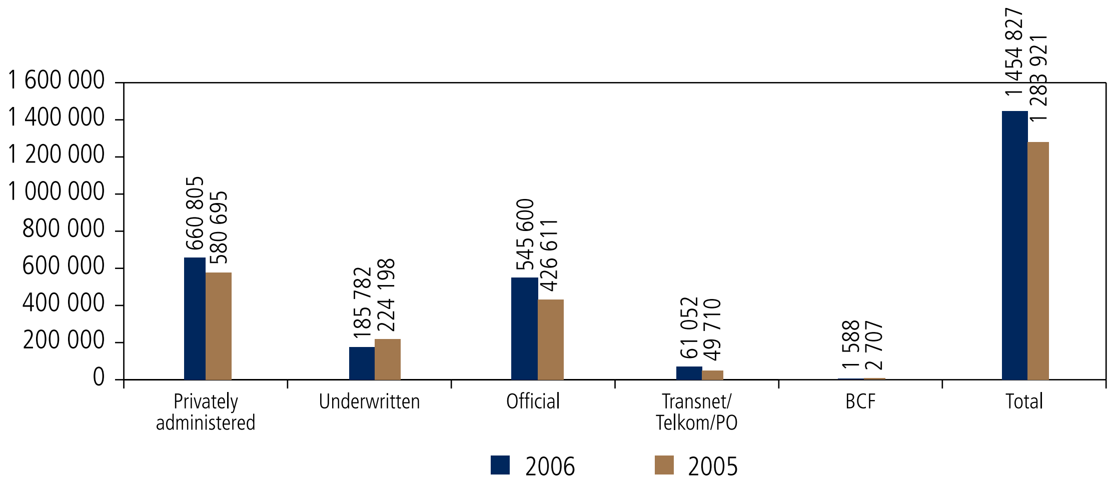
Benefits paid, which includes amounts paid in respect of pensions, lump sums on retirement, death and resignations, decreased by 2.2%, from R85 937 million in 2005 to R84 024 million in 2006.



Assets

Total assets of the retirement fund industry in South Africa increased by 13,3%, from R1 284 billion in 2005 to R1 454 billion in 2006.

The net assets of privately administered funds increased by 13,6%, from R581 billion in 2005 to R660 billion in 2006.



Supervision

The following supervisory activities took place from 1 April 2007 to 31 March 2008.

Activity	Number
New registrations of funds	33
Umbrella schemes: registration of participating employers	6203
On-site visits	211
Consolidated or amended rules registered	2083
Transfers between registered funds approved	5275
Liquidations and terminations of funds	913
Number of administrators to whom section 13B licences were issued	15
Number of administrators whose section 13B licences were withdrawn	7

Note: The table does not include pending cases worked on, but not yet approved.

Regulatory Issues

Inspections

Nine inspections were conducted during the review period. The following were the main issues emanating from these inspections:

- An administrator did not conduct proper administration business and did not maintain proper accounting and other records, which led to its license being suspended.
- Five funds under the administration of the suspended administrator were inspected. From the reports issued on the funds it became evident that no accounting records had been maintained, benefits had not been calculated correctly and the funds did not have properly constituted boards of trustees. In one case the employer of the fund had been

liquidated, therefore the fund should also have been liquidated. Members of these funds are prejudiced as they are awaiting payment of benefits which cannot be processed in the absence of a properly constituted board.

- Trustees did not display proper stewardship over the funds' investments and in the managing of the assets.

- One of the funds used structures to invest in products as a direct investment, contrary to the provisions of regulation 28 of the Pension Funds Act.

Ongoing inspections of 12 funds and one administrator are in progress.

On-site Visits

Forty-five administrators were visited owing to their failure to comply with the requirement to submit annual reports within six months of their financial year-ends.

Thirty self-administered funds were visited to assess general compliance with the Act.

Twenty-six visits to funds followed after the Registrar had received complaints regarding those funds. All the complaints were resolved.

Two funds were visited after irregularities had been reported. All the problems were identified and, with the assistance of the Registrar's Office, the boards of trustees are rectifying the problems. The funds are being monitored monthly.

One hundred and two funds that had failed to submit audited financial statements to the Registrar were visited.

Eight umbrella funds were visited to assess general compliance with the Act.

Three employers are being monitored for not paying contributions over to funds within the prescribed seven-day period.

Appeals to the FSB Appeal Board and High Court Litigation

During the review period, 11 new appeals were lodged against decisions of the Registrar of Pension Funds. These appeals included the rejection of section 15F applications for the transfer of the credit balance in an existing employer reserve account (as defined in the rules) to the employer surplus account; the rejection of statutory actuarial valuations; the approval of surplus apportionment schemes; the rejection of rule amendments; the rejection of revised rules; the appointment of a specialist tribunal by the Registrar due to the fund's failure to submit a surplus apportionment scheme within the prescribed period; and the refusal to issue a section 13B licence due to the applicant's failure to provide proof that professional indemnity and fidelity guarantee insurance policies had been acquired.

A number of appeals were withdrawn and therefore did not proceed to hearing stage. Six appeals were heard by the FSB's Appeal Board during the review period and written determinations were delivered in four appeals. In one appeal involving the Registrar's rejection of a statutory valuation report, the issues were reduced to a set of legal questions on the interpretation of Sections 16(9) and 15(3) of the Pension Funds Act for consideration by the Appeal Board. Although the Registrar's decision was set aside by the Appeal Board in that matter, the judgment established some important principles and guidelines in respect of valuation reports. In another, the Appeal Board found that the Registrar was correct in refusing to approve a Section 15F application and the appeal was dismissed. The third appeal involved the Registrar's decision to certify that the revised preliminary accounts in the voluntary liquidation of a fund satisfied his requirements and to direct the liquidator to post a copy of such accounts to interested parties. The Appeal Board confirmed the correctness of the Registrar's decision and dismissed the appeal. In the fourth matter, involving a surplus apportionment scheme that had been approved by the Registrar, but which the appellant wanted set aside because of material errors, the Appeal Board upheld the appeal and ordered the fund to submit an amended surplus apportionment scheme to the Registrar. One appeal was dismissed by the Appeal Board on the basis that the appellant did not have *locus standi* to bring the appeal.

The determination of the Appeal Board in one matter is still being awaited.

In two appeal matters, which involved the Registrar's rejection of the funds' statutory valuation reports and had initially been set down to be heard, written agreements were instead concluded between the Registrar and the appellants and were subsequently made an order of the Appeal Board, which obviated the need for a full hearing.

Three decisions by the Appeal Board were taken on review to the High Court. In two of those matters the High Court rejected the applications, thereby upholding the Registrar's decision. The applicants had since been granted leave to appeal to the Supreme Court of Appeal (SCA). One of the matters was heard recently by the SCA and the appeal was dismissed with costs and the decision of the Registrar was upheld. For the other a hearing date is yet to be set down by the SCA, while the third matter will be heard by the High Court shortly.

An employer body in a bargaining council approached the court to issue an order that the provisions of the Pension Funds Act should not apply to a specific pension and provident fund, and that its registrations as pension fund organisations should be of no force and effect. It would therefore not be obliged to lodge any surplus apportionment scheme with the Registrar. The High Court found in favour of the employer body. The Registrar appealed the judgment at the CA, which dismissed the appeal and upheld the High Court's judgment. The Registrar's subsequent application to the Constitutional Court for leave to appeal the SCA's decision was unsuccessful.

A member of a pension fund successfully applied to the High Court for an order setting aside a certain rule amendment as invalid because it reduced the established accumulated value of his benefit. In an appeal to the SCA the court overturned the part of the High Court judgment that determined that the Pension Funds Adjudicator can and should strike down registered rule amendments of pension funds. The view of the Adjudicator and the Registrar was therefore upheld.

The chairperson of a retirement fund challenged the Registrar's view that all pension funds have to investigate possible improper use of surplus by an employer before 7 December 2001, when the Pension Funds Second Amendment Act became operational. The fund contended that Section 15B (6) does not have retrospective effect. The High Court upheld the fund's view. Although the Registrar had been granted leave to appeal the outcome to the SCA, he withdrew the appeal since the matter became academic in the light of the 2007 amendments to the Pension Funds Act, which provide, inter alia, that surplus utilised improperly must be investigated as far back as 1 January 1980.

Other matters before the High Court in which the Registrar has been cited as a party and which were lodged during the review period can be summarised as follows:

- In two matters, funds have applied to the High Court to review and set aside the Registrar's approval of the funds' surplus apportionment schemes on the basis that at the time when the schemes were lodged they contained material errors which were afterwards uncovered, but about which the Registrar could not reasonably have known at the time. In both instances the Registrar indicated that he did not oppose the application and lodged answering affidavits to that effect with the High Court.

- A bargaining council has made application (on behalf of a bargaining council fund) to the High Court for an order allowing the fund to, *inter alia*, allocate its entire investment reserve as reflected in its latest valuation report proportionately to the members of the fund at a certain date. Technically this will amount to a surplus distribution outside of the provisions of the Pension Funds Act. The Registrar has filed an answering affidavit with the High Court in which he dealt with some issues from a regulatory perspective.

- A fund has issued a summons against the Registrar and 23 other defendants in which it claims an amount of R1.9 billion in respect of alleged losses suffered as a result of investments made in maize futures on its behalf. The Registrar filed an exception to the fund's particulars of claim and more particularly pointed out that there is no duty of care owed to the fund by the Registrar in terms of the Pension Funds Act, the common law or the Constitution. Judgment in this matter is still awaited.

Other Regulatory Matters

- In terms of the 2007 amendments to the Pension Funds Act, unregistered bargaining council funds must apply for registration on or before 1 January 2008. To assist bargaining council funds with registration, the Registrar issued a directive that sets out certain guidelines, and has also made available a set of model rules on the FSB's website. In addition, the Registrar and other officials in the department have held a number of meetings with bargaining councils, their industry association and representatives from the Department of Labour to discuss the implications of the 2007 Pension Funds Act amendments for bargaining council funds.

- Following the completion of the investigation into secret profits made by certain administrators, the Registrar lodged a complaint with the prosecuting authorities who are investigating the matter.

PF Circulars, Information Circulars and Directives

In the light of the 2007 amendments to the Pension Funds Act, the department is reviewing all circulars in order to reissue them as directives that will have the force of subordinate legislation. The various sections have also made proposals regarding new directives that need to be issued.

- Circular PF130 was issued on 11 June 2007. It comprises the main principles document on Good Governance of Retirement Funds and three annexures dealing with a code of conduct, prudent investing and performance appraisals in respect of boards of management.

- Information Circulars 4 and 5 of 2007 were issued on 30 August 2007. Information Circular 4 has extended the period for the electronic submission of 2006 financial statements for all funds to 30 November 2007. Information Circular 5 has granted a general extension for the electronic submission of 2007 financial statements to all funds until 31 August 2008, and for underwritten retirement annuity funds until 30 October 2008.

- Information Circular 6 of 2007, with annexures, was issued on 12 October 2007. It deals with amalgamations and transfers of business in terms of the newly enacted Section 14(8) of the Pension Funds Act.

- Information Circular 8 of 2007 was issued on 16 November 2007. It deals with the Registrar's requirements for the submission of statutory actuarial valuation reports.

- Information Circular 10 of 2007 was issued on 28 November 2007 and contains an amendment to Circular PF117 relating to the valuation assumptions to be used by funds as at surplus apportionment date.

- Information Circulars 11/2007, 12/2007 and 13/2007 were issued on 5 December 2007. They deal with the following issues:

- Information Circular 11 – Confirmation that the Registrar has agreed to accept unaudited financial statements for funds terminating or transferring in full on or before 31 October 2008.

- Information Circular 12 – Confirmation that the Registrar has agreed to accept unaudited financial statements for small funds set out in Annexure E or Annexure F of Board Notice 43 of 30 May 2006.

- Information Circular 13 – General extension to 31 March 2008 for the electronic submission of the 2006 annual financial statements.

- Circular PF131, issued on 5 December 2007, confirms the withdrawal of obsolete PF Circulars.

- Directive PF No. 1, issued on 10 December 2007, deals with, *inter alia*, the procedural aspects of the registration of bargaining council funds which, in terms of the Pension Funds Amendment Act 11 of 2007, were required to be registered on or before 1 January 2008.

- Information Circular 1/2008, issued on 31 March 2008, deals with the extension granted for the submission of final audited financial statements.

- Information Circular 2/2008, issued on 27 March 2008, deals with funds terminating or transferring in full before or on 31 October 2008.

- A risk-management annexure to Circular PF 130 is being finalised based on a need expressed by industry for guidance on good governance and will be issued for comment by the industry in due course.

Criminal Prosecution

The criminal prosecution of the various accused in the unlawful scheme involving, among others, the laundering of the surplus assets of a number of pension funds through the Lifecare Pension Fund is ongoing. To date plea bargains have been concluded by the National Prosecuting Authority with a number of the accused and it is envisaged that the criminal trial in the High Court will commence later this year.

Legislation

Financial Services Laws General Amendment Bill, 2008

Further amendments to the Pension Funds Act have been proposed to address the following:

- To provide for the establishment and registration of beneficiary funds under the Pension Funds Act to administer the death benefits that become payable under Section 37C on behalf of beneficiaries.
- To provide for the establishment and registration of unclaimed benefit funds to administer unclaimed benefits and trace members to enable the payment of such benefits.
- To determine fit and proper criteria for principal officers, auditors and valuators, and to enable the Registrar to object to any of their appointments should be of the opinion that a principal officer, auditor or valuator is no longer fit and proper, or if it is not in the public interest for such person to hold such office.
- To provide clarity on the costs, commissions and fees that may be paid on transfers between retirement annuity funds.
- To provide clarity in respect of the retrospective application of the payment of pension interests under a divorce order.

These amendments are being dealt with in the Parliamentary process.

Outlook

Social Security and Retirement Reform

The Social Security and Retirement Reform Second Discussion Paper (Second Paper) remains one of the main focuses for the pension funds division.

The National Treasury issued the Second Paper on 23 February 2007. It is anticipated that the proposals in the Second Paper, which will necessitate extensive consultation with various stakeholders, will be finalised by December 2008, after which drafting of a new Pension Funds Act will start.

Bargaining Council Funds

Following the promulgation of the Pension Funds Amendment Act of 2007, the Registrar engaged a number of bargaining councils, bargaining council funds and their industry body to address, among others, perceived conflicts between the Pension Funds Act and the Labour Relations Act, as well as the logistical challenges faced by some bargaining council funds as a result of the requirement to be registered with the FSB on or before 1 January 2008. To assist bargaining council funds to comply with the Act, the Registrar's office issued a Directive on 10 December 2007 which sets out regulatory guidelines and also posted a set of model set of rules specific to bargaining council funds on the FSB's website.

As a result of these discussions, the Registrar will consider granting an exemption from certain requirements of the Pension Funds Act and extensions to bargaining council funds upon request, on a fund-by-fund basis. Ongoing efforts are also being made to ensure, as far as possible, that the operational requirements of the Pension Funds Act and the Labour Relations Act are aligned.

INVESTMENT INSTITUTIONS

Left to right:

Jacob Mahlangu
Head:
Collective Investment Schemes

Norman Müller
Head:
Capital Markets

Gerhard van Deventer
Head:
Market Abuse

Dube Tshidi
Deputy Executive Officer:
Investment Institutions

Scope of supervision

The Capital Markets department is responsible for the supervision of South African licensed exchanges, central securities depositories and clearing houses in terms of the Securities Services Act, 2004 (SSA). In fulfilling this function, the department strives to ensure sound, efficient and fair capital markets and related services for the trading, clearing and settlement of securities, including appropriate mechanisms for investor protection.

Industry review

JSE Limited

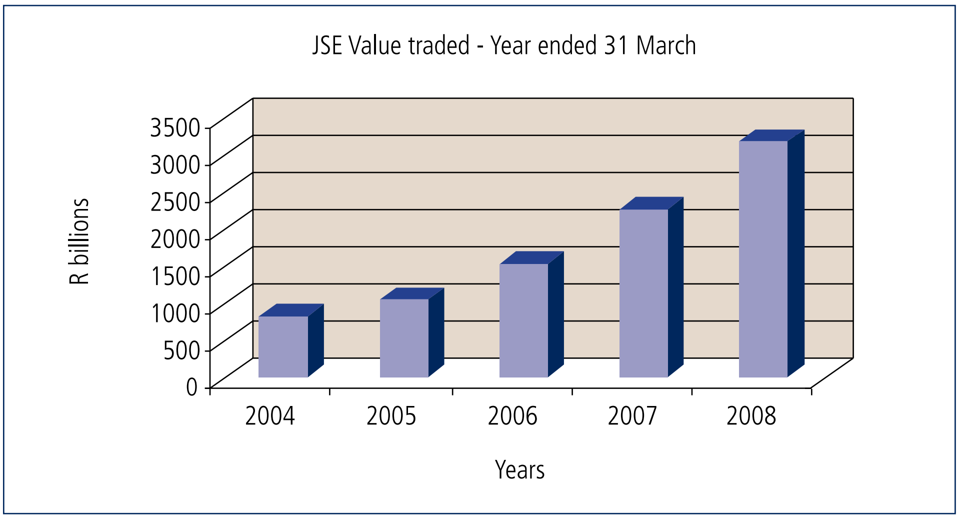
The JSE is the only licensed exchange in South Africa that trades in equities. In August 2001, it took over the business of the South African Futures Exchange, which became the Equity Derivatives Division and the Agricultural Products Division of the JSE. Safex Clearing Company (Pty) Ltd is a licensed clearing house for the JSE derivative instruments in terms of the SSA.

Performance indicators

At 31 March 2008, 521 individuals were members of the South African Institute of Stockbrokers (2007: 513) of which 307 (2007: 301) were practising members in 53 equity member firms (2007:55). The number of companies with shares listed on the JSE totalled 422 (2007:405). Turnover of shares, including off-order book trades, for the year ended 31 March 2008 amounted to R3 174,0 billion (2007: R2 256,2 billion), representing approximately 13,2 million trades (2007: 8,4 million trades). The average number of trades per day was 52 885 (2007: 33 818). New equity capital raised on the JSE amounted to R108,8 billion, which was 16,6% more than the R93,3 billion raised in the previous year. Liquidity, measured on the basis of equity turnover as a percentage of market capitalisation, amounted to 48,3% for the year compared to 46,3% in the previous year. Market capitalisation of all securities listed on the JSE amounted to R5 793,6 billion at 31 March 2008, ranking the JSE as the nineteenth largest stock exchange in the world in terms of market capitalisation.

Warrants

Warrants are long dated put or call options issued by a third party on individual or baskets of securities of listed companies. At 31 March 2008, there were 316 listed warrants (2007: 344). Five warrant issuers are active in the South African market. The total value of trades in warrants for the year ended 31 March 2008 amounted to R2,8 billion (2007: R5,7 billion).



Equity Derivatives Division

Safex, the Equity Derivatives Division (EDD) of the JSE, which offers a wide range of exchange traded equity futures and options has been in operation since 1990. Safex traded R380, 2 million contracts for the year ended March 2008, representing a 177% increase over the R137, 1 million contracts traded for the year ended March 2007. The turnover value of R5 410 billion represents an increase of 387% compared to the same period in the previous year (R1 110, 4 billion).

Overall performance for the year under review was as follows:

	Deals	Contracts	Rand value (R billion)
Financial futures	1 126 563	349 669 330	R 5 259,4
Financial options	21 629	30 559 531	R 150,7
Total	1 148 192	380 228 861	R 5 410,1

Agricultural Products Division

The Agricultural Products Division (APD), formed in 1995 and covering commodities futures and options on white and yellow maize, sunflower seed, wheat and soybeans, has established itself as an effective price risk management facility and price discovery mechanism for grains in South and Southern Africa. The majority of the trades on the APD are in white maize derivatives, however this percentage is shrinking as wheat futures now represent almost 20% of trades.

Volumes traded through the APD totaled 2 440 904 contracts for the year ended March 2008, an increase of about 19,8% compared to 2 038 011 contracts in 2007. The turnover value increased to R303 billion as a result of the increased volume of trade and a higher average maize price.

Growth continues to be most encouraging as the exchange trades on average 200 000 tons of maize a day and options on these are increasing daily. Over 1,8 million contracts have traded since 1995. The percentage physical deliveries are on the decline, which indicates that the market is using the futures exchange as a hedging facility and not as a pure delivery mechanism. The use of the transferable Safex silo receipt has added to the efficient trading of the commodities to such an extent that many of the financial institutions have begun accepting it as collateral.

Interest rate market (Yield^x)

Following the success of the JSE equities and futures trading systems, it was decided to trade the interest rate and currency derivatives products, thereby creating Yield^x.

In the 2007 Budget speech, the JSE, and in particular Yield^{x,} was granted the dispensation to trade currency derivatives. In response to market requests, the JSE has launched currency derivatives for such a product to be traded on a regulated exchange. Dollar/Rand currency futures began trading on 18 June 2007. Many more currency futures and currency options are expected to be listed in future. Currency derivatives grant market participants the opportunity to hedge against currency risk, diversify internationally, and take a view on the movement of the underlying exchange rate.

Market information for the period 31 March 2007 to 31 March 2008 for all Yield[x] instruments is shown in the following table:

	Year ended 31 March 2007		Year ended 31 March 2008	
INSTRUMENT	NO OF CONTRACTS	CONTRACT VALUE R 000's	NO OF CONTRACTS	CONTRACT VALUE R 000's
Spot bonds	50	71,0	0	0
FRAs (Forward rate agreement)	327	560,1	0	0
Options	2 450	28,2	2 500	2 851 925
Futures	11 333	13 878,6	476 578	12 981 706 877
Govi futures and other indices' futures	8 540	20 758,2	6 929	4 374 525 010
Total	22 700	35 296,1	486 007	17 359 083 812

Bond Exchange of South Africa Limited

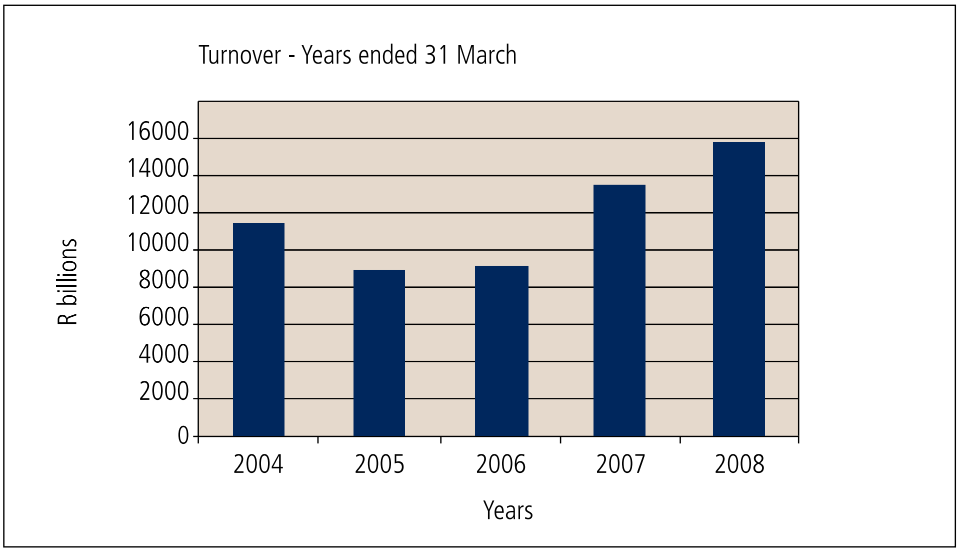
The Bond Exchange of South Africa Limited (BESA) provides a platform for the listing of rand-denominated debt securities issued by central and local government, public enterprises and other corporate entities.

Performance indicators
Trading volumes on BESA showed an increase of 16,9% during the year under review, compared to an increase of 47,5% in the previous year. During the year under review, the velocity of the turnover (annual turnover in bonds as a proportion of bonds on issue) reported on BESA was 19,1.

Performance for the year under review was as follows:

	Year ended 31 March 2007	Year ended 31 March 2008	Change
Nominal turnover	R12 458 billion	R 14 561 billion	16,9%
Transactions	329 796	330 253	0,14%

The growth in turnover reported on BESA is evident from the following graph:



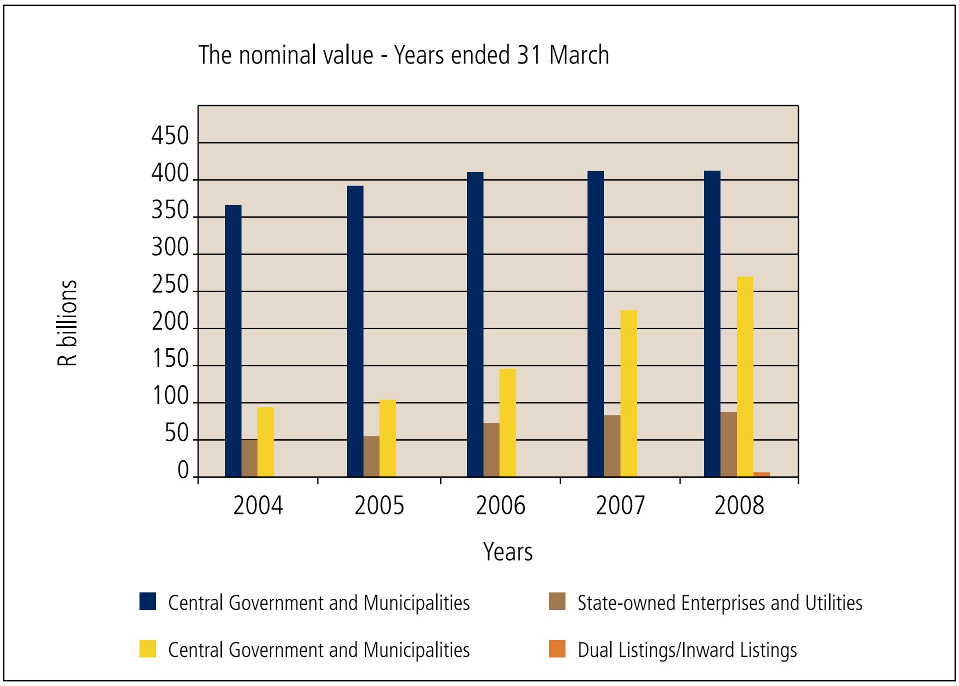
The local bond market is still dominated by securities issued by the South African government, with local government, public enterprises and major corporations accounting for the rest of the debt issuers active in the market. The number of borrowers and listed bonds, as well as the market capitalization, have risen sharply.

At 31 March 2008, BESA listed 984 bonds issued by 101 issuers, with a total nominal value of R762,6 billion (2007: R716,2 billion), representing an increase of 6,5%.

BESA ranks internationally as the fourth largest exchange by total value of bonds traded.

The debt securities (nominal value) profile listed by BESA is reflected in the following table and graph:

Issuer	31 March 2007 (R billion)	%	31 March 2008 (R billion)	%
Central government	409,7	57,2	407,8	53,5
Municipal	3,9	0,5	3,9	0,5
Public enterprises & utilities	77,6	10,8	80,6	10,6
Corporate	225,0	31,4	268,2	35,1
Dual/Inward listings	0,4	0,1	2,1	0,3
Total	716,6	100	762,6	100



Participation in the local bond market by corporates has increased rapidly over the past five years as indicated by the following graph:

BESA has created a web-based online platform for the trading of binary options. This new product allows for trading on individual equities, interest rates and economic data releases. This initiative offers cost-effective and effortless access to financial markets for individuals.

Central securities depository

Strate Limited

The FSB licensed Strate Limited (Strate) as a central securities depository in terms of the SSA for equities and bonds, and as a clearing house for bonds.

The nominal value of bond holdings under management at Strate amounted to R729,8 billion at 31 March 2008. The figure represents 93,6% of fixed income instruments listed by BESA for electronic settlement.

The total value of dematerialised equities listed on the JSE amounted to R4,3 billion on 31 March 2008.

Industry developments

JSE

Amendments to JSE rules

The JSE proposed certain amendments to its Equities, Derivatives and Yield^x Rules to provide for the administration of its dispute resolution scheme as recognised by the Financial Services Ombud Schemes Council in terms of the Financial Services Ombud Schemes Act, 2004. The Rules were approved with effect from 25 June 2007.

The JSE also proposed certain amendments to its Yield^x Rules to provide for the listing of currency futures. The amendments were approved with effect from 4 June 2007.

JSE alternative exchange (Alt^x)

The JSE launched Alt^X, its alternative exchange on 27 October 2003. Alt^X is a joint initiative of the Department of Trade and Industry and the JSE for the listing of small and medium-sized companies. At 31 March 2008, 81 companies were listed with a market capitalisation of approximately R28 billion. On average 17,3 million shares trade daily on this exchange.

FTSE / JSE Alt^x 15 index open for trade

On 16 October 2007, the JSE announced that traders could, for the first time, trade futures and options on the FTSE/JSE Alt^x 15 index. The index consists of the top 15 companies listed on Alt^x.

Upgrading of JSE Information Technology systems

The JSE is upgrading its information technology to reduce operational costs and provide more flexible, reliable and stable next-generation technologies. The JSE's Equities Trading System, JSETS, was replaced on 2 April 2007 with JSE TradElect.

Business continuity and disaster recovery plans of the JSE

Based on the FSB's on-site review of the JSE in 2007, the FSB requested the JSE to relocate its disaster recovery centre to a remote location at least 10 kilometers away. The FSB has stressed the importance of Business Continuity Management and adherence to international standards as an ongoing priority for all financial industry participants and financial authorities. The JSE, in consultation with the industry, is assessing ways to accede to the FSB's request.

BESA

New BESA rule book published

BESA completed a general revision of its rule book. This included the amendments required for the demutualisation of the exchange and for the consequent amendments to the sections relating to the exchange's Guarantee Fund. The FSB approved these rules which took effect from 3 December 2007.

Demutualisation of BESA

The FSB approved BESA's application to become a demutualised entity, effective from 3 December 2007.

Compliance with the Financial Services Ombud Schemes Act, 2004

The Financial Services Ombud Schemes Council approved BESA's application for their client dispute resolution scheme to be recognised under the Financial Services Ombud Schemes Act, 2004 on 26 March 2008. BESA's revised rules to provide for the new required client dispute resolution procedures will be published for comment soon.

Remote membership

BESA hosted a remote membership symposium on 22 August 2007 that was well attended by various stakeholders. There was overwhelming support for the introduction of remote membership as a means of attracting trades in listed bonds to be recorded through BESA rather than in the over-the-counter market. BESA has provided the FSB with their draft report detailing their proposed regulatory framework for remote membership. A number of meetings were held with BESA representatives to discuss the FSB's views, with specific reference to surveillance and enforcement-related matters. Further meetings are required with BESA to discuss the business development and infrastructure around remote membership.

BESA in the process of considering a clearing solution

BESA is currently in discussion with a number of service providers to provide them with a clearing solution for the clearing of derivative instruments to be traded on the exchange. The preferred clearing house will have to be licensed in terms of the SSA.

Strate

Proposed amendment to the rules of Strate

Strate proposed certain amendments to its rules to provide for, inter alia, the introduction of procedures for the failure of CSD Participants and on corporate actions. The FSB approved these rule amendments, which took effect from 16 July 2007.

Strate also submitted its proposed rule amendments relating to client mandates to the FSB for approval. These rules were approved by the FSB and took effect from 7 March 2008.

Settlement of money market instruments

Strate experienced several delays with this project since its inception. However, based on the revised project plan, the project is now on track and is in the development phase with the pre-acceptance testing completed. Some market players expressed concern that they might not be ready to implement their systems during 2008. Strate has taken note of this and is devising alternative strategies that would be agreed with the market to ensure that the planned implementation for the fourth quarter of 2008, as a pilot phase, is not missed.

Central Securities Depositories Participant Failure Project
Strate has been tasked with the coordination of the development of a CSD Participant Failure Manual which can be applied in the event of the failure of any of the participants regulated by it. The JSE and BESA have been included as stakeholders in the development of this manual. The FSB has attended the meetings of the stakeholders. Pricewaterhouse Coopers has been appointed as the consultants for this project. Roll-out will be done via workshops with the industry.

Supervisory developments

Self-assessment Return for SROs

The department has developed a self-assessment return for completion by the SROs. The purpose of the return is to ensure that the exchanges and central securities depository fulfil their supervisory duties in terms of the SSA and to formalise the FSB's supervision of the SROs. BESA, the JSE and Strate have completed the return and on-site reviews were conducted on the exchanges for the period under review.

The self-assessment return for exchanges and central securities depositories have been amended to further expand its scope and to clarify some of the questions.

Shortening the cycle for equities settlement

The T+3 Project, initiated in 2007, is now in Phase 2, which involves existing market infrastructure working groups undertaking further investigation of the 60 action points identified in Phase 1 for overcoming the nine barriers identified in moving to T+3.

These solutions are to be incorporated in a document entitled 'Blueprint for T+3', which should be completed before the end of 2008. The FSB is updated quarterly on the progress of this project. Phase 3, which is the Implementation Plan for the T+3 settlement of equities, will be pursued during 2009.

Impact of Basel II on the capital adequacy requirements applicable to authorised users

The FSB facilitated a meeting between the JSE, BESA, Strate and the South African Reserve Bank (SARB) to give the SROs an opportunity to gain an understanding of the introduction of Basel II and its potential effect on the trading activities of the authorised users. Although the SROs remain responsible for ensuring satisfactory capital adequacy regimes in the respective markets, the FSB is concerned about the apparent lack of awareness of regulatory changes that may be required as a result of the enhanced consolidated supervision that will be applied by the SARB in terms of Basel II.

To enable the FSB to fully consider the potential effect of Basel II on the capital markets, it has requested the JSE and BESA to undertake a self-assessment in the form of a gap analysis, using the amended Regulations relating to Banks (which follows Basel II) as a benchmark. This may result in the amendment of the capital adequacy requirements applicable to the authorised users of the exchanges.

Financial Markets Advisory Board

The Financial Markets Advisory Board (FMAB) met on 27 June 2007 and 26 September 2007. Topical issues discussed included:

- New securities and financial instruments to be launched by the exchanges, which may have policy implications
- The regulation of hedge funds and the Financial Centre for Africa initiative

- The regulatory concerns in respect of the securities clearing and settlement systems of South Africa
- The listing of currency futures on the JSE on 18 June 2007
- Introduction of a securities ownership register by Strate
- Calculation of black shareholding of South African listed companies
- European Union Markets in Financial Instruments Directive
- Trading costs compared with other foreign exchanges
- BESA's feasibility study on a clearing and settlement solution for derivatives and SAFCOM's offer to BESA
- Strate's project on the failure of a central securities depository participant
- Proposed amendments to the Financial Intelligence Centre Act
- The JSE's project on the shortening of the settlement cycle for equities.

The subcommittee appointed by the FMAB to consider the proposed listing of currency futures on the JSE, met on 22 May 2007. Members were satisfied with the contract specifications and recommended the listing of these futures.

Legislative developments

Securities Services Act, 2004

The SSA, which consolidates the Stock Exchanges Control Act, 1985, Financial Markets Control Act, 1989, Custody and Administration of Securities Act, 1992, and the Insider Trading Act, 1998, as well as the relevant subordinate legislation, came into effect on 1 February 2005.

Self-assessment in terms of the International Organisation of Securities Commissions' benchmarks
The department reviewed and updated, where necessary, the self-assessment of the securities regulation in terms of the 30 principles as adopted by the International Organisation of Securities Commissions (IOSCO) by applying the benchmark methodology of IOSCO.

International cooperation

Memoranda of Understanding

Apart from being a signatory to the IOSCO and the Southern African Development Community (SADC) multilateral memoranda of understanding (MoUs), the FSB has concluded bilateral MoUs with 45 jurisdictions. The MoUs are aimed at facilitating and improving the exchange of information and cooperation on enforcement among securities regulators.

FSB Securities Familiarisation Programme

The department will host a Securities Familiarisation Programme (SFP) from 25 to 29 August 2008. The aim of the SFP is to exchange views on the regulatory regimes in different countries, and to give delegates an opportunity to meet representatives of, among others, the JSE, BESA, Strate and the Collective Investment Schemes industry.

Visit by students who participated in the Capital Markets University Challenge in Uganda – 19 to 21 November 2007

As part of their investor protection mandate, the Capital Markets Authority (CMA) Uganda approached the FSB to assist in enabling them to successfully implement their Capital Markets University Challenge.

The University Challenge aims at equipping students from various universities in Uganda with knowledge and skills required to invest in capital markets. Its primary focus is on testing the participants' understanding of capital markets and financial issues, as well as their analytical and communication skills. The objective is to create awareness not only among participating students, but also their parents and the public.

The Challenge comprised an essay competition and students were required to form and sustain investment clubs. During the period 19 to 21 November 2007, the best three students were awarded a three-day visit to the FSB, which included visits to the JSE, a broker and a collective investment schemes operator. The students were accompanied by a CMA official.

The department facilitated contact with the various market players and provided logistical support for the duration of the visit.

Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA)

CISNA meetings

CISNA met on 9 to 11 May 2007 in Namibia and on 30 October to 2 November 2007 in Tanzania. The topics that were discussed included the following:

- Market developments within CISNA member countries
- Harmonisation of members' financial regimes
- Assessment of members' regulatory frameworks in terms of the IOSCO benchmark methodology.

CISNA project - Harmonisation of financial regimes
CISNA has established a Market Development Subcommittee (MDS). The objective of the MDS is to address the barriers to the development of the capital markets in the SADC region through harmonising or standardising the procedures and regulatory requirements, thereby eliminating any regulatory arbitrage. The MDS will initially focus on the drafting of minimum requirements for licensing of market operators, investment managers and collective investment schemes, the approval of prospectuses and the harmonisation of the listing requirements, and will identify the obstacles/legislative restrictions in respect of the aforementioned.

The MDS met in South Africa on 19 July 2007 and again on 29 October 2007 as part of the CISNA meeting in Arusha, Tanzania from 29 October to 2 November 2007. The MDS also met on 13 March 2008 in South Africa to discuss its work programme. Good progress has been made.

CISNA website
The FSB has successfully developed a CISNA website, which has been accessible to CISNA members since 15 October 2007. The FSB covered 50% of the development cost and the rest of the CISNA members the balance. All members contribute to the annual maintenance costs.

IOSCO meetings
IOSCO's objectives include cooperation in promoting high standards of regulation in order to maintain just, efficient and sound markets. Member countries exchange information to promote the development of domestic markets and unite their efforts for the effective surveillance of market transactions and enforcement against offences.

The FSB attends all Executive Committee and President's Committee meetings of IOSCO and attends the IOSCO Technical Committee Annual Conference.

As a member of the IOSCO Emerging Markets Committee and Africa Middle/East Regional Committee, FSB representatives attended and actively participated in these meetings.

The FSB also participates in specialist committees, namely:

IOSCO Implementation Task Force

One of the IOSCO Implementation Task Force's (ITF) primary tasks will be to help promote the implementation of the IOSCO principles by all its members. The ITF has created a number of small working groups to advance work on, among others, the following projects:

- The promotion of the IOSCO Principles through IOSCO's regional committees
- Updating the IOSCO Principles and Methodology
- Holding workshops for assessors with the aim of developing a pool of assessors from emerging markets who can assist in assessments of jurisdictions.

IOSCO Standing Committee 4 (SC4) and Screening Group

As a member of IOSCO's Verification Team 4 and Screening Group, the FSB is responsible for leading allotted applications submitted by prospective signatories to the IOSCO Multilateral MoU. SC4, a working committee of the IOSCO Technical Committee, focuses on enforcement and the exchange of information between securities regulators.

The FSB successfully hosted these meetings in Cape Town from 2 to 4 October 2007.

Participation in IOSCO research projects

During the reporting period, the FSB participated and completed questionnaires on the following research topics:

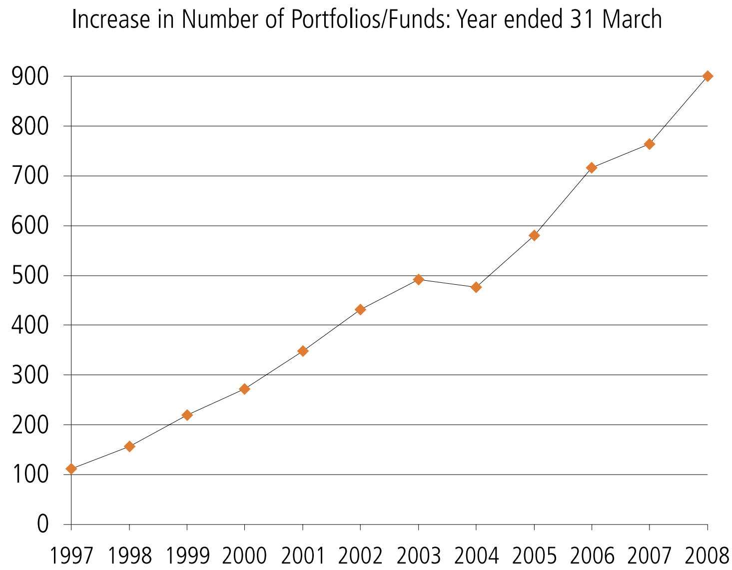
- Capital Market Authority of Oman Project on Development of Domestic Bond Markets in AMERC's Member Countries
- Working Group 4 of the IOSCO Emerging Markets Committee on the consultation and exchange of information under the fit and proper assessments.

Introduction

The Financial Services Board, through the Collective Investment Schemes department, supervises collective investment schemes (CIS) in securities (including fund of funds and feeder funds structures), in property and in participation bonds in terms of the Collective Investment Schemes Control Act, 2002 (CISCA). The department also approves foreign collective investment schemes to market their products in South Africa.

Industry overview

South African collective investment schemes in securities



There was a net increase of 134 portfolios during the year, which is slightly higher than that experienced during the previous year (121). At 31 March 2008, there were 41 managers with 899 approved portfolios reflecting the depth of portfolios on offer to local investors.

The industry attracted positive inflows in spite of volatile markets. Considering the outflows experienced in other global industries, the net inflows of R63 billion recorded for the year ended March 2008 indicate a commendable performance by the industry. Total assets under management at the end of the year stood at R659 billion, compared to R596 billion as at March 2007. In general, the industry produced excellent returns.

Foreign collective investment schemes in securities

The total net investment for the offshore collective investment products saw net outflows of R1,2 billion at year-end. Retail funds continued to attract investors with net inflows of R459m in the March quarter, on top of the R803m in the previous quarter, while the institutional funds had a net outflow of just over R1 billion during the March quarter. The total assets under management reached R117,9 billion at the end of March 2008. This represents a 12,2% increase compared to the 49% increase recorded during the previous year.

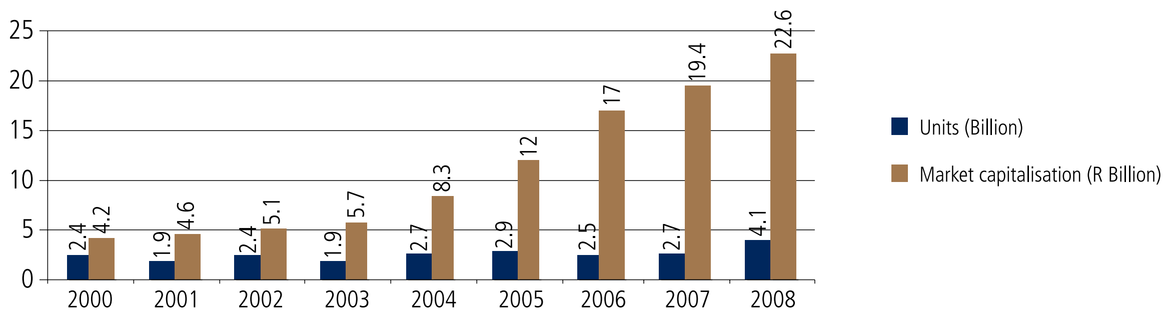
There has not been any significant change in the movement in respect of foreign operators in the South African markets as evidenced by the net decrease of five schemes and an addition of one portfolio during the year. At year-end the department licensed 67 schemes to market 383 portfolios in South Africa.

Collective investment schemes in property

The higher than expected inflation had a mixed impact in the listed property sector. The increases in interest rates and the expectation of further increases have resulted in a significant drop in prices of participatory interests. Although there was a general decline in the markets during the year, the total market capitalisation of the industry increased by 16,5%. This increase may be partly attributed to an increase in the number of participatory interests.

At 31 March there were 4,180 billion participatory interests in issue with a market capitalisation of R22,6 billion, compared to 2,614 billion participatory interests with a market capitalisation of R19,4 billion at the end of March 2007.

Market Capitalisation of Participatory Interest and Participatory Interest in Issue: Year Ended 31 March



Collective investment schemes in participation bonds

A steady decline of investment continued in this industry. At 31 March 2008 the total investment stood at R3 billion owing to 26 820 participants in five of the seven schemes in operation during the year. Two schemes are winding up their operations and consequently have no investments.

Regulatory developments

Hedge funds

Discussions are continuing, albeit at a slow pace, between the department and representatives of National Treasury to seek a solution to the tax issue affecting the regulation of hedge funds.

UCITS III

The Registrar's exemption to foreign collective investment schemes under Board Notice 46 of 2007 expired on 31 August 2007.

Following the expiry, the Registrar issued a circular, CISCA Circular No. 6 on 30 August 2007, which sets out the following Registrar's measures following the expiry of the general exemption:-

The circular made provision for the continued registration of Foreign Collective Investment Schemes (FCIS), subject to compliance with clearly defined requirements and conditions. In addition, the circular sets out the requirements for the processing of new applications for registration of new FCIS.

Regarding local schemes, representatives of the department and the Association of Collective Investments (ACI) are drafting proposed Conditions, which intend to introduce an acceptable dispensation. The premise for this dispensation is the maintenance of the parity principle between the local industry and the FCIS, particularly regarding the use of extended investment powers as envisaged in the UCITS III directives.

Real Estate Investment Trusts ("REITs")

The FSB consulted with National Treasury on the potential outcomes of any application of the REITs structure in South Africa as this is likely to have an effect on either the CISCA or subordinate legislation if the REITs structure is to be housed under CISCA.

Subsequently National Treasury circulated a discussion paper titled 'Reforming the Listed Property Investment Sector in South Africa' on 3 December 2007. Comments on the paper had to be submitted to National Treasury by 31 January 2008.

Supervisory developments

Reviews

The department and the Financial Intelligence Centre (FIC) will devise a plan to incorporate the FIC's requirements and involvement in on-site visits. The aim of this exercise is to further the FIC's plans to prepare for the 2008 Financial Action Task Force (FATF) assessment of South Africa. Members of the department's supervision team and representatives of the FIC completed on-site reviews of 24 selected CIS managers during the review period.

Risk-based Supervision

The implementation of the risk-based supervision approach is underway, with managers being allocated risk ratings based on a risk assessment carried out during the previous year's reviews.

Fedbond Participation Mortgage Bond Scheme

The Registrar abandoned the Supreme Court of Appeal (SCA) appeal, set down for hearing on 16 August 2007, against the 2005 ruling in favour of Fedbond. The appeal was abandoned as information concerning the events at Fedbond during 2006 and 2007 was not sufficient to warrant an application to the SCA to order a curatorship.

Fedbond agreed to the appointment of Mr AMJ Pinnock as an independent director of the boards of Fedbond Participation Mortgage Managers (Pty) Ltd and Fedbond Nominees (Pty) Ltd. He submitted quarterly reports on a number of issues, including the steps taken by Fedbond to end it's ownership of properties as well as compliance of the scheme with CISCA and Participation Bond Rules.

Following an evaluation of the information and interaction with Fedbond, a decision was taken to lift the embargo placed on Fedbond regarding the taking of new investor funds. The FSB's Licensing Committee endorsed the Registrar's recommendation. The decision to lift the embargo was influenced by various considerations, which included interaction between the management of Fedbond and the Registrar's Office, the report provided by Mr AMJ Pinnock on 16 August 2007, and his subsequent appointment to the boards of the Manager and Fedbond Nominees (Pty) Ltd as an independent director.

As a condition for lifting the embargo, Fedbond is required to regularise its affairs by, *inter alia*, ensuring that:

- All new participation mortgage bonds registered over properties of mortgagors comply with the financial soundness requirements and gearing ratios stipulated in CISCA and the Rules;
- The Manager takes steps to ensure the financial soundness of new borrowers, particularly that they will be able to repay interest and capital in terms of the mortgage bonds;
- A report is provided to the Registrar on the identity of all new borrowers and particularly whether or not they are related;
- The Registrar receives a report on the valuation undertaken in respect of each new property over which a participation mortgage bond will be registered, including the date of valuation and the identity of the valuator; and
- The Registrar receives a report on the default by any mortgagor to make payment in terms of the provisions of any existing or new participation mortgage bond.

Revision of Participation Bond Rules

Due to conflicts in the rules, the FSB circulated a revised draft of the Participation Bond Rules issued under CISCA. Comments have been received from the Association of Participation Scheme Managers. The revised Rules will be submitted to the Collective Investment Schemes Advisory Committee for consideration.

Introduction

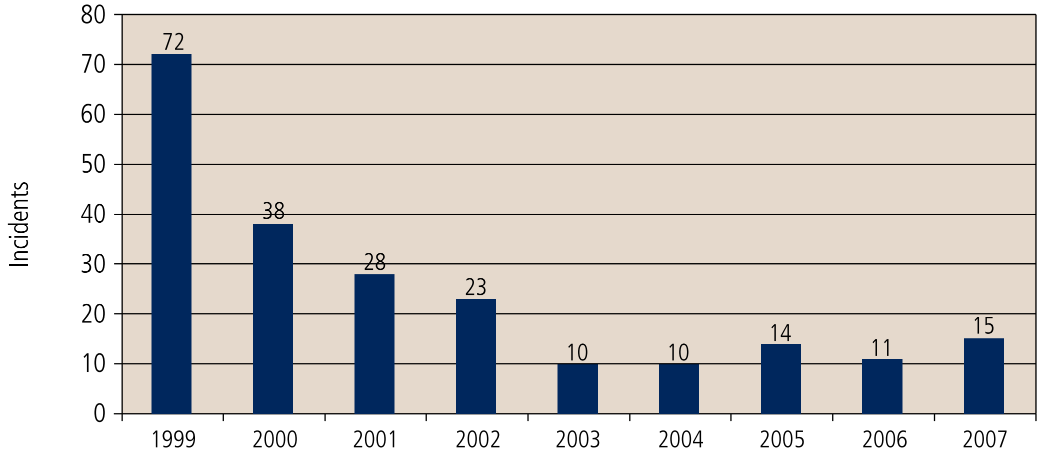
The Directorate of Market Abuse (DMA) is a committee of the Board and is responsible for combating market abuse. Three forms of market abuse are prohibited in terms of the Securities Services Act, 2004, namely: insider trading, prohibited trading practices (market manipulation) and the publication of false or misleading statements related to listed companies.

The DMA consists of representatives from the FSB, financial markets, legal and accounting professions, insurance industry, banking industry, Ministry of Finance, South African Reserve Bank, fund management industry and Shareholders' Association of South Africa.

Activities of the DMA

At the beginning of the review period, the DMA and its predecessor under the Insider Trading Act, 1999, had registered 206 market abuse cases which consisted mainly of insider trading allegations. During the year a further 15 cases were registered for investigation, bringing the total at the end of the year to 221. Eight of the new cases involve possible insider trading, four are investigations into market manipulation, and two are investigations into insider trading and false reporting.

The following graph sets out the reported incidents of alleged market abuse since the inception of the DMA and its predecessor. Until 2005 these incidents related only to insider trading.



During the year under review, the DMA held four meetings and considered 20 completed investigations. Ten of these investigations were closed owing to the fact that there was no evidence, or insufficient evidence of contravention of the Securities Services Act. Nine cases were referred to the Enforcement Committee, established in terms of the Act. One investigation was handed over to the prosecuting authorities for further investigation and possible criminal prosecution.

Enforcement action

In the past, the DMA used statutory civil action in insider trading cases to enforce the legislation. Although this course of action had been used very effectively by the DMA, it was a costly and cumbersome process. The Financial Markets Enforcement Committee of the FSB, established in 2005 to deal with market abuse expeditiously, has the advantage that not only insider trading cases, but market manipulation and the publication of false statements can be referred to the Committee. During the period under review, six cases were referred to the Enforcement Committee. In all these matters the Enforcement Committee concluded that the respondents had contravened the Securities Services Act. Five of these cases related to allegations of market manipulation and one related to insider trading. The penalties imposed ranged from R10 000 to R2 million.

At the beginning of the year one statutory civil insider trading case was still outstanding. This case related to an alleged contravention of the predecessor of the Securities Services Act, namely the Insider Trading Act, 1999. The investigation related to transactions in ITI Technology Holdings Limited. The civil case was eventually settled during 2007 on the basis that the defendants paid a penalty of R200 000 and the legal costs of the FSB.

Distribution of funds to claimants

During the period under review, the compensatory distribution of funds in the Cadbury Schweppes (Cadbury Schweppes (SA) Limited) case was completed. The Securities Services Act requires the FSB to distribute these funds to persons who may have been prejudiced as a result of insider trading. The distribution was made to Cadbury Schweppes shareholders who sold their Cadbury Schweppes shares between 5 October 2000 and 20 October 2000. An amount of R 2 909 898 was distributed to 71 claimants.

Outlook

The combination of a close working relationship with the surveillance team of the JSE, an experienced investigative team and an effective enforcement tool in the form of the Financial Markets Enforcement Committee, will continue to contribute substantially to the success of the DMA in combating market abuse.

The investigation case load of the DMA is under control, despite new cases of possible market abuse being registered regularly. The DMA is confident that it has sufficient resources to deal with the challenge.

The FSB is a juristic person established in terms of the Financial Services Board Act, 1990 (the FSB Act). The FSB Board regards corporate governance as vital to the wellbeing of the FSB as a regulator and, as such, takes full responsibility for its application within the FSB.

The FSB is committed to the highest level of corporate governance and is satisfied that it has complied with both the Public Finance Management Act, 1999 (PFMA), and the key provisions of the King II Report on Corporate Governance in South Africa – 2002 (King II) for the period under review. In keeping with its commitment to corporate governance, compliance with relevant statutory and governance provisions of the FSB's policies continued in the year under review as a priority to safeguard the interests of all stakeholders.

FSB Board Structure

The FSB Board governs the FSB in accordance with the provisions of the FSB Act, the PFMA and good corporate governance principles, and is ultimately accountable and responsible for the affairs and performance of the FSB.

Members of the FSB Board are appointed by the Minister of Finance with due regard to the interests of users and providers of financial services and the public. During the reporting period, the FSB Board comprised eight independent and non-executive members responsible for guiding the FSB in exercising its statutory mandate.

The FSB Board remains primarily responsible for setting strategy, overall policies and performance criteria. The Board generally exercises leadership, integrity and sound judgement in directing the FSB to ensure transparency, accountability and responsibility. The FSB Board is also the focal point of the corporate governance system within the FSB, with full and effective control over the FSB. Authority for the day-to-day management of FSB activities is delegated to the Executive Officer and the management team.

FSB BOARD MEMBERS' TENURE OF APPOINTMENT		
NAME	TENURE OF APPOINTMENT	CAPACITY
Dr CDR Rustomjee	01/01/2007 to 31/12/2009	Chairperson
Mr AM Sithole	01/01/2005 to 31/12/2007*	Deputy Chairperson
Mr BM Hawksworth	01/012006 to 31/12/2007*	Board Member
Ms JV Mogadime	01/01/2007 to 31/12/2009	Board Member
Ms LM Mojela	01/01/2005 to 31/12/2007*	Board Member
Ms AMM Mokgabudi	01/01/2006 to 31/12/2008	Board Member
Prof. PJ Sutherland	01/01/2006 to 31/12/2008	Board Member
Ms HS Wilton	01/01/2006 to 31/12/2008	Board Member

* In terms of the FSB Act, these members will continue to serve on the FSB Board and its committees until official confirmation of their reappointment or until 30 June 2008.

For effective control, the information needs of the FSB Board are continually assessed. Management reporting is constantly modified to keep pace with changing legislative and other FSB Board requirements. The FSB Board has unrestricted access to all organisational information, records, documents and other property that it may require to effectively carry out its duties.

Management performance is monitored through effective and regular reporting against FSB Board agreed strategies and budgets. An induction programme is also in place to orientate new FSB Board members. FSB Board members are entitled to obtain independent expert advice on FSB related matters at the FSB's expense.

The FSB Board meets at least four times a year. A record of attendance by each member during the review period is reflected in table A below.

FSB BOARD MEMBERS AND MEETING ATTENDANCE					
Name of member	28/05/2007	29/ 06/2007	28/09/2007	07/12/2007	31/03/2008
Dr CDR Rustomjee (Chairperson)	✓	✓	A	✓	✓
Mr AM Sithole	✓	✓	✓	✓	✓
Mr BM Hawksworth	✓	✓	✓	✓	✓
Ms JV Mogadime	A	A	✓	✓	✓
Ms LM Mojela	A	✓	✓	A	A
Ms AMM Mokgabudi	A	✓	A	✓	A
Prof. PJ Sutherland	✓	A	✓	✓	A
Ms HS Wilton	✓	✓	✓	✓	✓

✓ - Denotes attendance   A - Denotes apology

Chairperson and Executive Officer

The roles and responsibilities of the Chairperson of the Board and the Executive Officer remain separate and distinct. The Chairperson of the Board is an independent non-executive Board member entrusted with the leadership of the FSB Board.

The Executive Officer performs the functions entrusted to this office in terms of the FSB Act and other applicable legislation. The Executive Committee (EXCO) assists the Executive Officer with the overall day-to-day management and direction of the business of the FSB and acts as a medium of communication and co-ordination between the business units and the Board. In terms of the provisions of the FSB Act, between meetings of the Board, EXCO performs the functions of the Board in accordance with its policy and instruction.

EXCO comprises the Executive Officer, four Deputy Executive Officers, the Chief Actuary and the Chief Financial Officer. In terms of the provisions of the FSB Act, the Executive Officer is not a member of the Board.

Board Secretariat

The Board Secretariat is responsible for ensuring that the FSB complies with relevant statutory and governance provisions, proper administration of Board proceedings, the provision of guidance to Board members on their fiduciary responsibilities, and the provision of administrative, secretarial and corporate governance services.

The Board Secretariat attends and records proceedings at meetings of the Board, its committees and EXCO.

Board Committees

The FSB Board retains effective control over FSB operations through a well-developed governance structure comprising various committees to which certain functions have been delegated. Each committee has its own terms of reference and role as approved by the FSB Board. The committees regularly report to the FSB Board in terms of their mandates and terms of reference. The terms of reference of all Board committees are subject to annual review in line with corporate governance best practice. The function and structure of the committees for the year under review are described below.

Audit and Risk Management Committee

The objective of the committee is to assist the FSB Board with its responsibility of safeguarding assets, operating adequate systems of internal control, assessing the going concern status of the FSB, reviewing the financial information and preparing the annual financial statements.

The committee is also responsible for risk management. The committee, with the assistance of management, identifies significant risks affecting the FSB and advises the FSB Board accordingly. The committee ensures that identified risks are monitored and appropriate measures are devised and implemented to manage such risks.

The committee meets at least four times a year. These meetings are also attended by the executive management, internal auditors and external auditors. At least once a year the committee also meets separately with each of these groups that is, the executive management, internal auditors and external auditors. The names of the members of the committee and a record of their attendance of meetings during the year are reflected in table B below.

AUDIT AND RISK MANAGEMENT COMMITTEE MEMBERS AND MEETING ATTENDANCE					
Name of member	18/05/2007	18/06/2007	14/09/2007	16/11/2007	20/03/2008
Mr BM Hawksworth (Chairperson)	✓	✓	✓	✓	✓
Ms JV Mogadime	✓	✓	✓	✓	✓
Ms AMM Mokgabudi	A	✓	✓	✓	✓
Prof. PJ Sutherland	✓	✓	✓	✓	✓
Ms HS Wilton	A	✓	✓	A	✓

✓ - Denotes attendance   A - Denotes apology

Human Resources Committee

This committee is constituted to assist the Board in formulating and implementing the FSB human resources strategy and policies. Members of the Executive Committee and the Head: Human Resources attend committee meetings as invitees. The names of the members of the committee and a record of their attendance of meetings during the year are reflected in table C below.

HUMAN RESOURCES COMMITTEE MEMBERS AND MEETING ATTENDANCE				
Name of member	15/06/2007	17/09/2007	14/11/2007	19/13/2008
Mr AM Sithole (Chairperson)	✓	✓	✓	✓
Ms JV Mogadime	✓	✓	✓	✓
Ms HS Wilton	✓	✓	✓	✓

✓ - Denotes attendance

Remuneration Committee

This committee assists the Board in formulating and implementing the FSB remuneration strategy and policies. Its role is to ensure that FSB staff members are appropriately rewarded in a manner that will ensure the recruitment, retention and motivation of people with the skills required by the organisation. The Executive Officer and the Head: Human Resources are invitees to committee meetings. Table D below contains a list of the names of members and a record of their attendance of meetings during the year.

REMUNERATION COMMITTEE MEMBERS AND MEETING ATTENDANCE				
Name of member	15/06/2007	17/09/2007	14/11/2007	19/13/2008
Mr AM Sithole (Chairperson)	✓	✓	✓	✓
Ms JV Mogadime	✓	✓	✓	✓
Ms HS Wilton	✓	✓	✓	✓

✓ - Denotes attendance

Licensing Committee

The objective of this committee is to supervise the Executive Officer acting as Registrar under legislation administered by the FSB. The role of the committee is to make recommendations to the Registrar for the approval or rejection of license applications, as well as withdrawals thereof.

The members of the committee are independent industry experts from diverse backgrounds with specific skills required by the committee. Members of the executive management attend committee meetings to present licensing applications and recommendations. The committee has eight members, of which two are Board members.

Table E below contains a list of members and a record of their attendance of meetings during the year.

LICENSING COMMITTEE MEMBERS AND MEETING ATTENDANCE											
Name of member	10/04/07	08/05/07	12/06/07	10/07/07	14/08/07	11/09/07	16/10/07	13/11/07	11/12/07	12/02/08	11/03/08
Ms LM Mojela (Chairperson)	✓	A	A	A	A	A	✓	✓	A	A	✓
Mr BM Hawksworth	✓	✓	✓	✓	✓	✓	✓	✓	A	✓	✓
Mr M R Johnston	✓	✓	✓	A	A	A	✓	✓	✓	✓	✓
Ms V F Mahlati	A	✓	A	A	#	#	#	#	#	#	#
Mr S Moraba	✓	✓	A	✓	✓	✓	✓	✓	✓	✓	✓
Ms S S Mphahlele	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	✓	✓
Mr E T Thipa	✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
Adv. N Tshombe	✓	A	✓	✓	✓	✓	A	✓	✓	✓	A
Dr M Vermaas	✓	✓	✓	A	✓	✓	✓	✓	✓	✓	✓

✓ - Denotes attendance A - Denotes apology # - Denotes resignation during the year n/a - Denotes not yet appointed

Litigation Committee

The function of this committee is to oversee the initiation, opposition, settling or withdrawal of legal action by and/or against the FSB. The members of the committee are non-executive and independent and include industry experts from diverse backgrounds with specific skills required by the committee. Table F below contains the names of members and a record of their attendance of meetings during the year.

LITIGATION COMMITTEE MEMBERS AND MEETING ATTENDANCE				
Name of member	11/06/2007	07/09/2007	09/11/2007	14/03/2008
Prof. PJ Sutherland (Chairperson)	✓	✓	✓	✓
Ms LM Mojela	✓	A	A	✓
Ms P Kingston	A	A	✓	A
Prof. A Loubser	A	✓	✓	✓
Mr M Mofomme	A	✓	✓	✓
Mr AMJ Pinnock	✓	✓	✓	✓
Mr T Wixley	✓	#	#	#

✓ - Denotes attendance   A - Denotes apology   # - Denotes resignation during the year

Legislative Committee

The function of this committee is to scrutinise proposed new legislation or amendments to existing legislation relating to the supervisory functions of the FSB. The committee also issues comments on draft legislation. The members of the committee are industry experts with diverse backgrounds and specific skills required by the committee. Table G below contains a list of members and a record of their attendance of meetings during the year.

LEGISLATIVE COMMITTEE MEMBERS AND MEETING ATTENDANCE		
Name of member	09/11/2007	14/03/2008
Ms HS Wilton (Chairperson)	✓	✓
Prof. PJ Sutherland	✓	✓
Dr HB Falkena	✓	✓
Ms J Ferreira	✓	✓
Mr M Katz	✓	A
Ms A Lee	A	A
Mr A Meyer	✓	✓
Ms E Mphahlele	A	✓

✓ - Denotes attendance   A - Denotes apology

Pension Funds Adjudicator Committee

This committee assists the FSB Board in the management of the affairs of the Office of the Pension Funds Adjudicator. The members of the committee listed below are experts in the pension fund administration industry. Their attendance of meetings is indicated in table H below.

PENSION FUNDS ADJUDICATOR COMMITTEE MEMBERS AND MEETING ATTENDANCE				
Name of member	15/06/2007	17/09/2007	14/11/2007	19/03/2008
Mr AM Sithole (Chairperson)	✓	✓	✓	✓
Prof. PJ Sutherland	✓	✓	✓	✓
Ms K Biggs	✓	A	✓	✓
Ms AMM Mokgabudi	✓	A	✓	✓
Mr J Boyd	✓	✓	A	A
Mr MM du Toit	✓	✓	A	✓
Mr DP Tshidi	✓	✓	✓	A

✓ - Denotes attendance A - Denotes apology # - Denotes resigned during the year

FAIS Ombud Committee

The function of this committee is to assist the FSB with the management of the affairs of the Office of the FAIS Ombud and other functions in terms of Part 1 of Chapter VI of the Financial Advisory and Intermediary Services Act, 2002. The members of the committee listed below are industry experts with diverse backgrounds and specific skills required by the committee. Their attendance of meetings is indicated in Table I below.

FAIS OMBUD COMMITTEE MEMBERS AND MEETING ATTENDANCE						
Name of member	18/05/2007	18/06/2007	14/09/2008	16/11/2007	20/03/2008	28/03/2008
Mr BM Hawksworth (Chairperson)	✓	✓	✓	✓	✓	✓
Ms AMM Mokgabudi	A	A	✓	✓	✓	A
Mr GE Anderson	✓	✓	✓	✓	✓	✓
Ms P Matlala	✓	✓	✓	✓	A	✓
Ms T Matshazi	A	A	A	✓	A	A
Ms CWN Molope	✓	✓	✓	✓	✓	A
Mr B Naidoo	✓	✓	✓	✓	✓	✓
Ms D Napo	✓	A	A	A	A	A

✓ - Denotes attendance A - Denotes apology

Review of corporate governance systems

Consistent with prevailing governance trends, the annual review of the terms of reference for the FSB Board committees was undertaken to establish their continued relevance and effectiveness. The revised terms of reference clearly spell out the specific mandates, procedures and functions of the committees.

A register of the declaration of interests of FSB Board members as required in terms of the provisions of the PFMA and good governance is circulated at each Board meeting for perusal and signature. In the event of a perceived conflict of interests, it is procedure to note the interest identified and to recuse the member concerned during discussion of the matter.

Code of ethics and organisational integrity

The FSB has a code of ethics. The FSB Board believes that the ethical standards and criteria for compliance with these standards, as contained in King II, are being met in line with principles of corporate citizenship. The FSB Board acknowledges that all FSB decisions are based on the foundation of integrity.

Compliance management

A Compliance Committee, which is a Subcommittee of EXCO, is in place. The role of the Committee is to implement the compliance policy of the FSB and to encourage and promote a compliance culture in conformance with applicable legislation and governance codes of best practice. The Compliance Committee is also responsible for reviewing and recommending changes (if any) to the existing policies of the FSB annually. The Executive Officer chairs the Committee which comprises the Head: Legal, the Risk Officer, the Chief Financial Officer, the Head: Finance and the Quality Manager. The Committee meets at least three times a year.

The FSB is aware of the requirements of the Global Reporting Initiative (GRI), sustainability reporting guidelines and King II for institutions to report on their 'triple bottom line'.

Safety, health and the environment

The FSB has an effective health and safety programme in accordance with the requirements of the Occupational Health and Safety Act, 1993. A Health and Safety Committee is responsibility for ensuring that health and safety systems, as required by the relevant provisions of the Act, are in place. An external company regularly inspects the FSB premises to give independent assurance that these systems meet the set standards. The FSB is committed to ensuring that employees work in a safe, healthy and clean environment. The FSB's activities do not have an adverse effect on the environment.

Social responsibility

The FSB channels its social responsibility efforts through the Consumer Education Programme and the Contact Centre. The Consumer Education function is to promote programmes and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users and potential users of the financial products and services as required by the FSB Act. During the year under review, several projects were launched, in cooperation with industry bodies,. These projects are being funded from discretionary funds, which comprise fines and penalties levied by the FSB on non-compliant regulated entities.

Business continuity

The FSB has a business continuity plan in place. This plan includes a disaster recovery plan. Data recovery is the foundation of the business continuity plan and procedures are reviewed regularly to ensure relevance. Data recovery tests are regularly conducted.

Supply chain management

A supply chain management system for the acquisition of goods and services is in place. This system enables the FSB to effectively manage its procurement process and assets as required by the PFMA and Treasury Regulations. The supply chain management policy and systems are reviewed annually to ensure efficiency and relevance.

Resources

Due to the fact that the FSB is a professional body, human capital is a critical resource. To ensure effective management of its human capital, the FSB is committed to appropriate and fair principles of recruiting staff and creating appropriate training and career development opportunities for staff. Staff policies are revised and updated annually in consultation with staff to ensure that the rules and guidelines are practical and in line with FSB values.

Staff turnover at the FSB has increased in the past year, but is still within industry levels. Owing to the skills shortage facing the country as a whole and the increased competition with industry for scarce skills, the challenge for the FSB is to recruit and retain individuals with requisite qualifications.

The FSB is in the process of negotiating a new lease agreement with the Public Investment Corporation, which is currently building new offices to for the FSB. The offices are expected to be ready for occupation by mid 2009.

Going concern

The financial statements of the FSB were prepared on a going concern basis and the FSB Board is satisfied that the FSB is financially sound and has adequate resources to continue operating for the foreseeable future.

AUDIT AND RISK MANAGEMENT

Left to right:

Philip Sutherland
Member of Audit and Risk Management Committee

Jabu Mogadime
Member of Audit and Risk Management Committee

Hilary Wilton
Member of Audit and Risk Management Committee

Brian Hawksworth
Chairperson of the Audit and Risk Management Committee

The Audit and Risk Management Committee is a subcommittee of the Board of the Board of the Financial Services Board (FSB Board) and consists only of non-executive Board members. The committee's overall objective is to assist the FSB Board with its responsibility of ensuring that adequate systems and controls are in place, thus ensuring that the assets are safeguarded, assessing the going concern status, reviewing the financial information and preparing the annual financial statements.

The committee also assists the FSB Board in fulfilling its responsibility of risk management by ensuring that management identifies significant risks associated with the environment within which the FSB operates and develops a framework for managing these risks. The Risk Management Strategy, incorporating a Fraud Prevention Plan, which covers strategic, operational and financial risks, has been developed accordingly.

The committee meets at least three times a year. Members of the FSB Executive Committee, the Risk Officer, internal auditors and external auditors attend these meetings by invitation. Since this committee is an advisory committee, it does not perform any management functions or assume any management responsibilities. Its role is that of an independent and objective adviser and it operates as an overseer, making recommendations to the Board for final approval.

Internal Control Systems

The members of the Audit and Risk Management Committee are satisfied that the system of internal controls is adequately designed to cover organisational, financial and operating risks. The control system provides reasonable, but not absolute assurance that the entity's assets are safeguarded, transactions are authorised and recorded properly and that material errors and irregularities are either prevented or detected in time. These controls are monitored throughout the organisation by management and employees with the necessary delegation of authority and segregation of duties.

Based on the review of effectiveness and detailed reports provided by the internal auditors, the members of the Audit and Risk Management Committee are not aware of any significant weakness or deficiency in the organisation's system of internal controls.

Risk Management

A Risk Management Strategy, incorporating a Fraud Prevention Plan, is in place. Given the dynamic environment within which the FSB operates, the effectiveness and relevance of these plans are assessed on a regular basis. Risks identified as significant to the FSB are periodically evaluated and the risk management plan is reviewed accordingly. A business continuity plan, which includes a disaster recovery plan, has been implemented and is regularly tested.

Internal Auditing

The Audit and Risk Management Committee is also responsible for overseeing the internal audit function. The role of internal auditors is to provide support to management and the Audit and Risk Management Committee in discharging their responsibilities. The internal audit function provides independent and objective evaluation of the organisation's system of internal control and any significant business risks and exposures are brought to the attention of management and the committee. The internal audit function is outsourced to an independent firm for three years on an annually renewable contract.

Financial Statements

The members of the Audit and Risk Management Committee have reviewed and evaluated the financial statements of the FSB for the year ended 31 March 2008 and are satisfied that the statements comply with the requirements of the Public Finance Management Act No.1 of 1999, as amended, and the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent SA Statements of GAAP. The going concern principle was adopted in preparing the financial statements.

At its meeting held on 20 June 2008, the Committee recommended the financial statements to the FSB Board for approval.

B Hawksworth
Chairperson: Audit and Risk Management Committee

RJG Barrow
Executive Officer

ANNUAL FINANCIAL STATEMENTS

Left to right:

Nosipho Molope
Chief Financial Officer

Marlene du Plooy
Head:
Finance

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Report of the Auditor-General to Parliament

on the Financial Statements and Performance Information of the Financial Services Board for the year ended 31 March 2008

FSB - AFS

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Financial Services Board which comprise the balance sheet as at 31 March 2008, income statement, statement of changes in funds and reserves and cash flow statement for the year then ended, and the summary of significant accounting policies and other explanatory notes as set out on pages 98 to 125.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in the summary of significant accounting policies and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Financial Services Board Act, 1990 (Act No. 97 of 1990). This responsibility includes:

    - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
    - selecting and applying appropriate accounting policies
    - making accounting estimates that are reasonable in the circumstances.

Report of the Auditor-General to Parliament

on the Financial Statements and Performance Information of the Financial Services Board for the year ended 31 March 2008

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 17(4) of the Financial Services Board Act, 1990 (Act No. 97 of 1990), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
   - appropriateness of accounting policies used
   - reasonableness of accounting estimates made by management
   - overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in the summary of significant accounting policies.

Opinion

9. In my opinion the financial statements present fairly, in all material respects, the financial position of the Financial Services Board as at 31 March 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in the summary of significant accounting policies and in the manner required by the PFMA and the Financial Services Board Act, 1990 (Act No. 97 of 1990).

OTHER MATTERS

10. Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Matters of governance

11. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Report of the Auditor-General to Parliament

on the Financial Statements and Performance Information of the Financial Services Board for the year ended 31 March 2008

Matter of governance	Yes	No
Audit committee		
• The public entity had an audit committee in operation throughout the financial year.	Yes	
• The audit committee operates in accordance with approved, written terms of reference.	Yes	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10/27.1.8.	Yes	
Internal audit		
• The public entity had an internal audit function in operation throughout the financial year.	Yes	
• The internal audit function operates in terms of an approved internal audit plan.	Yes	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2.	Yes	
Other matters of governance		
The annual financial statements were submitted for audit as per the legislated deadlines (section 55 of the PFMA for public entities)	Yes	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	Yes	
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	Yes	
The prior year's external audit recommendations have been substantially implemented.	Yes	

Unaudited supplementary schedule

12. The other information set out on page 128 to 133 does not form part of the annual financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

13. I have reviewed the performance information as set out on pages 126 to 127.

Responsibility of the accounting authority for the performance information

14. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Responsibility of the Auditor-General

15. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

Report of the Auditor-General to Parliament

on the Financial Statements and Performance Information of the Financial Services Board for the year ended 31 March 2008

16. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

17. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

18. The assistance rendered by the staff of the Financial Services Board during the audit is sincerely appreciated.

Auditor-General.

Pretoria

23 July 2008

AUDITOR-GENERAL

Report by the Members of the Board

on the Financial Statements for the year ended 31 March 2008

The report is presented in terms of Treasury Regulation 28.1.1 of the Public Finance Management Act 1 of 1999 (PFMA), as amended, and is focused on the financial results and financial position of the Financial Services Board (FSB). Information pertaining to the FSB's state of affairs, its business operations and performance against predetermined objectives is disclosed elsewhere in the annual report. The prescribed disclosure of emoluments is reflected in notes 14 and 15 of the financial statements.

The Board acknowledges its responsibility for the preparation and integrity of the financial statements and related information included in the annual report. In order for the Board to discharge these responsibilities, as well as those bestowed on it in terms of the PFMA and other applicable legislation, it has developed and maintains a system of internal control.

Internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practice, as well as policies and procedures established by the Board and independent oversight by the Audit and Risk Management Committee.

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board believes that the FSB will be a going concern in the year ahead and has, for this reason, adopted the going concern basis in preparing the financial statements.

The financial statements for the year ended 31 March 2008, as set out on pages 98 to 125, were approved by the Board on 30 June 2008 and were signed on its behalf by:

CDR Rustomjee
Chairperson

RJG Barrow
Executive Officer

Balance Sheet

as at 31 March 2008

	Notes	2008 R	2007 R
Non-current assets		40 126 738	41 354 949
Property, plant and equipment	2	7 476 590	7 188 337
Intangible assets	3	1 575 014	2 105 062
Non-current investments	5	31 075 134	32 061 550
Current assets		175 130 417	139 185 667
Cash and cash equivalents	6	154 588 216	122 329 286
Accounts receivable	7	18 829 676	15 548 429
Prepayments		1 317 852	682 557
Inventories	8	394 673	625 395
Total assets		215 257 155	180 540 616
Reserves and liabilities			
Funds and reserves		170 969 946	141 228 065
Accumulated funds	10	124 926 370	93 145 752
Reserves	10	46 043 576	48 082 313
Non-current liabilities			
Post-retirement medical aid plan liability	11.2	15 568 146	15 465 658
Current liabilities		28 719 063	23 846 893
Accounts payable	9	18 000 998	13 092 185
Levies and fees received in advance		10 718 065	10 754 708
Total reserves and liabilities		215 257 155	180 540 616

Income Statement

for the year ended 31 March 2008

	Notes	2008 R	2007 R
Revenue		255 258 902	244 528 330
Levies	12	234 491 419	224 381 349
Fees and service charges		20 767 483	20 146 981
Other income	13	12 630 140	7 545 415
		267 889 042	252 073 745
Operating expenses		252 945 936	206 312 982
Advisory and other committee fees		3 783 393	2 550 554
Amortisation charge	3	942 978	123 369
Contribution towards funding of the Office of the FAIS Ombud		14 222 703	10 846 365
Contribution towards funding of the Office of the Pension Funds Adjudicator		19 646 554	14 834 727
Depreciation and useful life adjustment	2	4 312 767	2 657 281
Executive management remuneration	14	11 723 642	11 502 712
External audit fees		1 358 016	1 377 776
- Current year - interim fee		411 601	429 802
- Prior year fees		946 415	947 974
Internal audit fees		766 431	648 400
Legal fees		3 323 021	4 246 383
Loss on disposal of property, plant and equipment		176 444	266 079
Non-executive board members' fees	15	889 151	622 671
Operating lease rentals - buildings		12 457 987	10 577 183
Other operating expenses		34 701 648	27 816 370
Professional and consulting fees		3 394 477	1 876 728
Net provision for impairment of debtors	16	2 584 692	1 619 169
Salaries, staff benefits, training and other staff costs		138 662 032	114 747 215
Net operating surplus		14 943 106	45 760 763
Finance costs	17	(1 342)	(914)
Income from investments	18	20 211 026	12 752 242
Net surplus for the year		35 152 790	58 512 091

Statement of Changes in Funds and Reserves

for the year ended 31 March 2008

	Notes	Reserves				Accumulated Funds
		Fair value R	Contingency R	Discretionary R	Total R	R
Balance as at 31 March 2006		10 376 334	20 613 627	9 126 378	40 116 339	46 580 458
Prior year adjustment	20	-	-	-	-	(7 812 000)
Restated balance as at 31 March 2006		10 376 334	20 613 627	9 126 378	40 116 339	38 768 458
Restated movements for the year		3 831 177	3 839 206	295 591	7 965 974	54 377 294
Restated net surplus for the year	20					58 512 091
Transfer from accumulated funds to discretionary reserve	10			295 591	295 591	(295 591)
Transfer from accumulated funds to contingency reserve	10		3 839 206		3 839 206	(3 839 206)
Transfer to fair value reserve	10	3 831 177			3 831 177	
Restated balance as at 31 March 2007		14 207 511	24 452 833	9 421 969	48 082 313	93 145 752
Movements for the year		(5 410 909)	3 558 296	(186 124)	(2 038 737)	31 871 250
Net surplus for the year						35 152 790
Transfer from discretionary reserve to accumulated funds	10			(186 124)	(186 124)	186 124
Transfer from accumulated funds to contingency reserve	10		3 558 296		3 558 296	(3 558 296)
Transfer from fair value reserve	10	(5 410 909)			(5 410 909)	
Balance as at 31 March 2008		8 796 602	28 011 129	9 235 845	46 043 576	124 926 370

Cash Flow Statement

for the year ended 31 March 2008

	Notes	2008 R	2007 R
Net cash inflows from operating activities		37 196 486	64 417 459
Amounts received from regulated entities		264 211 000	255 483 509
Amounts paid to suppliers and employees		(242 891 273)	(201 739 070)
Cash generated by operations	19	21 319 727	53 744 439
Finance costs	17	(1 342)	(914)
Interest received	18	15 099 651	10 015 998
Dividends received	18	778 450	657 936
Net cash outflows from investing activities		(4 937 556)	(6 498 836)
Acquisition of property, plant and equipment	2	(4 788 245)	(3 923 515)
Acquisition of intangible assets	3	(414 020)	(1 523 032)
Proceeds on disposal of property, plant and equipment	2	29 856	28 342
Acquisition of non-current investments	5	(15 197 224)	(8 423 840)
Proceeds on realisation of non-current investments	5	15 329 589	7 805 928
Increase / (decrease) in post-retirement medical aid fund liability	11	102 488	(462 719)
Net increase in cash and cash equivalents		32 258 930	57 918 623
Cash and cash equivalents at beginning of the year		122 329 286	64 410 663
Cash and cash equivalents at the end of the year		154 588 216	122 329 286

Summary of Significant Accounting Policies

for the year ended 31 March 2008

The financial statements have been prepared on a historical basis, except for non-current investments which are stated at fair value, and incorporate the following principal accounting policies which have been consistently applied.

1 Basis of preparation

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP 1: Presentation of financial statements	AC 101: Presentation of financial statements
GRAP 2: Cash flow statements	AC 118: Cash flow statements
GRAP 3: Accounting policies, change in accounting estimates and errors	AC 103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following changes in the presentation of the financial statements:

(a) Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

(b) The cash flow statement can only be prepared in accordance with the direct method.

(c) Specific information has been presented separately on the statement of financial position such as:

- receivables from non-exchange transactions, including taxes and transfers;
- taxes and transfers payable; and
- trade and other payables from non-exchange transactions;

Summary of Significant Accounting Policies

for the year ended 31 March 2008

(d) Amount and nature of any restrictions on cash balances are required.
Paragraph 11 – 15 of GRAP 1 has not been implemented due to the fact that the local and international budget reporting standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

2 Interpretation early adopted

Interpretation of Statements of Generally Accepted Accounting Practice (IFRC) 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding and their Interaction, was adopted early by the FSB in 2008. IFRC 14 provides guidance on the following:

(a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19;
(b) how minimum funding requirements might affect the availability of reductions in future contributions; and
(c) when a minimum funding requirement might give rise to a liability.

This interpretation has resulted in a change in accounting policy as the FSB previously recognised surpluses accruing in the fund as an asset in its balance sheet.

3 Significant accounting judgements and estimates

The preparation of financial statements in conformity with GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Board's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are disclosed below.

Critical accounting estimates and assumptions

Depreciation

During each financial year, management reviews the assets within property, plant and equipment to assess whether the useful lives and residual values applicable to each asset are appropriate.

Impairment of debtors

The Board conducts annual tests to determine whether debtors have suffered any impairment, in accordance with the accounting policy stated in 6 below.

Post employment benefits

The cost of certain guaranteed minimum benefits in terms of defined contribution plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rate and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

4 Property, plant and equipment

Property, plant and equipment, comprising leasehold improvements, computer equipment, furniture, fittings and equipment as well as motor vehicles, is stated at cost less accumulated depreciation and any accumulated impairment losses.

Leasehold improvements are written off over the expected period of the relevant lease agreements. Paintings and sculptures are included in furniture, fittings and equipment at cost. All other items of property, plant and equipment are depreciated on a straight-line basis at rates which will reduce their book values to estimated residual values over their estimated useful lives.

The following depreciation rates per annum have been applied:

Computer equipment	33.33%
Furniture, fittings and equipment	10% to 20%
Motor vehicles	20%

Maintenance and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are charged against income.

5 Intangible assets

Costs associated with the acquisition of computer software are recognised as assets and are amortised over their estimated useful lives (not exceeding three years). Computer software licences and costs associated with the development or maintenance of computer software programs are recognised as an expense as incurred.

6 Impairment of non-financial assets

The carrying amounts of material assets of the Board are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any indication exists, the recoverable amount is estimated as the higher of net realisable value and value in use.

In assessing value in use, the expected future cash flows from the asset is discounted to its present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of the cash-generating unit exceeds the recoverable amount.

For an asset that does not generate cash inflows and is largely independent of those of other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment been recognised in prior years.

7 Financial assets

Financial assets are classified in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired and is determined at initial recognition.

Summary of Significant Accounting Policies

for the year ended 31 March 2008

Loans and receivables

Loans and receivables are non-derivatives with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the balance sheet date in which case they would be classified as non-current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that comprise non-current investments. These are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred or when substantially all risks and rewards of ownership have been transferred. They are subsequently carried at fair value.

When investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses. Interest on investments calculated using the effective interest method is recognised in the income statement as income from investments. Dividends received from non-current investments are recognised in the income statement as part of income from investments when the right to receive payments is established. The fair values of quoted investments are based on current market prices.

At each balance date an assessment is done on whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of non-current investments, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator that the investment is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

8 Inventories

Inventories comprise stationery and consumables and are carried at cost. The cost of the inventories comprises the cost of purchase and is determined on the weighted average method. Obsolete, redundant and slow-moving inventories are identified on a regular basis and are written down to their net realisable values.

9 Foreign currency transactions

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for credit losses. A provision for credit losses is established when there is objective evidence that not all amounts due will be collected according to original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or

Summary of Significant Accounting Policies

for the year ended 31 March 2008

delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced by the amount of the credit loss which is recognised in the income statement. When the trade receivable is uncollectable, it is written off and subsequent recoveries of amounts previously written off are credited in the income statement.

11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognised at cost, which equates to their fair value.

12 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

13 Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

Retirement benefits

The Board contributes to a pension fund and to an unfunded defined benefit post-retirement medical aid plan. The pension fund is a defined contribution plan with a defined benefit guarantee for employees who were members of the fund at 31 March 2000. Only pensioners and employees who were in service at 1 January 1998 are eligible for benefits under the post-retirement medical aid plan.

The projected unit credit method is used to determine the present value of the defined benefit obligations and the related current service cost and, where applicable, the past service cost. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that they are already vested, past service costs are recognised immediately.

Pension fund

Actuarial gains or losses in respect of the pension fund are recognised as income or an expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
- 10% of the fair value of any plan assets at that date.

The amount recognised is the excess determined above, divided by the expected average remaining working lives of the employees participating in that plan.

Summary of Significant Accounting Policies

for the year ended 31 March 2008

The retirement benefit obligation represents the present value of the defined benefit obligation adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets. Any asset resulting from this calculation cannot be recognised as such in the balance sheet as the employer does not have an unconditional right to any surplus (either by way of refunds or reduction in future contributions) that may accrue to the fund.

Contributions in terms of defined contribution plans are charged against income as incurred.

Post-retirement medical aid plan

Actuarial gains and losses in respect of the defined benefit post-retirement medical aid plan are recognised in full.

14 Revenue recognition

Revenue comprises levies raised, fees and service charges and inspection cost recoveries. Revenue is recognised when the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the Board and specific criteria have been met as described below.

Levies

All registered entities are required to pay annual levies to maintain their licences in terms of the Financial Services Board Act, 1990. Levies are raised in terms of the regulations published in the Government Gazette and are accounted for on an accrual basis.

Levy rebates

The FSB is funded through levies charged to industry and over-recovered levies in excess of the FSB's requirements are rebated back to the industry. Levy rebates passed on to industry in terms of regulations published in the Government Gazette are recognised as reduction in revenue.

Fees and service charges

Fees and service charges are raised in terms of the regulations published in the Government Gazette and are recognised according to the percentage of completion method.

15 Income from investments

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividends

Dividends are recognised when the right to receive payment is established, which is normally on the last day to register.

Surplus/loss on realisation of investments

The net surplus/loss on realisation of investments constitutes the difference between the consideration received and the carrying value of the investments at the date of realisation. In determining the carrying value of investments realised, the first-in-first-out method is applied.

Summary of Significant Accounting Policies

for the year ended 31 March 2008

16 Fines and penalties

Fines and penalties raised for late submission of returns are recognised on an accrual basis less impairment. The income from fines and penalties is credited to the income statement, but as this income is not considered to form part of the normal operating activities of the Board, it is transferred to the discretionary reserve (refer to notes 10.3 and 13).

17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease (refer to note 22.2).

18 Related parties

All transactions and balances with national departments of Government and state-controlled entities are regarded as related party transactions and are disclosed separately in the notes to the financial statements (refer note 25).

Notes to the Financial Statements

for the year ended 31 March 2008

1 Financial risk management

1.1 Financial risk factors

The Board is exposed to a variety of financial risks as a consequence of its operations, namely, market risk, credit risk and liquidity risk. The Board's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its performance. Financial risk management is carried out by the finance department under approved policies. The Board provides written principles for overall risk management as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Board does not operate internationally but is exposed to foreign currency risk arising from various currency exposures. Its exposure is limited to foreign membership and subscription fees, foreign travelling expenses as well as investments in off-shore collective investment schemes. The risk relating to off-shore collective investment schemes is managed by an investment manager in terms of their mandate. Accordingly, the Board's exposure to foreign currency risk is minimised.

At 31 March 2008, if the currency had weakened or strengthened by 10% against the US dollar with all other variables held constant, the surplus for the year would have been R1 065 (2007: R7 354) higher or lower on foreign exchange gains or losses on translation of US dollar-denominated transactions. The surplus for the year is less sensitive to movement in Rand/US dollar exchange rates in 2008 than in 2007 because of the lower value of US dollar-denominated transactions in 2008.

Reserves would have been R396 249 (2007: R345 348) higher or lower arising from unrealised foreign exchange gains or losses on translation of US dollar denominated off-shore investment schemes classified as available-for-sale. Reserves are more sensitive to movement in the Rand/US dollar exchange rate in 2008 than in 2007 because the 2008 consolidated portfolio has a higher price than the average price of the various US dollar denominated off-shore investment schemes which made up the portfolio in 2007.

At 31 March 2008, if the currency had weakened or strengthened by 10% against the UK pound with all other variables held constant, the surplus for the year would have been R51 332 (2007: R5 993) higher or lower on foreign exchange gains or losses on translation of UK pound-denominated transactions.

(ii) Price risk

The Board is exposed to equity securities price risk because of investments held by the Board, which are classified on the balance sheet as available-for-sale. These investments are managed by an investment manager in terms of an approved mandate The investment manager manages the price risk arising from investments in equity securities through diversification of the portfolio in accordance with the mandate that gives the manager full discretion.

The Board's investments in equity of other entities that are publicly traded are included in the All Share Index of the JSE Securities Exchange Limited (All Share Index). The table below summarises the impact of increases/ decreases of the All Share Index on the Board's surplus for the year and on reserves. The analysis is based on the assumption that the All Share Index had increased/decreased by 5% with all other variables held constant and all the Board's investments moved according to the historical correlation with the index:

	Impact on surplus for the year		Impact on reserves	
	2008 R	2007 R	2008 R	2007 R
All share index	-	-	1 254 193	1 305 240

Reserves would increase/decrease as a result of gains/losses on non-current investments classified as available-for-sale.

(iii) Cash flow and fair value interest rate risk

The Board has significant cash and cash equivalents and its income and operating cash flows are dependent on changes in market interest rates. This is managed in line with movements in money market rates. The Board does not have any interest bearing borrowings and therefore there is no adverse exposure relating to the interest rate movements.

(b) Credit risk

Financial assets that potentially subject the Board to concentrations of credit risk consist primarily of cash and cash equivalents as well as accounts receivable. Cash and cash equivalents in excess of the Board's immediate operational requirements are outsourced to a fund manager for investment in approved registered financial institutions, which investment mix is controlled by the Board. Credit risk with regard to accounts receivable is limited as the Board is a regulatory body and levies and other fees are charged in terms of legislation.

The table below shows the investment limit and balance of five major banks for cash and cash equivalents in excess of the Board's immediate requirements (i.e. call and fixed deposits excluding current account balances) at the balance sheet date:

	2008		2007	
	Investment Limit% of total funds	Balance R	Investment Limit % of total funds	Balance R
ABSA Limited	50%	25 230 280	50%	26 002 941
First National Bank Limited	50%	25 246 909	50%	26 133 100
Investec Bank Limited	50%	25 395 406	50%	17 025 107
Nedbank Limited	50%	35 250 948	50%	24 395 348
Standard Bank Limited	50%	36 306 451	50%	21 133 531
		147 429 994		114 690 027

No investment limits were exceeded during the reporting period and management does not expect any losses from non-performance by these banks.

Notes to the Financial Statements

for the year ended 31 March 2008

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient liquid resources and the ability to settle debts as they become due. In the case of the Board, liquid resources consist of mainly cash and cash equivalents. The Board maintains adequate resources by monitoring rolling cash flow forecasts of the cash and cash equivalents on the basis of expected cash flow.

Forecasted liquidity reserve as at 31 March 2008 is as follows:

	2008 R	For the period 2009-2012 R
Opening balance for the period	122 329 286	154 588 216
Operating proceeds	280 089 101	410 078 452
Operating cash outflows	(242 892 615)	(355 619 078)
Cash outflow for investments	(20 399 489)	(29 866 893)
Proceeds from sale of investments	15 461 933	22 637 816
Closing balance for the period	154 588 216	201 818 514

The table below analyses the Boards financial liabilities at the balance sheet date.

	Less than 1 year R	Between 1 and 2years R	Between 2 and 5 years R	Over 5 years R
Year ended 31 March 2008				
Accounts payable and levies and fees received in advance	28 719 063			
	28 719 063	-	-	-
Year ended 31 March 2007				
Accounts payable and levies and fees received in advance	23 846 893			
	23 846 893	-	-	-

1.2 Capital risk management

The Board's objectives when managing its funds and reserves are to safeguard the Board's ability to continue as a going concern. The Board maintains various funds and reserves which serve different purposes.

(a) Accumulated funds

Accumulated funds are used to fund short-term working capital requirements of the Board, capital expenditure, budgeted deficit (if any), as well as other unforeseen short-term requirements. Accumulated funds are maintained at approximately 4 to 6 months' operational expenditure.

Notes to the Financial Statements

for the year ended 31 March 2008

(b) Contingency reserve

The contingency reserve is maintained to fund the Board's long-term capital requirements and to protect the Board's operating capacity against the effects of inflation and unforeseen events. The reserve is maintained at a maximum of 10% of the annual levy and fee income.

(c) Discretionary reserve

The discretionary reserve is used primarily to fund consumer education related expenses including the operation of the call centre. Fines and penalties recognised as income in the income statement are transferred to a discretionary reserve. In addition, any unclaimed monies from the Directorate of Market Abuse Trust account are also transferred to the discretionary reserve after prescription.

(d) Fair value reserve

Cumulative changes in fair value of non-current investments are recognised in the fair value reserve until such time that the investment is derecognised or impaired in which case the cumulative gains or losses are transferred to profit or loss.

1.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Board is the current bid price. The carrying value less impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Board for similar financial instruments.

Notes to the Financial Statements

for the year ended 31 March 2008

2 Property, plant and equipment

	Leasehold improvements	Computer equipment	Furniture, fittings and equipment	Motor vehicles	Total
	R	R	R	R	R
Year ended 31 March 2008					
Cost	3 185 696	10 648 904	4 835 767	301 351	18 971 718
Accumulated depreciation	(2 248 262)	(6 485 949)	(2 598 382)	(162 534)	(11 495 128)
Net carrying amount	937 434	4 162 954	2 237 385	138 817	7 476 590
Movement for the year					
Opening balance	1 169 982	3 997 763	1 856 994	163 597	7 188 337
Additions	663 751	2 649 380	1 475 114	-	4 788 245
Depreciation	(1 077 095)	(2 778 610)	(617 730)	(33 167)	(4 506 602)
Useful life adjustment	205 854	329 748	(350 155)	8 387	193 834
Disposals	(25 058)	(35 329)	(126 838)	-	(187 225)
Closing balance	937 434	4 162 954	2 237 385	138 817	7 476 590
Year ended 31 March 2007					
Cost	2 651 821	9 086 506	4 201 824	301 352	16 241 503
Accumulated depreciation	(1 481 839)	(5 088 743)	(2 344 830)	(137 754)	(9 053 166)
Net carrying amount	1 169 982	3 997 763	1 856 994	163 598	7 188 337
Movement for the year					
Opening balance	1 473 940	2 543 276	1 826 348	216 680	6 060 244
Additions	347 096	3 107 775	468 644	-	3 923 515
Depreciation	(1 137 620)	(2 397 117)	(596 899)	(28 689)	(4 160 325)
Useful life adjustment	487 838	839 842	199 757	(24 393)	1 503 044
Disposals	(1 272)	(96 013)	(40 856)	-	(138 141)
Closing balance	1 169 982	3 997 763	1 856 994	163 598	7 188 337

3 Intangible assets

	2008	2007
	R	R
Computer software		
Cost	3 942 678	3 534 379
Accumulated amortisation	(2 367 664)	(1 429 317)
Net carrying amount	1 575 014	2 105 062
Movement for the year		
Opening balance	2 105 062	843 312
Additions	414 020	1 523 032
Amortisation charge	(1 015 145)	(550 752)
Useful life adjustment	72 167	427 383
Disposals	(1 090)	(137 913)
Closing balance	1 575 014	2 105 062

Notes to the Financial Statements

for the year ended 31 March 2008

4 Financial instruments

4.1 Recognised in the balance sheet

Year ended 31 March 2008

	Available for sale R	Loans and receivables R	Total R
Assets			
Non-current investments	31 075 134	-	31 075 134
Accounts receivable	-	18 829 676	18 829 676
Prepayments	-	1 317 852	1 317 852
Cash and cash equivalents	-	154 588 216	154 588 216
	31 075 134	174 735 744	205 810 878

	Liabilities at fair value through profit and loss R	Other financial liabilities R	Total R
Liabilities			
Accounts payable	-	18 000 998	18 000 998
Levies and fees received in advance	-	10 718 065	10 718 065
	-	28 719 063	28 719 063

Year ended 31 March 2007

	Available for sale R	Loans and receivables R	Total R
Assets			
Non-current investments	32 061 550	-	32 061 550
Accounts receivable	-	15 548 429	15 548 429
Prepayments	-	682 557	682 557
Cash and cash equivalents	-	122 329 286	122 329 286
	32 061 550	138 560 272	170 621 822

	Liabilities at fair value through profit and loss R	Other financial liabilities R	Total R
Liabilities			
Accounts payable	-	13 092 185	13 092 185
Levies and fees received in advance	-	10 754 708	10 754 708
	-	23 846 893	23 846 893

Notes to the Financial Statements

for the year ended 31 March 2008

4 Financial instruments (continued)

4.2 Credit quality of financial assets

	2008 R	2007 R
Trade receivables		
Counterparties without external credit rating		
Group 1	4 702 377	3 897 492
Group 2	6 904 669	3 991 030
Group 3	6 877 990	6 205 325
Total trade receivables	18 485 036	14 093 848
Cash at bank and short term deposits		
A1 banks	154 588 216	122 329 286

Group 1 - existing debtors oustanding for less than 90 days and with no defaults

Group 2 - new debtors outstanding for more than 90 days and with no defaults

Group 3 - existing debtors outstanding for more than 90 days and with some defaults. R5 452 363 of these debtors have been handed over for collection and a provision of R6 877 990 (2007: R6 205 325) has been raised to cover amounts owing by these debtors.

5 Non-current investments

	Shares R	Gilts and bonds R	Off-shore collective investment schemes R	Total R
Year ended 31 March 2008				
Listed investments	25 083 854	2 028 790	3 962 490	31 075 134
Movement for the year				
Opening balance	26 104 798	2 502 371	3 454 381	32 061 550
Acquisitions	10 614 747	731 668	3 850 809	15 197 224
Disposals	(10 740 571)	(755 166)	(3 833 852)	(15 329 589)
Fair value adjustment	67 202	(426 237)	111 681	(247 354)
Net gains/(losses) transferred to equity	(962 322)	(23 846)	379 471	(606 697)
Closing balance	25 083 854	2 028 790	3 962 490	31 075 134
Year ended 31 March 2007				
Listed investments	26 104 798	2 502 371	3 454 381	32 061 550
Movement for the year				
Opening balance	20 624 427	2 163 700	2 537 604	25 325 731
Acquisitions	5 788 216	2 635 624	-	8 423 840
Disposals	(5 673 536)	(2 132 392)	-	(7 805 928)
Fair value adjustment	4 867 488	(133 253)	916 777	5 651 012
Net gains/(losses) transferred to equity	498 203	(31 308)	-	466 895
Closing balance	26 104 798	2 502 371	3 454 381	32 061 550

The above investments have been set aside to fund the post-retirement medical aid plan (refer to Note 11.2).

Notes to the Financial Statements

for the year ended 31 March 2008

6 Cash and cash equivalents

	2008 R	2007 R
Call and notice deposits maturing within three months of date of acquisition	147 429 994	114 690 026
Cash at bank and on hand	7 158 222	7 639 260
	154 588 216	122 329 286

The investment of funds in excess of immediate requirements is outsourced to an investment manager.

Included in cash on call above is an amount of R1 623 898 (2007: R483 072) which has been earmarked to fund the post-retirement medical aid plan (refer to Note 11.2).

7 Accounts receivable

	2008 R	2007 R
Trade receivables	18 485 036	14 093 848
Less: Provision for credit losses	(6 877 990)	(6 205 325)
Net trade recievables	11 607 046	7 888 523
Study assistance	1 214 821	916 741
Recoverable legal fees	3 259 418	1 971 377
Interest receivable	1 437 848	1 618 643
Other accounts receivable	1 310 543	3 153 145
	18 829 676	15 548 429

All accounts receivable are due within twelve months from the balance sheet date.

Movement on the provision for credit losses

	2008 R	2007 R
Opening balance	6 205 325	5 631 498
Utilised	(1 912 027)	(1 045 342)
Reversal of prior year provision	(4 293 298)	(4 586 156)
Charged to the income statement	6 877 990	6 205 325
Closing balance	6 877 990	6 205 325

8 Inventories

	2008 R	2007 R
Stationery and consumables	394 673	625 395

The cost of inventories recognised as an expense is included under other operating expenses.

9 Accounts payable

	2008 R	2007 R
Trade creditors	2 900 574	3 441 681
Leave accrual	7 938 211	5 830 589
Accruals	4 011 436	1 829 999
Unidentified bank deposits	1 092 218	1 276 904
Other payables	2 058 559	713 012
	18 000 998	13 092 185

All accounts payable are due within twelve months after the balance sheet date.

Notes to the Financial Statements

for the year ended 31 March 2008

	2008 R	2007 R

10 Reserves

10.1 Fair value reserve

	2008 R	2007 R
Balance	8 796 602	14 207 511

The transfer made from the fair value reserve as reflected in the statement of changes in funds and reserves comprises:

	2008 R	2007 R
Fair value adjustment for the year	(247 354)	5 651 012
Transferred to income statement on realisation of investments	(5 338 605)	(1 849 380)
Capital reduction on investment portfolio	175 050	29 547
Net Transfer (from)/to fair value reserve	(5 410 909)	3 831 179

10.2 Contingency reserve

	2008 R	2007 R
Balance	28 011 129	24 452 833

An amount of R3 558 296 (2007: R3 839 206) was transferred from accumulated funds to maintain the reserve at 10% of annual levy and fee income.

10.3 Discretionary reserve

	2008 R	2007 R
Balance	9 235 845	9 421 969

The transfer to accumulated funds for the year, as reflected in the statement of changes in funds and reserves is calculated as follows:

	2008 R	2007 R
Fines and penalties per income statement	3 799 823	1 932 105
Net impairment reversal / (charge) to the income statement	38 250	(45 900)
Prior year reversals	54 950	12 300
Current year charge	(16 700)	(58 200)
Interest allocated to this reserve	913 745	714 012
Expenses in respect of consumer education and call centre operations	(3 634 834)	(1 984 924)
Contribution to FAIS Ombud consumer education expenses	-	(319 702)
Contribution to the Arbitration Foundation of Southern Africa - Business Against Crime Trust	(1 303 108)	-
Net transfer (from)/to discretionary reserve	(186 124)	295 591

	2008 R	2007 R
Total Reserves	46 043 576	48 082 313

Notes to the Financial Statements

for the year ended 31 March 2008

11 Employee benefits

11.1 Pension fund

The pension fund for permanent employees of the Board is registered in terms of the Pension Funds Act, 1956. Prior to April 2000, the fund was a defined benefit plan for the benefit of all permanent employees. New employees that joined the fund on or after 1 April 2000 are entitled to receive retirement and resignation benefits from the accumulation of defined contributions. Employees who were in the employ of the Board at 31 March 2000 are entitled to the higher of either a defined contribution accumulation to date of exit or the defined benefit applicable on exit in terms of the rules in force as at 31 March 2000. There are currently a total of 64 members entitled to this benefit. The accrued liability under the defined benefit as at 1 April 2000 was credited as the initial defined contribution value. An actuarial valuation of the benefit obligation was performed on 1 January 2008.

Amounts recognised in the balance sheet are determined as follows:

	2008 R	2007 R
Present value of funded obligations	33 957 000	22 589 000
Fair value of plan assets	(59 702 000)	(53 660 000)
Funded status	(25 745 000)	(31 071 000)
Unrecognised actuarial gain	9 539 000	19 809 000
Restriction on asset	16 206 000	11 262 000
Recognised in the balance sheet	-	-

The FSB does not have an unconditional right to any surplus that may accrue in the fund and therefore cannot recognise an asset in the balance sheet.

The movement in the present value of funded obligations for the year is as follows:

	2008 R	2007 R
Opening balance	22 589 000	19 971 000
Current service cost	667 000	610 000
Interest cost	1 907 000	1 626 000
Actuarial loss/(gain)	8 174 000	(1 165 000)
Benefits paid	(2 350 000)	(1 512 000)
Entitlement by new retirees	2 970 000	3 059 000
Closing balance	33 957 000	22 589 000

The movement in the fair value of plan assets for the year is as follows:

	2008 R	2007 R
Opening balance	53 660 000	38 439 000
Expected return on plan assets	4 400 000	3 037 000
Actuarial (loss)/gain	(1 155 000)	8 397 000
Entitlement of new retirees	2 970 000	3 059 000
Employer contributions	2 177 000	2 240 000
Benefits paid	(2 350 000)	(1 512 000)
Closing balance	59 702 000	53 660 000

Notes to the Financial Statements

for the year ended 31 March 2008

11.1 Pension fund (continued)

	2008 R	2007 R
The amounts recognised in the income statement are as follows:		
Current service cost	667 000	610 000
Interest cost	1 907 000	1 626 000
Expected return on plan assets	(4 400 000)	(3 037 000)
Net actuarial gain recognised during the year	(941 000)	(409 000)
Change in restricted asset	4 944 000	3 450 000
Net expenses included in staff costs	2 177 000	2 240 000
Actual return on plan assets	3 245 000	11 434 000

The principal actuarial assumptions used were as follows:

	2008	2007
Discount rate	9.30%	8.20%
Expected return on plan assets	9.30%	8.20%
Future salary increases	7.55%	5.75%
Future pension increases	4.90%	3.55%

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The average life expectancy in years of a pensioner retiring at the age 63 at the balance sheet date, is as follows:

	2008	2007
Male	17 years 4 months	16 years 7 months
Female	21 years 8 months	20 years 10 months

11.2 Post-retirement medical aid plan

The Board recognises a liability in respect of post retirement medical aid benefits for pensioners as at 1 January 1998 and eligible employees who were then in service, assumimg that the cost of the benefit is recognised in full for existing pensioners and is spread equally over each employee's service period within the Board prior to retirement for employees currently in service. The Board is not liable for post-retirement medical aid benefits in respect of any employee employed after 1 January 1998.

The actuary evaluates the liability on an annual basis, allowing for expected future medical cost inflation, investment returns, staff turnover and mortality. The Board contributes 100% of the medical contribution for its retired employees as well as 100% of the future medical aid contributions for their spouses and dependants. The last actuarial valuation of this liability was performed on 31 December 2007. It is the policy of the Board to match this liability with appropriate non-current investments and short-term notice deposits. Accordingly, the funds have been placed with an asset management company for investment in accordance with long-term prudential principles.

For disclosure purposes, an amount of R1 623 898 (2007: R483 072) representing cash on call, has been included with cash and cash equivalents (refer to Notes 5 and 6). A certain portion of the post-retirement medical aid is payable within twelve months, however, the value thereof is not readily determinable and thus the full liability has been disclosed as non-current.

Notes to the Financial Statements

for the year ended 31 March 2008

	2008 R	2007 R
The main actuarial assumption is a long-term increase in health costs of 7 % a year (2007: 7%).		
Amounts recognised in the balance sheet were determined as follows:		
Present value of unfunded obligations	15 568 146	15 465 658
Liability in the balance sheet	15 568 146	15 465 658
The movement in the present value of the unfunded obligation for the year is as follows:		
Opening balance	15 465 658	15 928 377
Current service cost	475 211	497 707
Interest cost	1 394 547	1 275 363
Actuarial gains	(1 141 563)	(1 594 943)
Benefits paid	(625 707)	(640 846)
Closing balance	15 568 146	15 465 658
The amounts recognised in the income statement are as follows:		
Current service cost	475 211	497 707
Interest cost	1 394 547	1 275 363
Benefits paid	(625 707)	(640 846)
Net actuarial gains recognised during the year	(1 141 563)	(1 594 943)
Net expenses / (income) included in staff costs	102 488	(462 719)

The effects of a 1% movement in the assumed medical cost trend rate are as follows:

	Decrease R	Increase R
Effect on the current service cost	393 065	581 142
Effect on the interest cost	1 200 679	1 584 538
Effect on the defined benefit obligation	13 414 059	17 679 156

	2008 R	2007 R	2006 R	2005 R
Present value of unfunded obligation recognised in the balance sheet	15 568 146	15 465 658	15 928 377	12 776 952

Notes to the Financial Statements

for the year ended 31 March 2008

12 Levies

	2008 R	2007 R
FSB levies	219 026 718	191 430 444
FSB levy rebates	(24 852 390)	-
Pension Funds Adjudicator levies	23 440 304	21 783 344
FAIS Ombud levies	16 876 787	11 167 561
	234 491 419	224 381 349

13 Other income

	2008 R	2007 R
Fines and penalties	3 799 823	1 932 105
Inspection cost recoveries	5 525 136	559 306
Legal and other cost recoveries	2 822 978	2 955 476
Profit on disposal of assets	17 985	18 368
Sundry income	464 218	2 080 160
	12 630 140	7 545 415

14 Executive management remuneration

	Salary R	Incentive bonus R	Long service awards R	Other R	Total R
Year ended 31 March 2008					
RJG Barrow, EO	2 146 691	501 176	-		2 647 867
GE Anderson, DEO: Market Conduct and Consumer Education	1 513 750	221 751	-		1 735 501
J Boyd, DEO: Retirement Funds	1 513 750	221 751	-		1 735 501
MM du Toit, Chief Actuary from 1 May 2007	1 387 333	147 834	-		1 535 167
CWN Molope, CFO	1 341 250	282 229	-		1 623 479
ME Munyai, DEO: Insurance until 30 June 2007	371 000	-	-	258 988	629 988
DP Tshidi, DEO: Investment Institutions	1 513 750	302 388	-		1 816 138
	9 787 524	1 677 129	-	258 988	11 723 642
Year ended 31 March 2007					
RJG Barrow, EO	1 985 429	338 734	8 500	-	2 332 663
GE Anderson, DEO: Market Conduct and Consumer Education	1 457 377	142 000	10 500	-	1 609 877
J Boyd, DEO: Retirement Funds from 1 May 2006	1 331 463	61 000	-	-	1 392 463
MJ Codron, Chief Actuary until 28 February 2007	1 321 511	110 000	-	-	1 431 511
CWN Molope, CFO	1 270 730	174 000	-	-	1 444 730
ME Munyai, DEO: Insurance	1 459 651	158 000	-	-	1 617 651
DP Tshidi, DEO: Investment Institutions from 1 May 2006	1 452 817	221 000	-	-	1 673 817
	10 278 978	1 204 734	19 000	-	11 502 712

Notes to the Financial Statements

for the year ended 31 March 2008

15 Non-executive board members' fees

Year ended 31 March 2008

Name of member	Term of appointment	Board	ARM Committee	HR & Rem Committee	Litigation Committee	Licencing Committee	Legislative Committee	FAIS Ombud Committee	PFA Committee	Other	Total
		R	R	R	R	R	R	R	R	R	R
CDR Rustomjee	01/07/03 - 31/12/09	50 875								40 900	91 775
AM Sithole	01/01/02 - 31/12/07	40 700		29 610					16 612		86 922
HS Wilton	01/01/02 - 31/12/08	40 700	17 684	29 610			8 000				95 994
LM Mojela	01/01/ 02 - 31/12/07	40 700			8 000	42 150					90 850
PJ Sutherland	01/04/02 - 31/12/08	40 700	23 444		31 760		8 000		16 612		120 516
J Mogadime	01/03/04 - 31/12/09	40 700	23 444	29 610						18 750	112 504
B Hawksworth	01/03/04 - 31/12/07	40 700	23 444			99 000		30 560		4 500	198 204
AMM Mokgabudi	01/01/06 - 31/12/08	40 700	19 934					18 260	13 492		92 386
		335 775	107 950	88 830	39 760	141 150	16 000	48 820	46 716	64 150	889 151

Year ended 31 March 2007

Name of member	Term of appointment	Board	ARM Committee	HR & Rem Committee	Litigation Committee	Licencing Committee	Legislative Committee	FAIS Ombud Committee	PFA Committee	Other	Total
		R	R	R	R	R	R	R	R	R	R
CDR Rustomjee	01/07/03 - 31/12/09	40 200	-	-	-	-	-	-	-	-	40 200
AM Sithole	01/01/02 - 31/12/07	37 700	-	17 041	-	-	-	-	7 518	-	62 259
HS Wilton	01/01/02 - 31/12/08	37 700	18 798	14 029	-	-	3 012	-	-	-	73 539
LM Mojela	01/01/ 02 - 31/12/07	37 700	-	-	11 310	34 214	-	-	-	-	83 224
PJ Sutherland	01/04/02 - 31/12/08	37 700	25 831	-	18 810	-	3 012	-	6 012	-	91 365
J Mogadime	01/03/04 - 31/12/09	37 700	25 831	17 041	-	-	-	-	-	-	80 572
B Hawksworth	01/03/04 - 31/12/07	37 700	25 831	-		42 284	-	27 717	-	-	133 532
AMM Mokgabudi	01/01/06 - 31/12/08	37 700	14 280	-	-	-	-	6 000	-	-	57 980
		304 100	110 571	48 111	30 120	76 498	6 024	33 717	13 530	-	622 671

The Board members whose tenure expired on 31 December 2007 will, in terms of the Financial Services Board Act, 1990, continue to serve on the FSB Board and its Committees until there is official confirmation of their reappointment or retirement from the Office of the Minister of Finance or until 30 June 2008, whichever comes first.

Notes to the Financial Statements

for the year ended 31 March 2008

		2008 R	2007 R
16	**Net provision for credit losses**		
	Current year provison	6 877 990	6 205 325
	Reversal of prior year provision	(4 293 298)	(4 586 156)
		2 584 692	1 619 169
17	**Finance costs**		
	Interest	(1 342)	(914)
18	**Income from investments**		
	Interest	15 099 651	10 015 998
	Income from listed investments		
	- Dividends	778 450	657 936
	- Fair value released on realisation of investments	5 338 605	1 849 380
	- Other (expenses)/ income	(1 005 680)	228 928
		20 211 026	12 752 242
19	**Reconciliation of net surplus before interest and cash generated by operations**		
	Net surplus before interest and income from investments	14 943 106	45 760 763
	Adjustments	5 190 271	2 819 940
	Depreciation of property, plant and equipment	4 312 767	2 657 281
	Amortisation charges	942 978	123 369
	Loss on disposal of property, plant and equipment	176 444	266 079
	Profit on disposal of property, plant and equipment	(17 985)	(18 368)
	Post-retirement medical expenses not included in operating expenses	(223 933)	(208 421)
	Cash inflow before changes in working capital	20 133 377	48 580 703
	Changes in working capital	1 186 350	5 163 736
	(Increase) / decrease in accounts receivable	(3 281 247)	3 857 025
	Increase in prepayments	(635 295)	(227 076)
	Decrease/ (increase) in inventories	230 722	(201 817)
	Increase / (decrease) in accounts and other payables	4 908 813	(777 848)
	(Decrease) /increase in levies and fees received in advance	(36 643)	2 513 452
		21 319 727	53 744 439

20 Change in accounting policy

The Board changed its accounting policy in respect of Employee Benefits to correctly reflect Interpretation of Statements of Generally Accepted Accounting Practice (IFRC 14) - The Limit on the Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The FSB does not have an unconditional right to any surplus that may accrue in the fund and therefore cannot recognise an asset in its accounting records.

The change in accounting policy has been accounted for retrospectively and comparatives have been appropriately restated. The effect of the change in accounting policy is as follows:

	2008 R	2007 R
Increase in operation expenditure	-	2 908 000
Decrease in surplus	-	2 908 000
Adjustment against accumulated funds at the beginning of the year	-	7 812 000

21 Taxation

The Board is exempt from income tax in terms of Section 10 (CA)(i)(bb) of the Income Tax Act, 1962.

22 Commitments

22.1 Capital commitments

Capital expenditure contracted but not yet incurred at the balance sheet date is as follows:

	2008 R	2007 R
Property, plant and equipment	1 556 299	192 634

22.2 Operating lease commitments

The Board leases its office accommodation in terms of operating leases.The Board is required to give six months' notice for the renewal of these agreements. The operating lease rentals include a charge for rental, parking, operational costs, electricity, rates and taxes. Escalations of between 8% and 10% (2007: between 8% and 10%) have been included in the lease agreements.

The total future minimum lease payments under these leases are as follows:

	2008 R	2007 R
Due within one year	14 539 008	12 421 445
Due between one to five years	-	9 003 887
	14 539 008	21 425 332

The Board is in the process of negotiating a new lease agreement with the Public Investment Commission (PIC) for the new FSB offices that the PIC is buliding. The PIC expects that the offices will be ready for occupation from 1 May 2009.

Notes to the Financial Statements

for the year ended 31 March 2008

	2008 R	2007 R

23 Contingent liabilities

The Board has no contingent liabilities.	-	-

24 Assets administered on behalf of third parties

In terms of Section 77(7) of the Security Services Act, 2004, amounts recovered by the Board from civil action activities are transferred to a special trust account designated for this purpose. As such recoveries do not form part of the normal operating activities of the Board. The balance of the trust account at the end of the year was R1 242 843 (2007: R3 716 821)

25 Related parties

All national departments of Government and State-controlled entities are regarded as related parties in accordance with Circular 4 of 2005: Guidance on the term "state-controlled entities" in the context of IAS 24 (AC 126) - Related Parties, issued by the South African Institute of Chartered Accountants. The following transactions and balances were recorded relating to transactions with related parties as defined.

Services provided by related parties

	2008 R	2007 R
Compensation Fund	(99 681)	(62 880)
Telkom Limited	(1 642 887)	(1 568 101)
South African Bureau of Standards (SABS)	(14 653)	(15 462)
South African Broadcasting Corporation (SABC)	(225)	(225)
Government Printers	(278 645)	(232 017)
	(2 036 091)	(1 878 685)

Year-end balances arising from services provided to / (by) related parties

	2008 R	2007 R
Compensation Fund	(109 000)	(71 338)
Telkom Limited	63 783	(113 596)
South African Bureau of Standards (SABS)	(1 332)	-
Government Printers	5 380	(10 886)
	(41 169)	(195 820)

Funds provided to the Office of the Pension Funds Adjudicator in terms of section 30R (1) (a) of the Pension Funds Act 24 of 1956 as amended.

	2008 R	2007 R
Contribution towards funding of the office	19 646 554	14 834 727

Funds provided to the Office of the Ombud for Financial Services Providers in terms of section 22 (1) (a) of the Financial Advisory and Intermediary Services Act 37 of 2002.

	2008 R	2007 R
Contribution towards funding of the office	14 222 703	10 846 365
Contribution from discretionary funds towards consumer education expenditure	-	319 702
	14 222 703	11 166 067

Annexure A - Performance Against Measurable Objectives

for the year ended 31 March 2008

NO	OUTPUT	OUTPUT PERFORMANCE MEASURE/ SERVICE DELIVERY INDICATORS	ACTUAL PERFORMANCE AGAINST TARGET	COMMENT
1	To ensure a sustainable source of revenue to fund operations in accordance with the FSB mandate	• Zero-based budgeting for operational requirements and thereafter effective management of budget variances on a monthly basis	Achieved	• An effective zero-based budgeting was completed, approved by the Board and submitted to National Treasury. Monthly accounts were prepared to monitor variances. The net surplus for the year ended 31 March 2008 is R35 million.
		• Sound system of internal controls and safeguarding of assets that will be evidenced by achieving an unqualified audit report on the Annual Financial Statements.	Achieved	• The FSB achieved an unqualified audit report on its Annual Financial Statements for the year ended 31 March 2007. There is no reason to believe that an unqualified report for the year ended 31 March 2008 will not be achieved.
2	To ensure that appropriate talent is developed and retained to support the execution of the FSB mandate	• Successful implementation of the retention strategy	Achieved	• A retention strategy is in place. A revised retention strategy is in the process of being developed for approval and implementation in 2008/9.
		• Manage performance such that good performance is rewarded and poor performance is effectively dealt with	Achieved	• The performance management system of the FSB has been effectively applied and good performance was rewarded. Management was trained to effectively deal with poor performance.
3	To create and implement an effective legislative framework that will promote compliance	• Active participation in the process envisaged by the Statement of Intent (Contractual Savings) in the Insurance Industry	Achieved	• Regulations of minimum values in cases where contractual changes are made to insurance investment policies and regulations to disincentivise churning of policies have been finalised. There have been regular interactions with the National Treasury on the new draft regulations to further enhance investment values and to introduce new commission regulations for new insurance investment policies. Draft commission regulations for new investment policies and draft regulations to further enhance investment values were submitted to the Minister during December 2007. These will be distributed simultaneously for public comment after approval has been obtained from the Minister.
		• Review all legislation administered by the FSB on a regular basis and promote amendments where appropriate	Achieved	• Pension Funds Amendment Act was promulgated on 13 September 2007. • The General Financial Services Laws Amendment Bill, 2008 has been gazetted by the Minister of Finance. The Bill was tabled in Parliament in May 2008.
		• Implementation of international standards – Risk-based Supervision to effectively supervise the industry.	Achieved	• Risk-based supervision has been implemented by all line departments.
		• Regular evaluation of the status of corporate governance within the FSB	Achieved	• Corporate Governance Protocol (Pty) Ltd was engaged to evaluate the degree of good Governance practices in the FSB. An overall compliance rating of AA was achieved based on the structures in place.

Annexure A - Performance Against Measurable Objectives

for the year ended 31 March 2008

NO	OUTPUT	OUTPUT PERFORMANCE MEASURE/ SERVICE DELIVERY INDICATORS	ACTUAL PERFORMANCE AGAINST TARGET	COMMENT
4	To ensure that appropriate regulatory environment is maintained and enhanced	• Enhance enforcement capacity	Achieved	• Amendments to strengthen the enforcement capacity were incorporated into the Financial Services Laws General Amendment Bill, 2008 which was in Parliament in May 2008.
5	To collaborate and build critical relationships with stakeholders so as to continuously align operations to their needs	• Successful implementation of the Service Level Commitments (SLC) to industry • Improve the effectiveness of the call centre and reduce the abandonment rate to less than 10%	Partially achieved Partially achieved	• The SLC's have been developed and final approval of EXCO and full implementation will be carried forward to 2008/9. • Abandonment rate is currently between 5% and 20%. This is driven mainly by the return submission dates and FSB media coverage. • Additional staff is being employed to manage the abandonment rate down.
6	To develop informed and aware consumers of financial products and services	Facilitate effective consumer education by: • Successfully implementing the revised consumer education strategy • Building relationships with the National Education Department with a view to incorporating aspects of consumer education in school curricula	Partially achieved Partially achieved	• A service provider has been identified to review the Consumer Education Strategy. The process will be finalised by September 2008. • There is continuous interaction between the Consumer Education Department of the FSB, the Department of Education and the Provincial Education Departments regarding incorporation of aspects of consumer education in school curricula.
7	To ensure that IT Systems are supportive of future business needs	Develop and implement an IT strategy to ensure that sufficient IT capability is developed to support FSB mandate by: • Evaluating the current IT infrastructure and developing an IT strategy to ensure relevance into the foreseeable future • Successfully implementing the IT strategy. • Creating a stable, enabling IT architecture to support the FSB supervisory requirements	Achieved Partially achieved Achieved	• The IT strategy has been developed and approved by the Board in December 2007 • The strategy is being implemented in phases over the next two to three years. Some of the recommendations of the IT strategy have been incorporated into the 2008/9 ICT business plan for implementation. • Rationalisation of the file server structure was implemented to ensure an effective platform for all data including the disaster recovery site.
8	To encourage and enhance transformation within the Financial Services Sector	Continue to transform the FSB to required level of representation by: • Regularly reviewing HR policies to ensure alignment with relevant and fair labour practices	Achieved	• The HR policies were reviewed, approved by the Board and implemented January 2008.

Annexure B - Analysis of Accumulated by Levy-Paying Industry

for the year ended 31 March 2008

Industry	Accumulated surplus / (deficit)	Income	Expenditure	Net surplus for the year	Tranferred from Discretionary reserve	Transferred to Contingency reserve	Accumulated surplus / (deficit)
	31/03/07						31/03/08
	R	R	R	R	R	R	R
Short-term Insurance	8 592 092	20 965 771	(16 741 741)	4 224 030	10 051	(331 381)	12 494 792
Long-term Insurance	14 078 335	33 119 739	(28 506 663)	4 613 076	10 665	(564 243)	18 137 833
Total Insurances	22 670 427	54 085 510	(45 248 404)	8 837 107	20 716	(895 624)	30 632 626
Retirement Funds and Friendly Societies	47 641 081	76 498 878	(70 451 657)	6 047 220	156 177	(1 188 471)	52 656 007
Capital Markets	5 444 342	8 302 662	(6 762 489)	1 540 173	-	(168 307)	6 816 208
Collective Investment Schemes	11 225 614	12 656 860	(12 319 000)	337 860	-	(210 651)	11 352 823
Market Abuse	10 266 985	8 216 635	(8 068 851)	147 784	-	(153 718)	10 261 051
FAIS	(13 097 937)	88 022 433	(76 227 620)	11 794 812	9 232	(941 525)	(2 235 418)
Pension Funds Adjudicator	16 748 699	23 440 304	(19 646 554)	3 793 751	-	-	20 542 450
FAIS Ombud	(7 753 460)	16 876 787	(14 222 703)	2 654 084	-	-	(5 099 376)
	93 145 752	288 100 068	(252 947 278)	35 152 790	186 124	(3 558 296)	124 926 370

Annexure C - List of Long-Term Investments

for the year ended 31 March 2008

Shares	Number of shares / units held	Fair value 2008 R	Number of shares / units held	Fair value 2007 R
Absa Group Limited	-	-	5 200	725 452
African Bank Investments Limited	39 000	1 039 350	36 000	1 090 800
Anglo American plc	2 548	1 224 314	2 800	1 072 400
Aspen Pharmacare Holdings Limited	30 000	957 000	28 000	1 036 000
BHP Billiton plc	8 000	1 912 080	10 000	1 624 500
Edgars Consolidated Stores Limited	-	-	30 000	1 361 700
Famous Brands Limited	60 000	885 000	62 000	988 900
FirstRand Limited	-	-	53 000	1 303 800
Foschini Limited	-	-	19 000	1 312 900
Impala Platinum Holdings Limited	7 000	2 191 000	4 640	1 057 966
JD Group Limited	-	-	8 500	756 925
Investec plc	20 000	1 080 200	-	-
Lonmin plc	-	-	1 700	800 360
Massmart Holdings Limited	13 000	868 400	-	-
Metorex Limited	54 000	1 128 060	54 000	1 246 320
Mr Price Group Limited	40 000	728 000	30 000	894 000
MTN Group Limited	15 500	1 906 500	18 000	1 773 000
Naspers Limited	8 000	1 128 000	7 800	1 368 900
Pretoria Portland Cement Company Limited	26 000	1 041 300	1 500	708 000
Reunert Limited	-	-	13 000	1 049 100
Richemont Securities AG	34 000	1 535 100	28 000	1 128 400
RMB Holdings Limited	44 000	1 078 000	-	-
Sasol Limited	5 000	1 942 850	5 000	1 210 250
Sentula Mining Ltd	39 000	690 300	-	-
South Ocean Holdings Limited	-	-	81 800	588 960
Standard Bank Group LTD	12 000	1 058 400	12 000	1 281 600
Steinhoff International Holdings Limited	-	-	32 500	758 875
The Spar Group Limited	19 000	921 500	-	-
Wilson Bayly Holmes-Ovcon Limited	13 500	1 768 500	11 000	965 690
		25 083 854		26 104 798

Annexure C - List of Long-Term Investments

for the year ended 31 March 2008

Shares	Number of shares / units held	Fair value 2008 R	Number of shares / units held	Fair value 2007 R
Gilts and bonds		2 028 790		2 502 371
Off-shore unit trust schemes				
Gs Gbl Strat Mgd A acc	5 209	3 962 490		
IIA Global Bond (G)	-	-	497	254 409
Orbis Global Equity Fund	-	-	1 973	1 688 827
Orbis Optimal Euro Fund	-	-	3 547	785 175
SEI Ex Japan Equity	-	-	90	28 117
SEI Emerging Market Equity	-	-	365	57 430
SEI Global Development Market Equity	-	-	995	90 507
SEI Japan Equity Fund	-	-	357	45 186
SEI US Large Companies	-	-	750	135 837
SEI Global Opportunistic Fixed Inc	-	-	758	76 724
SEI Pan European Fund	-	-	811	162 246
SEI US Small Companies	-	-	59	17 325
SEI Global Fixed Income Fund	-	-	759	74 310
SEI High Yield	-	-	257	38 288
		3 962 490		3 454 381
Total investments		31 075 134		32 061 550

The investment of funds is outsourced to an investment manager in terms of a mandate which gives the manager full discretion.

Annexure D - Foreign Travel

for the year ended 31 March 2008

DESTINATION	DATE OF TRAVEL	DAYS	ACTUAL COST	DELEGATE
International Organisation of Securities Commissions (IOSCO)				
Mumbai, India	April 2007	6	110 824	R Barrow, D Tshidi, N Mulller
Nertherlands, Amsterdam	February 2008	3	62 267	R Barrow, D Tshidi
Washington , USA	July 2007	2	22 632	N Muller
Washington , USA	February 2008	5	71 190	R Barrow
Tokyo, Japan	November 2007	4	115 809	D Tshidi, N Mulller
Dubai	December 2007	3	37 909	N Muller
Tunisia, Tunis	March 2008	5	48 204	N Muller
International Association of Insurance Supervisors (IAIS)				
Basel, Switzerland	May 2007	4	130 987	M Munyai, P Ward, W Mokupo
Brussels	April 2007	2	44 420	M Munyai
Basel, Switzerland	March 2008	5	88 542	P Ward
Florida, USA	October 2007	4	141 065	S Vogelsang, J Huma, M du Toit
International Pensions & Employees Benefits Lawyers Association (IPEBLA)				
Seville, Spain	May 2007	3	51 498	F van Zyl, L Primo
Anti Money Laundering (AML) - CTF				
Tunisia , Tunis	June 2007	5	13 370	E Phiyega
International Actuaries Association (IAA)				
Dublin, Ireland	October 2007	4	40 674	M du Toit
African Association of Insurance Supervisory Authorities (AIO)				
Kenya , Nairobi	May 2007	4	17 839	P Ward
Financial Services Authority (FSA), Arrow Risk Based Supervision				
London, UK	June 2007	5	99 076	S Vogelsang, K Martin, S Esterhuizen, H van Heerden
London, UK	March 2008	4	174 605	K Dikokwe, C Buitendag, J Mahlangu, J Molefe
Globalisation of Mutual Funds				
Bermuda,	May 2007	2	50 018	J Mahlangu
LLOYD'S International Regulators Programme				
London, UK	May 2007	5	44 082	J Huma
Pension Benefits & Social Security Section (PBSS) Colloquium / International Conference of Social Security Actuaries and Statisticians of the International Social Security Association				
Helsinki, Finland	May 2007	7	58 309	C Ahlers

Annexure D - Foreign Travel continued

for the year ended 31 March 2008

IOSCO /International Forum for Investors Education (IFIE)				
Madrid, Spain	October 2007	2	27 332	G Anderson
International Forum for Financial Consumer Protection and Education				
Hungary, Budapest	October 2007	5	44 163	O Davids
Financial Action Task Force (FATF)				
Paris, France	October 2007	9	56 943	E Phiyega
IAIS Solvency & Actuarial Sub Committee				
London, UK	June 2007	4	33 859	H van Heerden
Australia	September 2007	4	50 181	H van Heerden
Kuala Lumpur, Malaysia	January 2008	5	33 992	H van Heerden
Organisation foe Economic Development (OECD) - Working Party in Private Pensions (WPPP) /Organisation of Pension Supervisors (IOPS)				
Paris, France	June 2007	5	76 309	J Boyd, A Marais
China , Beijing	November 2007	7	53 517	J Boyd, C Buitendag
Dakar , Senegal	February 2008	3	55 453	M Thulare, J Boyd
Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA)				
Namibia, Windhoek	May 2007	2	58 540	E Phiyega, O Davids, T Mphanama, N Muller, J Mahlangu, M Malimabe, J Boyd, W Mokupo, M van Zyl
Arusha,Tanzania	October 2007	2	165 892	H Rapasha, L Clarke, T Mphanama, N Muller, K Dikokwe, P Ward, M van Zyl, W Hattingh, J Boyd, W Mokupo
London Business School				
London, UK	March 2008	29	345 394	D Tshidi
IBA Conference				
Singapore	November 2007	5	28 032	F Rossouw
Investigation				
Jersey, Channel Islands	April 2007	6	81 417	P Ntsubane , S Mrwetyana
Presentation on African Stock Exchange Association				
Ghana	October 2007	5	-	S Mrwetyana - Sponsored fares
Securities & Exchange Commision (SEC)				
Washington, USA	November 2007	7	56 689	P Ntsubane, C Maree
IAIS (Governement & Risk Based Conference)				
Mauritius	November 2007	4	36 676	P Mashilo, T Makhu, P Ramothata
			2 627 708	

Institutions and Individuals Supervised

for the year ended 31 March 2008

	31 March 2008	31 March 2007
Capital Markets (JSE, BESA)	2	2
Authorised users of the JSE		
Equities members	56	55
Agricultural products members	87	80
Equity derivatives members	118	113
Yield members (launched in 2005)	52	31
Authorised users of BESA	55	57
Dealers		
JSE equity derivatives dealers	786	761
JSE agricultural product dealers	733	725
BESA bond dealers	176	182
Central Securities Depositories (STRATE limited)	1	1
Central Securities Depository Participants	7	7
Total	**2073**	**2014**
FAIS		
Financial services providers (FSPs)(Category I)	13 964	13 845
Discretionary FSPs (Category II)	541	511
Administration FSPs (Category III)	24	23
Total	**14 529**	**14 379**
Insurers		
Primary insurers		
- Short-term	98	97
- Long-term	76	75
Reinsurers		
- Short-term (only)	6	5
- Long-term (only)	3	3
- Short- and long-term	3	4
Total	**186**	**184**
Retirement funds		
- Privately administered	3 471	3 487
- Underwritten	8 978	9 436
Friendly societies	89	97
Total	**12 538**	**13 020**
Local collective investment schemes		
Schemes in securities		
- Managers	41	34
- Portfolios	900	765
Schemes in property shares		
- Managers	6	6
- Portfolios	6	6
Foreign collective investment schemes		
- Schemes	67	71
- Portfolios	383	382
Participation bond schemes	6	7
Total	**1409**	**1 271**

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Jurisdiction

The FSB administers the following Acts of Parliament:

1. Pension Funds Act, 24 of 1956
2. Friendly Societies Act, 25 of 1956
3. Financial Services Board Act, 97 of 1990
4. Financial Supervision of the Road Accident Fund Act, 8 of 1993
5. Supervision of Financial Institutions Rationalisation Act, 32 of 1996
6. Long-term Insurance Act, 52 of 1998
7. Short-term Insurance Act, 53 of 1998
8. Inspection of Financial Institutions Act, 80 of 1998
9. Financial Institutions (Protection of Funds) Act, 28 of 2001
10. Financial Advisory and Intermediary Services Act, 37 of 2002
11. Collective Investment Schemes Control Act, 45 of 2002
12. Securities Services Act, 36 of 2004
13. Financial Services Ombud Schemes Act, 37 of 2004

Publications

The FSB publishes a quarterly bulletin, the FSB Bulletin, and distributes it free of charge. Subjects cover developments in the financial services industry, new legislation, survey findings, reports on conferences and personal portfolios.

The FSB also publishes a number of annual reports besides this one:
Annual Report of the Registrar of Long-term Insurance;
Annual Report of the Registrar of Short-term Insurance;
Annual Report of the Registrar of Retirement Funds;
Annual Report of the Registrar of Friendly Societies; and
Annual Report of the Registrar of Collective Investment Schemes.

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