

# 2017

Annual Report



**FINANCIAL  
SERVICES  
BOARD**



# ABOUT US



## WHO WE ARE

The Financial Services Board (FSB) is an independent institution established by statute to oversee the South African non-Banking financial services industry in the public interest. Its mission and vision are to promote and maintain a sound financial investment environment in South Africa.



## WHAT WE DO

The FSB is there to ensure that you are treated fairly by the financial services providers you deal with, and that you enjoy a safe investment environment.

The FSB oversees the non-banking financial services industry, which includes retirement funds, short-term and long-term insurance companies, funeral insurance, collective investment schemes (unit trusts and stock market) and financial advisers and brokers.

*Our vision is to promote and maintain  
a sound financial investment  
environment in South Africa*

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# **PART A**

## GENERAL INFORMATION



# SCOPE OF REPORT

*In this report the Financial Services Board (FSB) presents a balanced view of its financial and non-financial performance for the year ended 31 March 2017. It follows the annual report for the year to 31 March 2016.*

The FSB is a public entity, mandated by the South African government to supervise and enforce compliance with specific laws regulating financial institutions and to promote financial education and awareness about related products, institutions and services. Its broad jurisdiction is detailed on page 6. As a public entity, its financial statements are prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the Public Finance Management Act (PFMA) (as amended by Act 29 of 1999). Non-financial disclosure is guided by the 2009 King Code of Governance Principles and Report on Governance (King III) and the framework of the International Integrated Reporting Council (IIRC).

While the scope of this report covers all the FSB's current activities, forward-looking disclosures are limited because of regulatory reforms underway in South Africa that will affect our jurisdiction and mandate in future: the so-called Twin Peaks model aims to introduce a new approach to financial regulation in South Africa to create a more resilient and stable financial system and ensure consumer protection and appropriate market conduct in the financial services sector.

As a public entity, the FSB is stringently monitored. The Auditor-General conducts a comprehensive audit of our financial and non-financial performance against targets and benchmarks, with the FSB

receiving a clean audit report for the past two financial years and an unqualified audit opinion for the past 25 years.

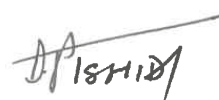
## Statement of responsibility and confirmation of accuracy for the Annual Report

To the best of our knowledge we confirm:

- All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor-General.
- The report is complete, accurate and free from any omissions.
- The report has been prepared in accordance with guidelines on the annual report as issued by the National Treasury.
- The FSB's financial statements are prepared in accordance with SA Standards of GRAP and the PFMA (as amended by Act 29 of 1999).
- The accounting authority is responsible for preparing the annual financial statements and for judgements made in this information.
- The accounting authority is responsible for implementing a system of internal control designed to provide reasonable assurance on the integrity and reliability of the performance information, human resources information and annual financial statements.

- The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the annual report fairly reflects the operations, performance information, human resources information and financial affairs of the FSB for the year ended 31 March 2017.



**Adv DP Tshidi**  
Executive Officer



**Mr AM Sithole**  
Chairperson of the Board

In preparing future reports, feedback from all our stakeholders will be integral to determining the most appropriate content. We welcome your feedback on this annual report.

Please direct this to Tembisa Marele, Communications specialist.

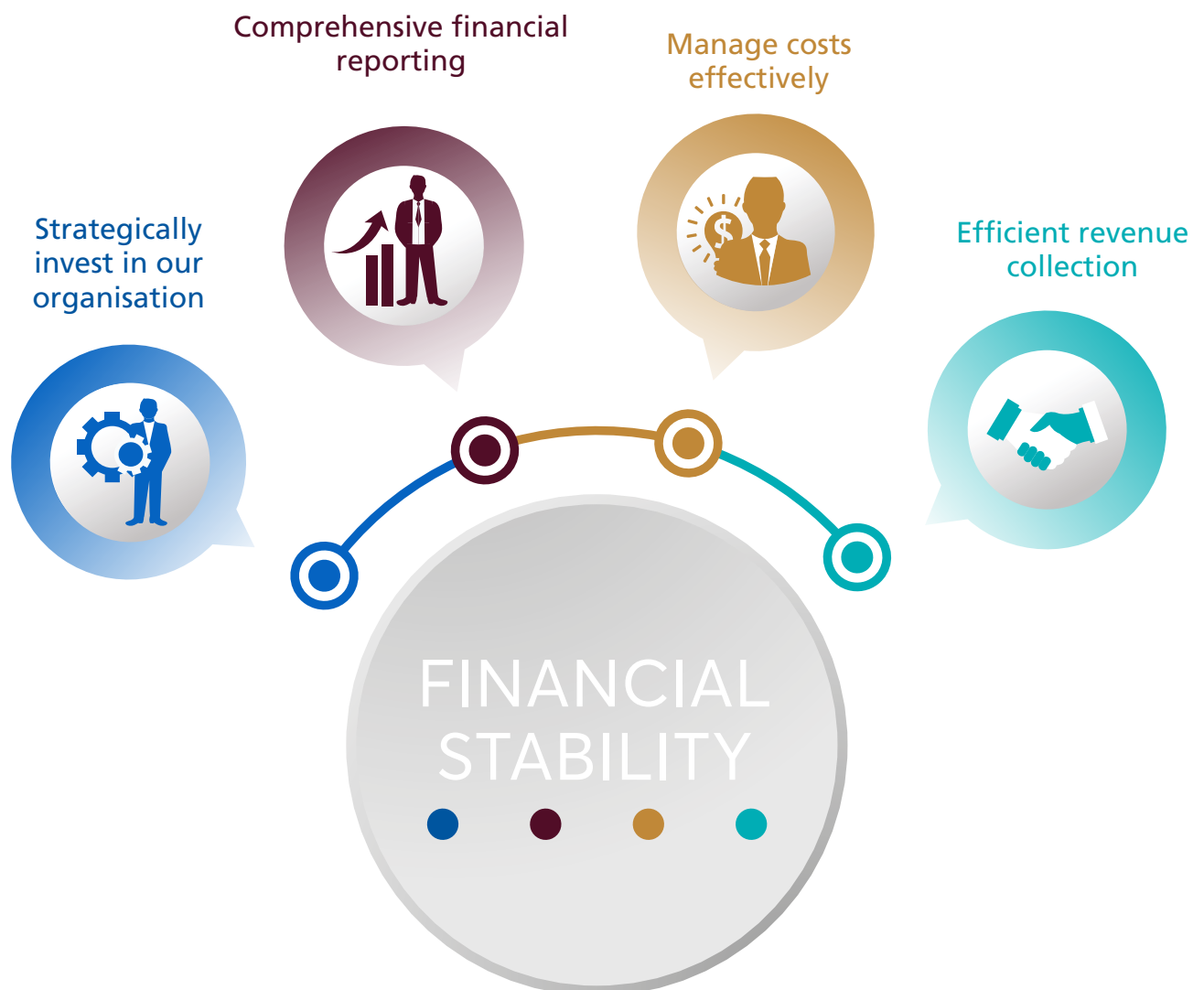
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# ACRONYMS AND ABBREVIATIONS

<b>ASB</b>	Accounting Standards Board
<b>ASSA</b>	Actuarial Society of South Africa
<b>BATSETA</b>	Council of Retirement Funds for South Africa
<b>BESA</b>	Bond exchange
<b>CCI</b>	Consumer credit insurance
<b>CCP</b>	Central counterparty
<b>CED</b>	Consumer Education Department
<b>CIS</b>	Collective insurance schemes in securities
<b>CISCA</b>	Collective Investment Schemes Control Act
<b>CISNA</b>	Committee of insurance, securities and non-banking financial authorities
<b>CPD</b>	Corporation for Public Deposits
<b>CPR</b>	Comprehensive parallel run
<b>CRA</b>	Credit rating agency
<b>CRSD</b>	Credit Rating Services Department
<b>CSD</b>	Central securities depositories
<b>DAC</b>	Department of Arts and Culture
<b>DMA</b>	Directorate of Market Abuse
<b>DPW</b>	Department of Public Works
<b>dti</b>	Department of Trade and Industry
<b>EC</b>	Enforcement Committee
<b>EPWP</b>	Expanded Public Works Programme
<b>ERP</b>	Enterprise resource planning
<b>ESMA</b>	European Securities and Markets Authority
<b>Exco</b>	Executive Committee
<b>ETP</b>	Electronic trading platform
<b>EU</b>	European Union
<b>EWP</b>	Employee wellness programme
<b>FAIS</b>	Financial Advisory and Intermediary Services
<b>FCIS</b>	Foreign collective insurance schemes in securities
<b>FICA</b>	Financial Intelligence Centre Act
<b>FSAP</b>	Financial sector assessment programme
<b>FSCA</b>	Financial Sector Conduct Authority
<b>FSP</b>	Financial service provider
<b>FSR (Bill)</b>	Financial Sector Regulation
<b>GLEIF</b>	Global Legal Entity Identifier Foundation
<b>GRAP</b>	Generally Recognised Accounting Practice
<b>HOD</b>	Head of department
<b>HSRC</b>	Human Sciences Research Council
<b>IAA</b>	International Actuarial Association

<b>IAIS</b>	International Association of Insurance Supervisors
<b>ICT</b>	Information communications technology
<b>IGRAP</b>	Interpretations of GRAP
<b>IIRC</b>	International Integrated Reporting Council
<b>IMF</b>	International Monetary Fund
<b>IOSCO</b>	International Organisation of Securities Commissions'
<b>IRBA</b>	Independent Regulatory Board for Auditors
<b>ISAs</b>	International Standards on Auditing
<b>IT</b>	Information technology
<b>JSE</b>	Johannesburg Stock Exchange
<b>LEI</b>	Legal entity identifier
<b>LISPs</b>	Linked investment service providers
<b>LOU</b>	Local operating unit
<b>NLRD</b>	National Learner Records Database
<b>ORSA</b>	Own-risk and solvency assessment
<b>OTC</b>	Over the counter
<b>PAA</b>	Public Audit Act
<b>PBSS</b>	Pension benefits and social security
<b>PFA</b>	Pension Funds Adjudicator
<b>PFMA</b>	Public Finance Management Act
<b>PPE</b>	Property, plant and equipment
<b>PPR</b>	Policyholder Protection Rules
<b>RDR</b>	Retail Distribution Review
<b>RE</b>	Regulatory examinations
<b>RSC</b>	Regulatory Strategy Committee
<b>SAICA</b>	South African Institute of Chartered Accountants
<b>SADC</b>	Southern African Development Community
<b>SAM</b>	Solvency assessment and management
<b>SARB</b>	South African Reserve Bank
<b>SASAS</b>	South African Social Attitude Survey
<b>SCOF</b>	Standing Committee on Finance
<b>SWOT</b>	Strengths, weaknesses, opportunities and threats
<b>TCF</b>	Treating Customers Fairly
<b>TCS</b>	Terminology Coordination Services
<b>TMS</b>	Terminology Management System
<b>TTK</b>	Trustee Training Toolkit
<b>UOLA</b>	Use of Official Languages Act

# CREATING VALUE FOR STAKEHOLDERS



## Long-term financial stability

### *Learning and growth*

- Promote training and skills development
- Promote teamwork
- Live the FSB core values
- Transformation
- Develop leadership and management talent

## Financial services industry

### *Regulated entities*

- Be a trusted, respected and competent regulatory agency
- Provide expert knowledge and guidance
- Provide prompt services
- Always act with consistency and fairness

## Internal process

### *Operational effectiveness*

- Promote interdepartmental cooperation
- Improve efficiency and productivity
- Ensure effective quality management

### *Partnership management*

- Implement effective Information Technology (IT) systems
- Build valuable partnerships
- Educate consumers and service providers
- Improve communication and feedback

### *Regulatory confidence*

- Ensure visible enforcement
- Influence clear and effective legislation and policy
- Comply with best practice
- Promote clear and unambiguous guidance

# FSB IN PERSPECTIVE

*The FSB is an independent institution, established by statute to oversee the South African non-banking financial services industry in the public interest, and is fully funded by fees and levies imposed on this industry.*

## Role and purpose

The FSB is an independent institution, established by statute to oversee the South African non-banking financial services industry in the public interest, and is fully funded by fees and levies imposed on this industry. Its goal is to ensure consumers of financial services are treated fairly by financial services providers, and that they enjoy a safe investment environment.

The FSB has a broad mandate: to promote and maintain a sound financial environment. Equally, its broad ambit includes retirement funds, short-term and long-term insurers, friendly societies, collective investment schemes and hedge funds, financial market infrastructure, and financial advisers and brokers. By including consumer protection and education in its mandate, the FSB is fundamental to the financial well-being of the country's financial consumers.

After more than 25 years of regulating the non-banking sector of South Africa's financial services industry, the FSB is acknowledged as a reputable authority in this field, locally and internationally. Over the years, it has contributed to the stability of this industry while meeting its mandate of protecting consumers of financial products and services.

The FSB has developed and maintained a strong, effective presence in the regulatory field, in South Africa and internationally, while working closely with its counterparts in Africa to establish solid regulatory frameworks.

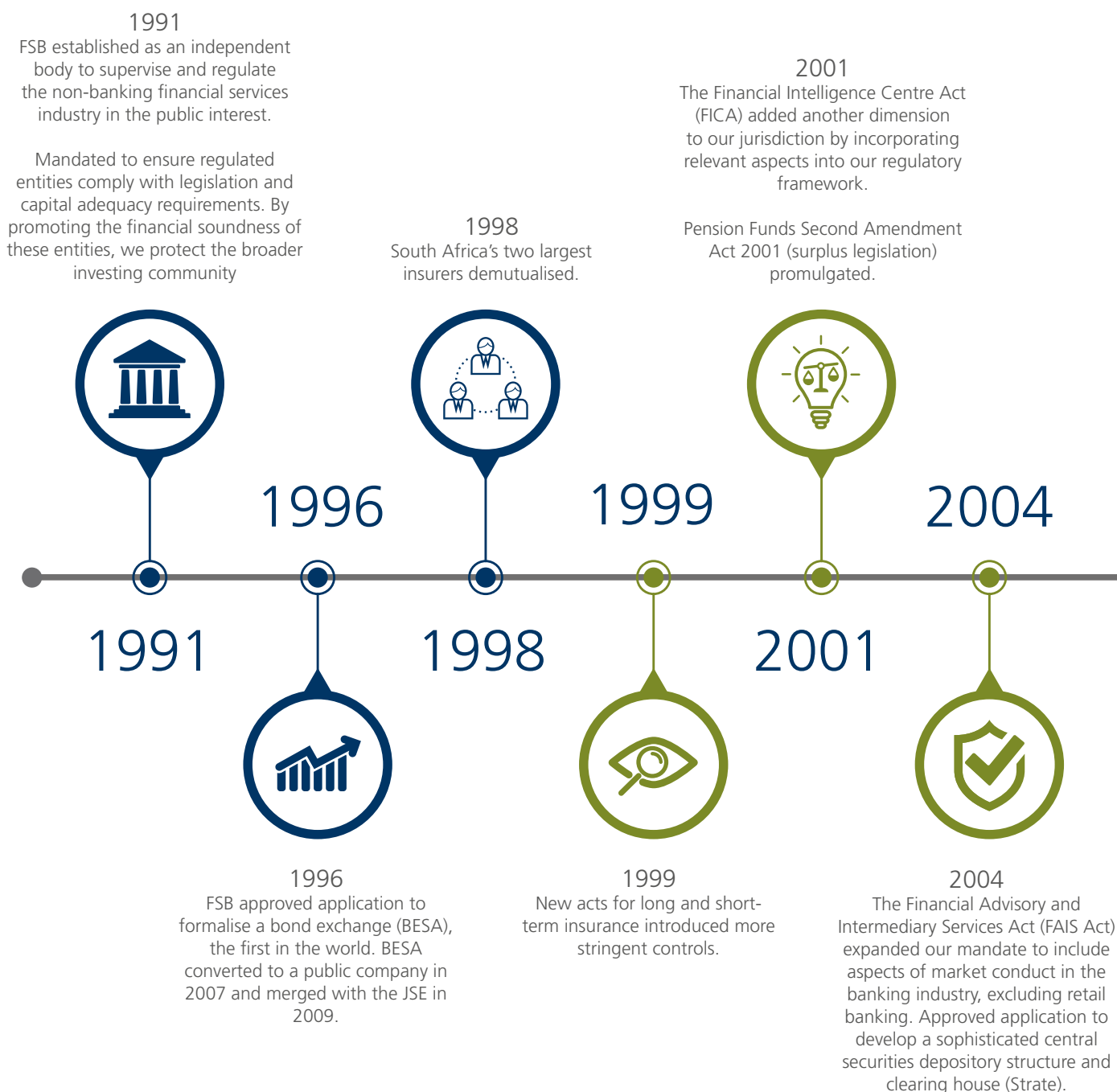
The FSB team has a sound understanding of regulatory issues and enjoys good support and cooperation from the industries and institutions it supervises. This in turn has created a platform for efficiency, both in the specific context of our supervisory and regulatory role, and in the wider context of the public interest, a stable financial system and promoting investor protection.





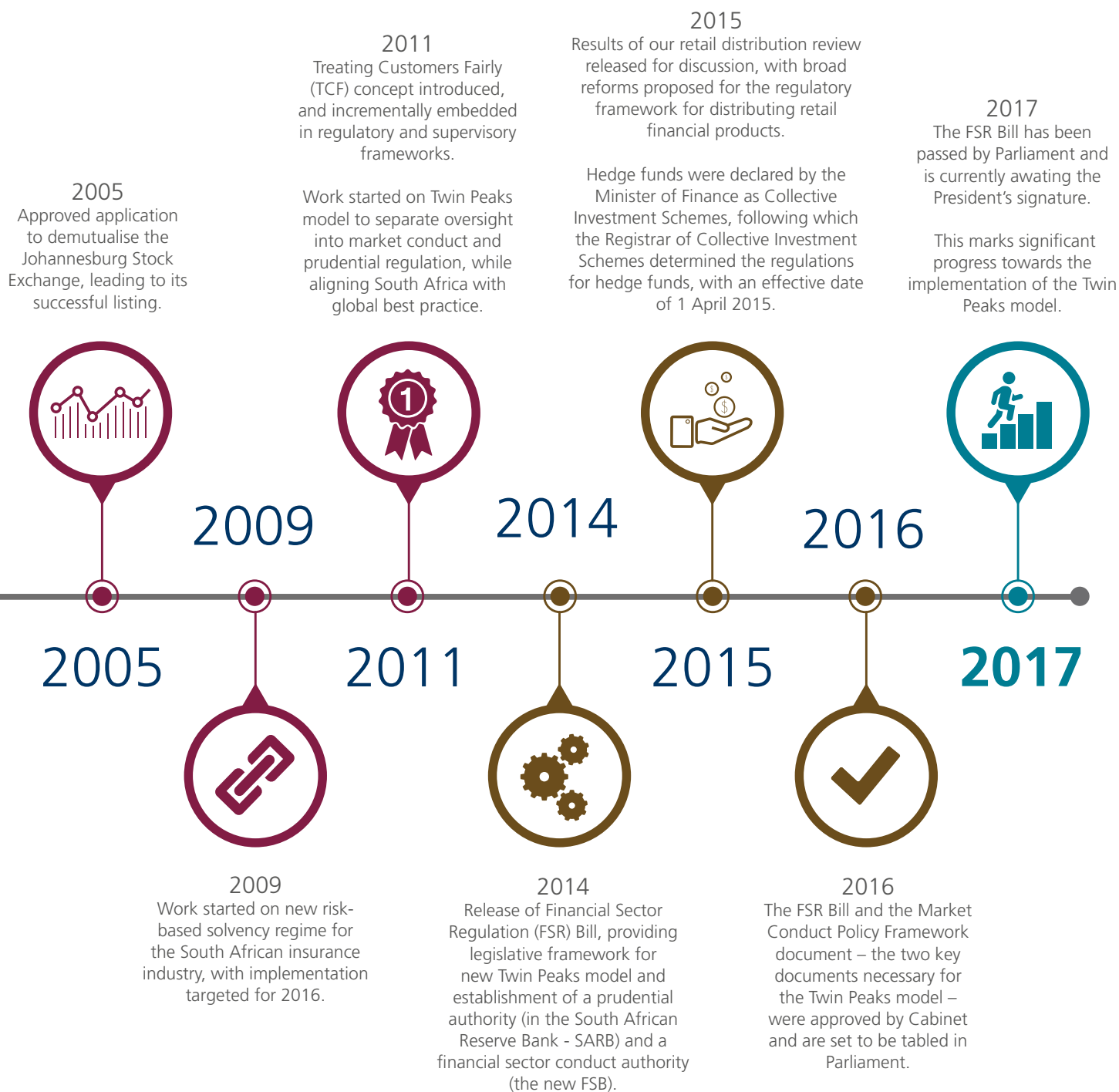
# FSB IN PERSPECTIVE

## FSB key milestones



## Acts administered by the FSB

- Collective Investment Schemes Control Act 45 of 2002
- Credit Rating Services Act 24 of 2012
- Financial Advisory and Intermediaries Services Act 37 of 2002 (FAIS Act)
- Financial Institutions (Protection of Funds) Act 28 of 2001
- Financial Intelligence Centre Act 38 of 2001
- Financial Markets Act 19 of 2012
- Financial Services Board Act 97 of 1990
- Financial Services Ombud Schemes Act 37 of 2004
- Financial Supervision of the Road Accident Fund Act 8 of 1993
- Friendly Societies Act 25 of 1956
- Inspection of Financial Institutions Act 80 of 1998
- Long-term Insurance Act 52 of 1998
- Pension Funds Act 24 of 1956
- Securities Services Act 36 of 2004
- Short-term Insurance Act 53 of 1998







## FOREWORD BY THE MINISTER OF FINANCE

*The FSB in its new guise as the Financial Sector Conduct Authority has a critical role to help transform this industry.*

Over the past 26 years, the FSB has consistently delivered on its legislative mandate to supervise and enforce compliance with laws regulating non-banking financial institutions and providers of financial services. The imminent adoption of the Twin Peaks model of financial regulation will see the tenure of the FSB ending and the birth of the Financial Sector Conduct Authority (FSCA).

The difficult economic conditions which characterised the previous years continued into 2016/17. The financial services industry was particularly negatively affected and investment returns were muted across all asset classes. Under these circumstances the role of the financial regulator becomes even more important in ensuring a stable and transparent financial services market that treats its customers fairly.

An important initiative of the financial sector reforms is the adoption and implementation of the Retail Distribution Review (RDR), a new more pre-emptive approach to market conduct regulation, ensuring that the regulatory framework optimally supports the delivery of the Treating Customers Fairly (TCF) outcomes. The TCF principles talk to key customer outcomes that all financial product and service providers will be expected to demonstrably deliver. The RDR proposes a number of far-reaching reforms to the regulatory framework for distributing financial products to customers in South Africa. The primary aim of RDR is to ensure that advice and intermediary services support fair customer outcomes; in particular, to promote access to appropriate, affordable and fair advice and distribution.

The financial services industry in our country remains largely untransformed

and the majority of our people remain excluded from it. The FSB in its new guise as the Financial Sector Conduct Authority has a critical role to help transform this industry. Financial inclusion and the formulation and implementation of strategies for financial education for the public are stated objectives of the financial sector reforms currently underway.

I would like to express my gratitude to the Executive Officer, Dube Tshidi, for his leadership of the FSB. I would also like to express my gratitude to the Executive Committee and staff of the FSB for their dedication, commitment and hard work in ensuring a sound and trusted financial services and investment environment in South Africa over the years.

**Mr MKN Gigaba, MP**  
*Minister of Finance*





## CHAIRPERSON'S REPORT

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*The 2016/2017 financial year was another milestone for the FSB as we entered the final stretch in our transition to the FSCA.*

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When Dr John Lilly once remarked that: "Our only security is our ability to change", he essentially corroborated the notion that change is the only constant. The financial services industry is not immune to this change and, as such, is constantly evolving globally and domestically, and those who operate within it have to adapt accordingly, particularly those tasked with regulatory and supervisory responsibilities.

The reform of the financial services sector towards the Twin Peaks model of financial regulation is set to ensure that South Africa keeps up with the changes in this environment, and align with what its counterparts are doing in different jurisdictions around the world. The 2016/2017 financial year was

another milestone for the FSB as we entered the final stretch in our transition to the Financial Sector Conduct Authority (FSCA). With the transition, the mandate of the FSB will change from being the regulator of the non-banking financial sector to being the market conduct regulator for the financial services industry as a whole.

### Operating in a dynamic global political economy

Recent events, both global and local, are reflective of an environment that is characterised by heightened levels of a pursuit of national interests. This is evident in the move of countries such as the United States and the United

Kingdom to adopt more protectionist socio-economic reforms that put their interests first. The FSB, as a critical regulator, in the South African economy, has a crucial role to play in ensuring that the interests of South African citizens, particularly consumers of financial products, are protected.

South Africa's economic performance influences the performance and activities of the FSB. As the country continues to seek ways to improve its economic performance, so too has the FSB worked even harder to enforce the necessary discipline in the management of its finances. As such, I am pleased to inform you that the FSB is financially sound, with sufficient resources to meet its commitments.

# CHAIRPERSON'S REPORT

## Regulatory developments

The Financial Sector Regulation (FSR) Bill – the Bill that is necessary for the implementation of the Twin Peaks model – has been passed by Parliament and is awaiting the President's signature. The FSB is now finalising the proposed organisational structure and related processes. Discussions are continuing with our counterparts at the South African Reserve Bank (SARB) about the transfer of staff once the Bill has been promulgated and the Prudential Authority has been established. The Board requested management to start recruiting staff, taking cognisance of the impending regulation of retail banking in the FSCA within the parameters of the legislation.

## Transformation:FSR Bill

The Standing Committee on Finance (SCOF) held Parliamentary hearings during March 2017 primarily to discuss the transformation of the financial services sector following robust discussions on the matter. SCOF strongly urged the entities under the Ministry of Finance to expedite the transformation initiatives and increased ownership within the financial services industry. In line with this, FSB management is making strides to ensure that FSCA promotes transformation in the industry.

## Legal matters

On 19 January 2016, an application was received in which the former Deputy Registrar of Pension Funds at the time, Rosemary Hunter, sought relief against the Board of the FSB and, in the alternative, against the

Minister of Finance. The Chairperson of the Board, the Executive Officer, the previous Deputy Registrar of Pension Funds and the Minister were cited as respondents in the matter. The application was dismissed on 14 December 2016.

The applicant sought to appeal the judgment, but her application for leave to appeal was dismissed by both the North Gauteng High Court and the Supreme Court of Appeal in 2017. Ms Hunter has decided to file an application for leave to appeal to the Constitutional Court. The application is being opposed by the responding parties and the matter is still pending.

The FSB also continued with its oversight role in the curatorship of various pension funds, inter alia, Fidentia, Cadac, Ovation, Corporate Money Managers and Rockland, with a number of reports submitted by the curators. These reports are available on the FSB website ([www.fsb.co.za](http://www.fsb.co.za))

The FSB Appeal Board disposed of a number of appeals against the Registrar's decisions, with the Johannesburg Stock Exchange (JSE) case against the decision to approve a further stock exchange licence attracting most of the public attention. Similarly, the Market Abuse Division has kept a keen watch over the conduct of market players in the broader financial sphere.

dedication to the regulation of the financial services industry, especially in the light of the uncertainty associated with the long, drawn-out transition to the FSCA. Ultimately, this collective commitment and professionalism benefits the national economy and the broader South African population.



**Mr AM Sithole**  
*Chairperson of the Board*

## Acknowledgements

Our people continue to demonstrate their ability to adapt to change, which is deeply appreciated. I thank my fellow Board members, the FSB's executive (Exco), management teams and the rest of the staff for their continued



## EXECUTIVE OFFICER'S REPORT

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*As a Market Conduct Regulator, the mandate of the FSCA is to protect consumers of financial services and promote confidence in the South African financial system.*

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### Changing mandate

As we approach the final stages of the promulgation of the Financial Sector Regulation (FSR) legislation, much work is being done to ensure a seamless transition from the Financial Services Board (FSB) to the Financial Sector Conduct Authority (FSCA). The progress made to date is significant.

As a Market Conduct Regulator, the mandate of the FSCA is to protect consumers of financial services and promote confidence in the South African financial system.

### Legislative process

The FSR Bill was passed by Parliament on 22 June 2017 and is currently awaiting Presidential assent. In terms of the process followed in the enactment of the Bill, it will probably take six to eight more months before the Act is in full effect. During that time, the Minister of Finance will be starting the process of recruiting and appointing the Commissioner and Deputy Commissioners to lead the new entity.

Managing the change for our internal and external stakeholders has been a critical part of our journey. It is a delicate process that has been prioritised by the FSB leadership.

### Keeping our stakeholders informed

As part of our change management efforts, our Communications Department has set up various platforms through which we have been engaging with our stakeholders on Twin Peaks developments. The initiatives include a six-part series aired on Business Day TV, a televised Twin Peaks panel discussion hosted at the JSE and broadcast on CNBC Africa, a monthly newsletter to the industry, and Sowetan Twin Peaks dialogues covered in double-page spreads in The Sowetan.

# EXECUTIVE OFFICER'S REPORT

Our Consumer Education Department (CED) has been visiting communities to make them aware of the changes they can expect when Twin Peaks comes into effect, and how the new market conduct authority will help them be more confident when dealing with financial services providers (FSPs). The CED's 'taking regulation to the people' initiative showcases how the new authority will build on the current FSB initiatives and become even more consumer-centric in its approach. This engagement was further augmented by a number of awareness campaigns that were rolled out across the country on both print and broadcast platforms.

## The central role of the Regulator in today's society

We really do take our role of protecting consumers very seriously. To this end, I'm happy to report to you that the first draft of legislation concerned with the conduct of business is currently being finalised. This law, called Conduct of Financial Institutions (CoFI) Bill will essentially replace many of the different sectoral laws that deal with market conduct, substituting the fragmented sectoral approach with a single market conduct law that is comprehensive and proportionate. Though the Bill is only going to be implemented in the second phase of the Twin Peaks process, a number of regulations are being prepared to ensure that market conduct guidelines are clearly articulated.

For instance, our Insurance Division has spearheaded the process of amending the Insurance Acts in order to ensure that regulation such as the Protection of Policy-holder Rules (PPRs) are enhanced. To date, proposed replacements of current PPR notices have been published through the Government Gazette and will be effective in the following financial year. To provide further protection for consumers we are continually improving the Retail Distribution Review (RDR) proposals to ensure that incentives

paid to advisors promote fair treatment of customers. The Financial Advisory Intermediary Services department (FAIS) has also published new *Fit and Proper requirements* which introduces continuous professional development and training requirements to ensure that financial advisors are fully knowledgeable about the financial products they sell and the market they serve. This will help to build even more confidence and trust in the financial services industry.

In the capital markets area, we have licensed two new stock exchanges (ZAR X and 4AX) to operate in South Africa. We also provided further clarity on our regulation of credit ratings agencies (CRAs). I wish to reiterate that the FSB is committed to ensuring that there is integrity, good governance and independence in credit rating activities. At all times, the safeguarding of investors is uppermost in what we do. As such, during the year under review, we stepped up our efforts (including onsite reviews using a risk-based approach) to ensure that CRAs operate in a controlled environment.

The 2016/2017 financial year also saw our renewed commitment to reaching more members and beneficiaries of unclaimed retirement benefits. To date, the Retirement Funds Department has done a great deal of work in developing a search engine and SMS facilities that will go a long way in helping us with this objective (see full report on page 32). We hope to launch both of these in the new financial year.

## An entity at the centre of the nation's transformation agenda

Together with our statutory obligations to ensure that FSPs treat customers fairly, the FSR Bill introduces an objective for the FSCA to focus on transformation in line with the call for the fast tracking of the transformation agenda of our country. There have been robust engagements on the


FSR Bill with many key role-players to ensure that transformation objectives are appropriately captured in the Bill and that the Regulator is sufficiently empowered to assist in realising the goal of financial inclusion for all.

## Remaining steadfast in a tough operating environment: Looking ahead

In spite of all the changes on its operational landscape, the FSB will continue to deliver on its vision of ensuring a sound and trusted financial services environment. The Twin Peaks transition brings about vast opportunities for strengthening our regulatory regime. We navigate these changes from a sound financial position, having received a clean audit report from the Auditor-General South Africa (AGSA). Our chief financial officer gives more details of this in his report on page 23.

## Appreciation

Without the immense support of the FSB staff, the changes we are facing would have been practically impossible to digest. Your dedication and openness during this transition period have been invaluable. To the executive team, thank you for demonstrating an astounding level of leadership in assisting me to articulate the vision and the mandate of this organisation. I remain eternally grateful to you for sharing your expertise so liberally and ensuring that we constantly meet our targets. I also extend my appreciation to all industry players, associations and the leadership of National Treasury for their continued commitment to the success of our industry. Finally, my gratitude goes to the FSB Board chairman and the members he leads, for their strategic guidance, effective leadership and wisdom.



**Adv DP Tshidi**  
Executive Officer



# STRATEGIC OVERVIEW

The FSB operates in a dynamic environment, externally and internally. Combined with the changing needs of our stakeholders, it is imperative that our strategy is equally dynamic to remain relevant and effective, and that our strategic objectives and performance measures are appropriate. We regularly review our strategy to:

- Identify critical strategic focus areas
- Use these areas to develop detailed business plans
- Develop measures to support new strategic focus areas.

In line with the evolution of the South African financial regulatory landscape to Twin Peaks, a particular strategic focus area has been on the seamless transition from the FSB to the FSCA. This included full readiness for the transition

with minimum disruption to the FSB ongoing functions, development of a recommended regulatory strategy for the FSCA and recommended organisational design to support the organisational readiness for the transition.

In designing our strategy, we consider the expectations and needs of our direct external and internal stakeholders to create sustainable value. We also consider factors in the financial services environment and resources available to our organisation. We thoroughly evaluate our business performance against strategic objectives in each planning cycle to ensure we maintain relevant objectives while striving to ensure our regulatory and supervisory frameworks will meet policy objectives and appropriately comply with international standards. At all times, we

are guided by our vision and mission, while living up to our values.

## Vision

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

## Mission

### To promote:

- Fair treatment of consumers of financial services and products
- Financial soundness of financial institutions
- Systemic stability of financial services industries
- Integrity of financial markets and institutions
- Consumer financial education.

## Strategic intent

Our strategy is anchored on five pillars that address specific objectives. These pillars form the basis for developing performance and operational plans. Our performance against these objectives is detailed here:

Pillar	Key Institutional Objectives	Key Performance Indicators
<b>Empowered consumers</b>	<ul style="list-style-type: none"> <li>• Promote financial education to consumers of financial services and products</li> <li>• Promote transformation in the industries regulated by the FSCA</li> <li>• Promote financial inclusion in the industries regulated by the FSCA</li> </ul>	<ul style="list-style-type: none"> <li>• Interventions to provide and promote financial education</li> <li>• Transformation strategy and plan</li> <li>• Micro-insurance regulatory framework</li> </ul>
<b>Proactive stakeholder management</b>	<ul style="list-style-type: none"> <li>• Maintain an effective communication, brand, reputation and stakeholder management strategy during the transition to FSCA</li> </ul>	<ul style="list-style-type: none"> <li>• Marketing and brand awareness campaigns</li> <li>• Stakeholder outreach plans</li> </ul>
<b>Sound financial institutions</b>	<ul style="list-style-type: none"> <li>• Ensure regulatory framework in line with international standards</li> <li>• Effective supervision of financial service providers</li> <li>• Enforce compliance with legislation</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing review of framework to identify gaps</li> <li>• Implemented risk-based supervisory plans</li> <li>• Effective enforcement of legislative compliance</li> </ul>
<b>Improved internal policies and process</b>	<ul style="list-style-type: none"> <li>• Adequately resourced FSB to deliver on strategic plan</li> <li>• Effective systems and processes</li> </ul>	<ul style="list-style-type: none"> <li>• Align departmental requirements with available financial and human resources</li> <li>• Implementation of approved projects and adherence with Information Communication Technology (ICT) service level agreement</li> </ul>
<b>Effective transition to market conduct regulator</b>	<ul style="list-style-type: none"> <li>• Full readiness for transition with minimal disruption to FSB's ongoing operations</li> <li>• Recommended regulatory strategy for FSCA developed to support strategic readiness for transition to the FSCA</li> <li>• Recommended organisational design for the FSCA developed to support organisational readiness for transition to FSCA</li> </ul>	<ul style="list-style-type: none"> <li>• Overarching transition programme implemented within stipulated timeframes and conditions</li> <li>• Final recommendations on regulatory strategy</li> <li>• Final recommendations on organisational design</li> </ul>

# STRATEGIC OVERVIEW

## REGULATORY STRATEGY COMMITTEE

One of the FSB's key strategic objectives is to ensure an effective transition to its new mandate as a dedicated market conduct regulator in the Twin Peaks regulatory model. A committee of the FSB Exco, the Regulatory Strategy Committee (RSC) is mandated to support the Exco in facilitating a smooth transition to this new regulatory model.

The RSC has three main objectives: to develop recommendations on a proposed market conduct regulatory strategy (embedding TCF principles) for the future authority; to develop recommendations and transition proposals for the optimal future organisational design and structure of the new authority; and to oversee the progress and implementation of specific current or future market conduct regulatory projects of the FSB that are identified as being of strategic importance to the FSB and the anticipated future work of the new authority.

During the year under review, the RSC focused on:

- Progressing with the overarching project plan for the FSB's transition to the FSCA. As part of the overarching transition plan, a number of sub-projects have been identified. Work has also continued defining business processes and protocols and functional roles and responsibilities of the future FSCA.
- Work has continued on the development of a proposed regulatory strategy of the FSCA, in preparation for the future statutory requirement (under the FSR Bill) for

the new authority to develop and publish such a strategy.

- Work has continued on the development of a recommended organisational design for the future FSCA that will be fit for purpose in light of the FSCA's intended overarching, activity-focused approach to delivering on its future mandate.
- Ongoing engagement with and detailed input to the National Treasury on the FSR Bill as well as the COFI Bill development of which has started.
- Participation in a wide range of stakeholder forums, including industry conferences, engagements with individual regulated entities and media engagements, to create awareness and understanding of the intended market conduct regulatory and supervisory approach of the future FSCA. The Market Conduct Regulatory Framework Steering Committee, a multi-stakeholder consultation forum established in 2015, has continued to operate as an overarching stakeholder engagement forum on conduct of business related regulatory initiatives.
- Ongoing oversight of a number of key cross-cutting FSB market conduct regulatory projects. These include the RDR and proposals for enhanced TCF - aligned customer complaints management requirements. Work has also continued on developing an appropriate supervisory framework in relation to the tax free savings product model launched by National Treasury in 2015; the

implementation of the new conduct reporting requirements for insurers and financial intermediaries; finalisation of the review of the competency framework for financial intermediaries; and the development of key information documents in respect of various retail financial products.

## Strategic risks

### Policy and framework

The FSB has an approved risk management framework, policy and strategy, which includes a fraud and corruption prevention strategy. The framework lays the foundation for integrating effective risk management into the organisation and establishes an organisation-wide approach to risk management oversight, accountability and process execution.

Risk management and reporting is robust. It includes regular reviews and updates of strategic, operational and compliance risks, and corroborating controls that mitigate identified risks. In addition, a programme of creating ongoing awareness of risks, fraud and corruption is undertaken through presentations, surveys and articles distributed to staff via email.

# STRATEGIC OVERVIEW

## Key risks

The FSB's top five key risks directly related to its strategic objectives are summarised below.

No	Key business objectives	Business risk	Risk consequence	Likelihood	Management response
1	Proactive stakeholder management. Improved internal policies, processes and procedures	<b>Excessive litigation exposure.</b> Litigation arising from regulatory mandate.	<ul style="list-style-type: none"> <li>Financial exposure</li> <li>Reputational damage</li> <li>Loss of regulatory focus</li> <li>Professional time</li> </ul>	Almost certain	<ul style="list-style-type: none"> <li>Availability of appropriate legal skills in the FSB</li> <li>Strong internal and external legal support</li> <li>Regular consultation</li> <li>Reputation management</li> <li>Strong internal quality control</li> </ul>
2	Improved internal policies, processes and procedures	<b>Cyber-crime – access to information (internal and external).</b> Inappropriate internal/ external access to information and ineffective firewalls.	<ul style="list-style-type: none"> <li>Loss of data</li> <li>Reputation compromised</li> <li>Contravention of security legislation</li> <li>Corruption of data</li> <li>Financial loss</li> <li>Loss of physical assets</li> <li>Unauthorised disclosure of information</li> <li>Unauthorised access to all FSB information</li> </ul>	Almost certain	<ul style="list-style-type: none"> <li>Implementation of approved ICT security strategy and controls</li> <li>Approved ICT security policies in place</li> </ul>
3	Improved internal policies, processes and procedures	<b>Data integrity.</b> Inaccurate/ unreliable management information.	<ul style="list-style-type: none"> <li>Uninformed Regulator</li> <li>Incorrect rulings</li> <li>Avoidable legal challenges</li> <li>Loss of reputation</li> <li>Not meeting FSB legislative mandate</li> </ul>	Likely	<ul style="list-style-type: none"> <li>Adopting sound policies and procedures</li> <li>Regular management meetings</li> <li>Scheduled ICT steering committee meetings</li> <li>Sharing information</li> <li>Sound governance structures</li> <li>Sound internal accounting controls</li> <li>Systems validation</li> <li>Backups and disaster recovery testing</li> </ul>
4	Improved internal policies, processes and procedures. Empowered consumers of financial services and products	<b>Recruiting and retaining skilled staff.</b> Failure to attract and retain employees with the right skills.	<ul style="list-style-type: none"> <li>Inability to deliver on mandate</li> <li>Ineffective Regulator</li> <li>Loss of respect and trust by regulated entities</li> <li>Compromised reputation</li> <li>Ineffective implementation of legislative mandate</li> <li>Lack of skills to keep up with business demands</li> <li>Lack of skills to implement RDR</li> </ul>	Likely	<ul style="list-style-type: none"> <li>Sound Human Resources (HR) policies</li> <li>HR Training</li> <li>Seconding staff</li> <li>Bursaries for scarce skills</li> <li>Improved recruitment strategies</li> <li>Talent management</li> </ul>
5	Improved internal policies, processes and procedures	<b>Integrity and credibility of the FSB.</b> Risk of loss of stakeholder confidence in the FSB.	<ul style="list-style-type: none"> <li>Inability to enforce mandate</li> <li>Unable to maintain stakeholder and industry confidence</li> <li>Consumers cease reporting cases due to lack of confidence</li> </ul>	Likely	<ul style="list-style-type: none"> <li>Communication strategy to enhance the visibility of the FSB</li> <li>Formal and informal interaction with industry associations</li> <li>Proactive engagement with the media</li> <li>Fraud and integrity confidential hotline</li> <li>Use of technology to build brand</li> </ul>

# STAKEHOLDER RELATIONSHIPS

The key risk in this area is stakeholders who may not fully understand our mandate and the legislative framework under which the Regulator operates. Accordingly, and in light of the transition to the Twin Peaks model, we have focused on strengthening understanding of our current and future mandate with all our stakeholders. Work also continued in terms of increasing media interaction and stakeholder communication, as well as better visibility of FSB representatives on public platforms.

The FSB's key stakeholders, their importance to our sustainability and key issues raised are summarised in our supplementary report on our website.

**The table below summarises the rationale and methods of engaging our critical stakeholders:**

Stakeholder	Why?	What we need from them	What they need from us	Risks if needs are not met	How we engage/ frequency
<b>Consumers of financial products</b>	Mobilise and change behaviour for more informed decisions	Active engagement Participation Confidence	Financial education Protection Adhering to mandate Constant communication	Unprotected and uninformed consumers Lack of trust in FSB and financial sector	Quarterly FSB bulletin FSB website Media, e.g. cautionary notices Call centre Education initiatives
<b>Staff</b>	Consistent service orientation	Pride in the organisation  Active engagement Brand ambassadors	Ongoing communication and consultation  Ability to raise concerns and expectations	No commitment to FSB mandate  Lack of productivity Deliberate sabotage	Quarterly FSB Buzz from the Board  Ad hoc newsletter Intranet Meetings arranged by HR Messaging on screens and poster boards
<b>Regulated entities</b> (insurers, retirement funds, collective investment schemes, credit rating agencies, financial advisers and intermediaries and financial market infrastructure)	Can help the FSB achieve its mandate through buy-in and commitment to regulatory objectives	Comply with FSB regulations Relationship building Support and buy-in	Consultation  Guidance Relevant regulatory certainty and clarity on where they stand with the FSB  FSB quick turnaround times and consistent application of legislation	Non-compliance  Ineffective financial regulations Industry non-cooperation Erosion of credibility	Quarterly FSB bulletin  FSB website (updated daily) Media releases Conferences Consultative meetings Consultation on draft regulations Bi-weekly meetings with JSE market surveillance and issuer regulation departments
<b>Business leaders</b>	Help the FSB achieve its mandate through buy-in and commitment to regulatory objectives	Clear understanding of what the FSB does	Consultation Information Partnerships	Lack of support  Negative perception of the FSB	Individual meetings Quarterly FSB bulletin Media Releases FSB website



# STAKEHOLDER RELATIONSHIPS

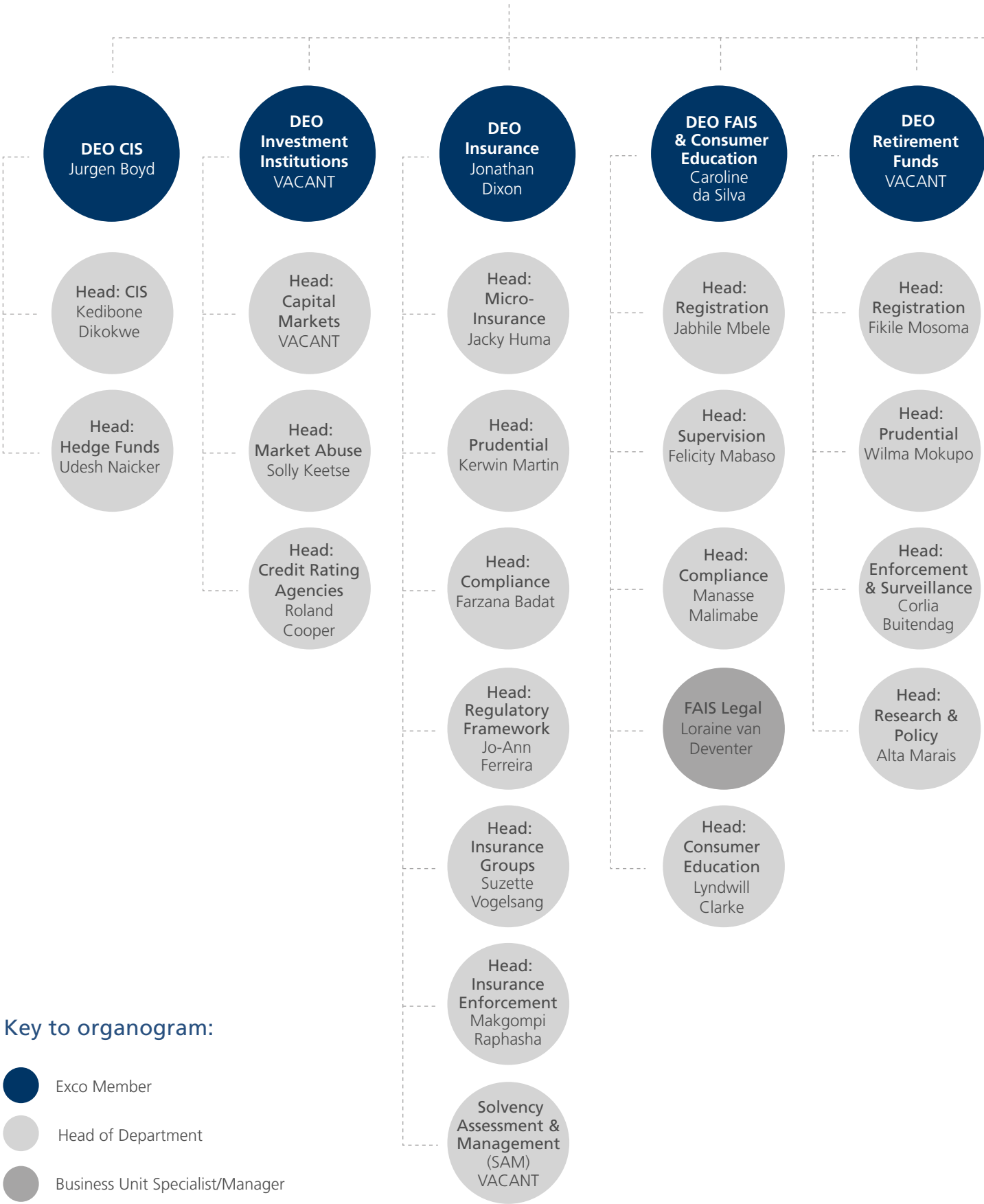
Stakeholder	Why?	What we need from them	What they need from us	Risks if needs are not met	How we engage/ frequency
<b>Executive/ legislative authority</b> (Government, National Treasury, Parliament)	Provides legislative oversight, guidance and direction to the FSB	Support and buy-in	Adhering to mandate  Proposing and implementing relevant policy initiatives Support  Brand and reputation management	Proposed legislation not accepted  Instability in financial regulation systems in South Africa  Ineffective regulation	Annual report on FSB performance and outlook
<b>National Prosecuting Authority</b>	Criminal prosecution of financial offences on referral by the FSB	Effective criminal prosecution of cases and collaboration	Consumer protection	No enforcement	Correspondence as necessary
<b>Media</b> (local and International media)	Assists the FSB to achieve its mandate through consumer awareness and education  Assist in brand building	Partnerships  Relationship building  Awareness and understanding of issues within FSB	Transparency  Proactive communication on matters in the public interest  Accessibility	Inaccurate information being reported  Brand reputation challenges	Individual information-sharing sessions  Quarterly roundtable discussions  Quarterly FSB bulletin  Media advisories (as and when needed)  Press releases
<b>Local and international Regulators</b>	Assists the FSB to achieve its mandate through benchmarking and cooperation  Benchmark legislation and regulation to international best practice	Partnerships  Cooperation	Partnerships  Cooperation	Consumer confusion  Consumers prejudiced by unscrupulous financial services providers  Not keeping abreast of regulatory developments  Weak regulatory reforms  Lack of cross-border cooperation and assistance  Non-compliance with international standards  Reputational risks	Consultative documents such as surveys  Conferences  Arranging and attending meetings of international standard-setting bodies

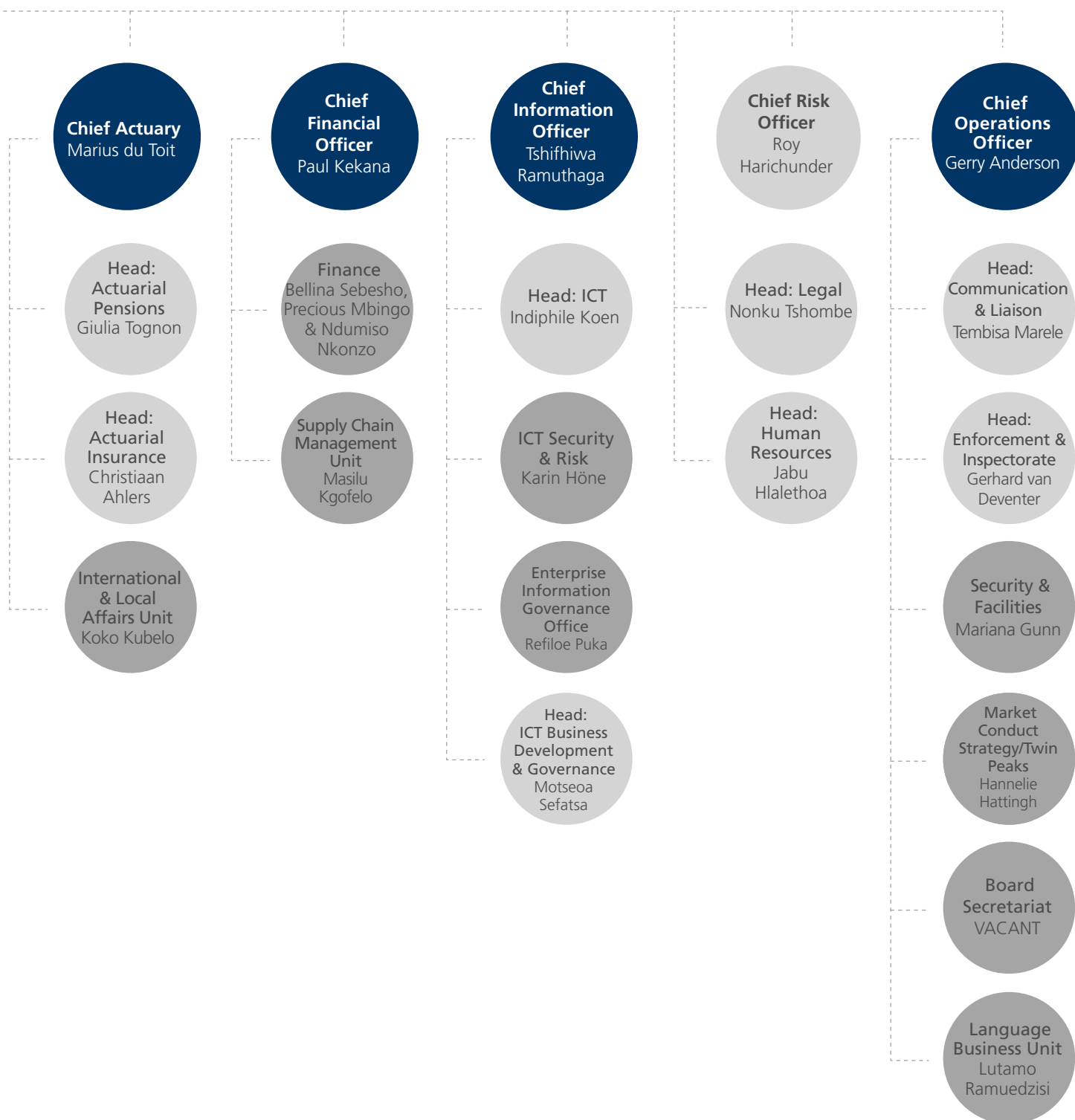
\* To stay abreast of international regulatory developments and to benchmark its regulatory structures against best-practice standards, the FSB participates in the activities of international and regional bodies, including:

- International Organisation of Securities Commissions – IOSCO
- International Organisation of Pension Supervisors – IOPS
- International Association of Insurance Supervisors – IAIS
- International Financial Consumer Protection Organisation – FinCoNet
- Association of African Insurance Supervisory Authorities – AAISA
- Committee of Insurance, Securities and Non-banking Financial Authorities – CISNA
- African Insurance Organisation – AIO

# ORGANISATIONAL STRUCTURE

EXECUTIVE OFFICER DUBE TSHIDI





# SUPPORT DEPARTMENTS

PLEASE SEE OUR SUPPLEMENTARY REPORT FOR DETAILED PERFORMANCE IN THE PERIOD UNDER REVIEW.

## ACTUARIAL

The Actuarial Department mainly provides a support service to the insurance and retirement funds divisions. Specific regulatory functions have been delegated to its pensions section, including:

- Analysing actuarial valuation reports, considering and approving surplus apportionment schemes. During the period, the Registrar accepted 855 actuarial valuation reports and 906 were pending due to unresolved queries.
- Considering and approving applications in terms of section 14 of the Pension Funds Act 24 of 1956 to ensure the scheme of transfer fully recognises the rights and reasonable benefit expectations of remaining and transferring members. During the period, 3 355 new applications were received and considered. A large number of section 14 transfer cases were pended because of the poor quality of some submissions or outstanding valuations or other critical transfer information, including applications that did not provide the necessary evidence that member communication took place as part of the transfer process. In total, 982 cases were pending at 31 March 2017 compared to 633 in 2016.

## INTERNATIONAL AND LOCAL AFFAIRS

This unit manages internal and external stakeholder relations by liaising with, and monitoring local and international developments in the financial sector, including developments emanating from the Financial Stability Board (Finstab), World Bank, International Monetary Fund (IMF), Southern African Development Community (SADC), and similar bodies. It also houses the CISNA secretariat.

## INFORMATION COMMUNICATION TECHNOLOGY (ICT)

Given the FSB's reliance on technology, the Board-approved ICT strategy comprised of both the business demand and the ICT supply portfolio. This is supported by an ICT security and risk strategy that addresses related risks.

Highlights during the period under review included:

- ICT governance framework revised to accommodate the two modes of operation
- FSB business as usual, and Twin Peaks readiness activities
- Twin Peaks preparations, which included the business process re-engineering to align with the future business architecture
- Risk mitigation - enhanced ICT security controls to secure confidential information
- Customer service and stakeholder engagement platforms were enhanced, including the FSB website
- Service-level commitment against a target of 90%; ICT averaged 97.54%

- Business enhancements: 96% of identified core regulatory applications enhancement projects implemented, against a 90% target.

## INSPECTORATE AND ENFORCEMENT

Under the Inspection of Financial Institutions Act 80 of 1998 (Inspection Act), the Registrar may appoint inspectors and instruct inspections into the affairs of financial institutions, associated institutions and unregistered operators. Inspections are also conducted as part of assistance given to foreign regulators. This cross-border assistance is conducted as a result of requests in terms of memoranda of understanding and multilateral memoranda of understanding. We have the statutory powers to conduct these investigations in terms of section 3A of the Inspection Act.

The Inspectorate Department conducts inspections on behalf of the Registrar and in terms of the investigative powers provided in the Act. During the review period, 21 inspections were finalised. Of these, five were requests for assistance (in terms of section 3A). The balance related to contraventions of the FAIS Act and Pension Funds Act.

In November 2008, the FSB enforcement committee (EC) was established in terms of an amendment to the Financial Institutions (Protection of Funds) Act 28 of 2001. It replaced the capital markets enforcement committee. The EC is an administrative tribunal with jurisdiction to impose penalties, compensation orders and cost orders against those who contravene any FSB law.

The Registrar and the Directorate of Market Abuse (DMA) use this process to deal with the majority of



contraventions and non-compliance with FSB legislation by the industry and members of the public.

The EC considered 23 cases against 26 respondents and found a contravention of FSB legislation in each case:

- Insurance legislation (Short-term Insurance Act 53 of 1998 and Long-term Insurance Act 52 of 1998) in six cases;
- Financial Advisory and Intermediary Services Act 37 of 2002 in six cases;
- Security Services Act 36 of 2004 in three cases;
- Financial Markets Act 19 of 2012 in six cases; and
- Collective Investment Schemes Control Act 45 of 2002 in two cases.

In total, penalties of R14.3 million were imposed on 26 respondents.

## MARKET CONDUCT STRATEGY (INCLUDING TREATING CUSTOMERS FAIRLY)

The focus of the Market Conduct Strategy Unit is supporting the FSB's Regulatory Strategy Committee and various departments in developing new regulatory and supervisory frameworks for the FSB's dedicated market conduct mandate in the pending Twin Peaks model of regulation. As highlighted in the National Treasury's December 2014 document, Treating Customers Fairly (TCF) in the financial sector: a draft framework for market conduct policy in South Africa, the TCF approach will underpin the new market conduct authority's approach to supervision.

Accordingly, the Market Conduct Strategy Unit provides ongoing support to FSB operational areas and regulated entities in embedding TCF principles, in addition to supporting the FSB more holistically in developing its future regulatory and supervisory frameworks.

## HUMAN RESOURCES

The HR Department plays a significant role in facilitating the understanding and ongoing practice of the FSB's values and culture. It strives to create an attractive work environment for the recruiting, developing, rewarding and retaining high-potential people through a complete HR service offering, and partnering with FSB departments.

## LEGAL

The Legal Department provides ongoing legal support services to the entire FSB. Legal services are mainly available in-house, especially in the areas of legislation, litigation management and general corporate legal advice. Where necessary, the department engages external professionals (attorneys, counsel) to provide the requisite legal services, particularly for litigation.

Key objectives include:

- Minimising the FSB's exposure to external and internal legal risk
- Facilitating ongoing legislative review to enable line departments to deal with any regulatory gaps that may exist, with a view to submission to National Treasury as an addition to its annual legislative programme.
- Legal support in litigation.

The department also provides ongoing secretarial support to the FSB appeal Board. The department has achieved its objectives and targets for the year in both the courts and the FSB Appeal Board.

## COMMUNICATIONS

The Communications Department supports the FSB's vision and mandate by building and maintaining a positive reputation for the FSB through strategic relationships with internal and external stakeholders. The aim,

ultimately, is to make a contribution towards the achievement of the FSB's vision and mandate of promoting and maintaining a sound financial investment environment in South Africa.

Highlights include the implementation of a comprehensive Twin Peaks communication initiative, which included a consumer-facing six-part television series, two dialogues and a workshop for regulated entities. These events shed light on the Twin Peaks model of financial regulation and highlighted how the financial services industry and consumers will be impacted by this legislation.

Other activities included:

- Four media roundtable discussions to help the media better understand the various aspects of the FSB's work
- 63 media releases and 16 broadcast interviews
- 264 media-related queries managed
- Over 6 324 written and 51 000 telephonic queries received.

## LANGUAGE BUSINESS UNIT

The Language Business Unit is a statutory unit established in compliance with the Use of Official Languages (UOLA) Act 12 of 2012. This Act proclaims that each national government department, national public entity and national public enterprise should develop a language policy and establish a language unit. The unit's responsibility is to guide and monitor the use of official languages by the FSB, both internally (staff members) and externally (interaction with members of the public), advising the Board and Executive Committee on the different activities regarding the language policy provisions.



Financial Services Board

## PART B

### PERFORMANCE INFORMATION



## CHIEF FINANCIAL OFFICER'S OVERVIEW

*As a Regulator, the FSB targets to financially break-even, which is often made difficult by the dynamic environment in which we operate.*

Our strategies on cost containment and improvements on efficiencies continue to drive value to our stakeholders and at the same time contain annual levy increases. The FSB's main source of funding is from levies and fees that are charged to the non-banking financial services industry. As a Regulator, the FSB

targets to financially break-even, which is often made difficult by the dynamic environment in which we operate.

The FSB remains financially sound, with total net assets increasing to R359 million from R281 million and cash and cash equivalents increasing to

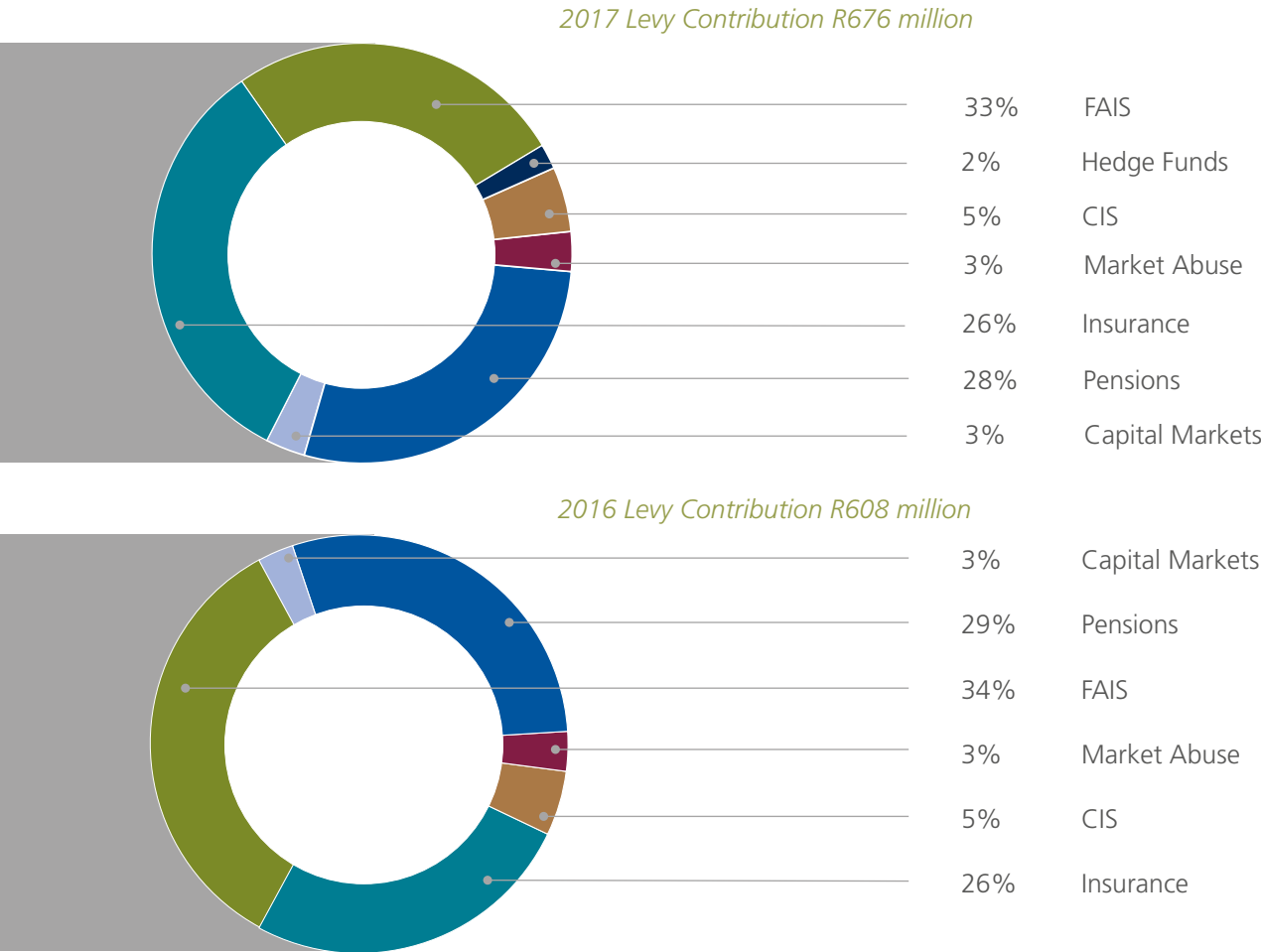
R361 million from R302 million recorded in the previous financial year.

Working capital ratio improved to 4:1 (2016: 3.1), enabling us to meet our obligations as they fall due.



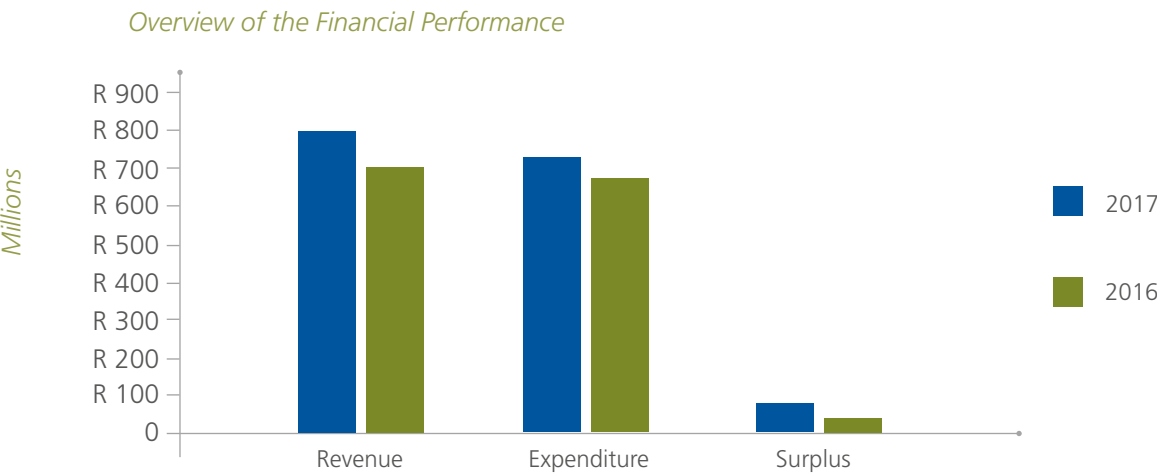
# CHIEF FINANCIAL OFFICER'S OVERVIEW

## Levies by industry



The FAIS, pensions and insurance industries are the major contributors to the levy income, accounting for 87% and 89% for 2017 and 2016 financial years respectively. Hedge Funds, a newly established department within the CIS division, is steadily recording revenue and is planning to be fully operational and self-funding in the short term.

## Financial performance



## Revenue

The FSB recorded revenue of R782 million for the year (2016: R705 million) against a budget of R729 million. The favourable variance is due to penalty income amounting to R15 million, which by nature is not budgeted for, fee income of R14 million due to increased volumes compared to budget, higher investments income of R18 million due to higher interest rates with the balance made up of other income and recoveries.

## Operating costs

The FSB recorded operating costs of R705 million for the year (2016: R659 million) against a budget of R745 million. The favourable variance is a result of cost management measures and delayed Twin Peaks expenses.

The FSB contribution to the funding of the offices of the FAIS Ombud for Financial Services Providers (FSPs) and the Pension Fund Adjudicator amounted to 5.25% and 7.03% respectively of the total operating costs for the financial year.

## Surplus

The FSB has recorded a surplus of R78 million for the year (2016: R46 million) against a budgeted deficit of R15 million. The surplus is mainly as a result of the under-spending on Twin Peaks related transitional costs due to the delays in the promulgation of the legislation. Accumulated surplus increased to R255 million (2016: R192 million) and contingency and discretionary reserves to R104 million (2016: R89 million). In terms of section 53(3) of the Public Finance Management Act (PFMA), the FSB will request approval from National Treasury to retain the surplus funds, which will be used to fund the cost of implementing the Twin Peaks regulatory model.

The FSB has approval to maintain two reserve accounts: the contingency and discretionary reserves, currently at R72 million (2016: R66 million) and R32 million (2016: R23 million) respectively. The contingency reserve is maintained at a maximum of 10% of levy and fee income. This reserve is held to protect the FSB against the risk of unforeseen events. The discretionary reserve is a depository for fines and penalty income and is used to fund consumer education related expenses.

## Capital investments

Capital investments comprise property, plant and equipment (PPE) and intangible assets. The carrying value on capital investment increased to R49 million from R45 million recorded in the previous financial year as a result of ICT infrastructure upgrades. These investments are managed through an asset management policy that is applied uniformly throughout the FSB as prescribed by the PFMA and treasury regulations.

## Working capital management

The FSB manages working capital effectively and ensures availability of sufficient cash to meet financial obligations when they fall due. Cash flow is closely managed and surplus funds are invested in the Corporation for Public Deposits with the South African Reserve Bank.

## Trade and other payables

The FSB strives to settle trade payables within 30 days of receiving suppliers' invoices, in line with National Treasury regulations. In this regard we have achieved an average of 12 payment days for the year (2016: 24 days) which is well within the 30 days, prescribed by National

Treasury. At the financial year end, trade payables amounted to R11 million (2016: R20 million).

## Trade receivables

At the financial year end, the levy trade receivables amounted to R12 million (2016: R12 million), representing 1.7% of the levies income (2016: 2%). Levy trade receivables collection improved for the year as a result of the cooperation with the industry.

The penalty and inspection receivables reduced to R35 million (2016: R40 million) partly as a result of improved collections. Penalty and inspection debtors collection remains a challenge as these debts by their nature are not planned for and are often appealed, resulting in collection uncertainties and delays.

## Financial outlook

Strategic cost management remains vital to our sustainability and, as a result, the FSB is implementing an Enterprise Resource Planning (ERP) solution, which will streamline our value chain. The smooth transition to and implementation of the Twin Peaks regulatory model remain a key priority. As we get closer to the implementation of this regulatory model, we envisage that our reserves will be sufficient to finance a large part of the capital and implementation costs that will be incurred.

We subscribe to the highest ethical business practices and standards and will continue to provide our stakeholders with consistent quality and efficient services.



**Mr P Kekana**  
*Chief Financial Officer*



# SITUATIONAL ANALYSIS

## Performance delivery environment

In order to re-confirm the performance environment and the influences thereon, an analysis of the Strengths, Weaknesses, Opportunities and Threats (SWOT) was completed. The consolidated assessment is reflected below:

### Strengths

- Adherence to mandate;
- Collaborative and consultative Regulator;
- Committed and professional staff;
- Compliance with regulations applicable to the FSB;
- Regulatory framework in line with international best practice;
- Sound financial management;
- Willingness to confront regulatory issues/supervising without fear or favour;
- Good standing with domestic and international bodies;
- Caring organisation;
- Institutional knowledge and understanding of industries;
- Strong business and ICT alignment through ICT governance; and
- Appetite for change.

### Weaknesses

- Supervision methods in some divisions;
- Limited collection of data to perform data analytics;
- Some legacy IT systems;
- Ineffective communication;
- Weak intelligence gathering with regards to industry financial innovation;
- Inconsistent visibility as a Regulator among consumers;
- Working in silos; and
- Inability to respond to financial innovation in a timely manner.

### Opportunities

- New responsibilities arising from the Twin Peaks regulatory model;
- Opportunities presented by changes in the FSB's organisational design to harmonise and improve regulatory and supervisory standards, break down the silos and 'territorial contests' that impede effective supervision and promote the FSCA as employer of choice for both highly skilled and experienced professionals and young professionals seeking opportunities for learning and development while serving the country;
- Opportunity to improve the profile of the FSB due to the broader recognition and buy-in into financial regulations/ stronger political backing/ expanded scope of financial regulation;
- Support National Treasury on financial inclusion through consumer protection and financial education;
- Expansion and strengthening of stakeholder relationships;
- Strengthening collaboration with other relevant regulatory bodies;
- Increasing interaction and relationship building with representative associations via industry bodies to strengthen industry interactions;
- Responding to financial innovation; and
- Good standing with domestic and international bodies.

### Threats

- Gaps in the regulatory framework;
- Inability to respond to financial innovation in a timely manner;
- Litigation against the FSB;
- Non-availability and mobility of scarce skills to feed the organisation;
- The length of the criminal justice system process;
- Overlaps and gaps in the legislative mandates;
- Compliance to the Protection of Personal Information Act regarding the sharing of information with foreign regulators; and
- Cyber attacks.

## Organisational environment

With the move to the Twin Peaks model for financial regulation, the FSB will cease to exist in its current form. The FSB will become a market conduct regulator. The timing of these changes depends on the enactment of the enabling legislation. During this transition period, the FSB continues to maintain its technology, processes and resources that enable it to effectively fulfil its mandate, ensuring that our regulatory and supervisory approach remains robust and relevant.

# PROGRESS AGAINST STRATEGIC GOALS

The table below sets out the strategic objectives, performance indicators and planned targets as specified in the FSB annual performance plan for 2016/17, and actual performance for the year. The objectives, indicators and targets have been stated using the “SMART” principle (specific, measurable, achievable, relevant, time-bound) as recommended by National Treasury.

The FSB is comprised of five divisions that exercise regulatory oversight over the non-banking financial services industry. Each division is comprised of separate departments that provide regulatory oversight over components of these industries, for example, the Insurance Division has separate departments for long-term insurance, short-term insurance, and microinsurance.

In addition, the FSB’s mandate includes ensuring that the existing various regulatory legislation is up to date, developing new legislation in conjunction with the National Treasury, and keeping abreast of international developments in the regulatory environment. The strategic objectives, performance indicators and targets in the annual performance plan are rolled out to all divisions and departments and find expression at departmental level in detailed annual business plans. The achievements for 2016/17, as reported, are a consolidation of the departmental business plans for the financial year.

Strategic objective	Performance indicator	Achievement 2015/16	Target for 2016/17	Achievement 2016/17	Variance	Comment/ Reason for variance
STRATEGIC OUTCOME 1 – INFORMED AND PROTECTED CONSUMERS						
Goal statement: empowered consumers of financial products and services						
<b>Promote financial education to consumers of financial services and products.</b>	Number of interventions to promote financial education.	218 workshops 29 exhibitions 437 web content uploads/ edits 40 media activities 6 consumer education resources developed.	250 workshops 16 exhibitions 370 web content uploads/ edits 33 media activities.	465 workshops 27 exhibitions 378 web content uploads/ edits 162 media activities.	215 workshops 11 exhibitions 8 web content uploads/ edits 129 media activities.	The CED planned specifically funded projects for 2016/17 and targets set were based on those projects. All over-achieved targets may be ascribed to ad-hoc invitations received through stakeholder engagements to conduct financial education activities. The influx in media activities was largely due to the #Feesmustfall campaign.
<b>Promote transformation in the industries regulated by the FSB.</b>	Number of interventions to promote transformation.	13 workshops with emerging FSPs.	12 workshops with emerging FSPs.	13 workshops with emerging FSPs.	1 workshop.	The additional workshop was requested by FSPs.

# PROGRESS AGAINST STRATEGIC GOALS

Strategic objective	Performance indicator	Achievement 2015/16	Target for 2016/17	Achievement 2016/17	Variance	Comment/ Reason for variance
STRATEGIC OUTCOME 2 – STAKEHOLDER MANAGEMENT						
Goal statement: proactive stakeholder management						
<b>A fully implemented communication, brand, reputation and stakeholder management strategy by end 2017.</b>	Percentage of the stakeholder outreach programme achieved.	Achieved an average of 91.5%	Achieve 90% of the targets for stakeholder outreach as set out in the business plans of CIS, FAIS, investment institutions, insurance and pensions divisions.	Achieved average of 97%  CIS – 88%  FAIS – 100% Investment  Institutions – 100%  Insurance – 95%  Pensions – 100%	7%	Overall target exceeded due to better use of resources.  However, CIS did not meet target due to 1 industry briefing being cancelled.
	Number of media engagements.	43 media releases  3 FSB bulletins  3 Buzz from the Board  4 media round table discussions  12 media monitoring reports  1 media list update  44 Radio and TV interviews	50 advertorials in print media  12 interviews in national radio stations  4 media round table discussions  4 reports on news relating to the FSB  Produce 6 video recordings  4 FSB bulletins  4 Buzz from the Board  1 media lunch  4 FSB exhibitions  90% implementation of portal's maintenance.	61 advertorials in print media  15 interviews in national radio stations  4 media round table discussions  12 reports on news relating to the FSB  6 video recordings produced  2 FSB bulletins  4 Buzz from the Board  1 media lunch  5 FSB exhibitions  100% implementation of portal's maintenance.	11 advertorials in print media  3 interviews in national radio stations  N/A  8 reports on news relating to the FSB  N/A  2 FSB bulletins  N/A  N/A  1 FSB exhibition  10% implementation of portal's maintenance.	There were more news items affecting the FSB than anticipated.  Resource constraints resulted in 2 fewer bulletins published.

Strategic objective	Performance indicator	Achievement 2015/16	Target for 2016/17	Achievement 2016/17	Variance	Comment/Reason for variance
STRATEGIC OUTCOME 3 – SOUND FINANCIAL INSTITUTIONS						
Goal statement: ensure sound financial institutions						
<b>Regulatory framework principles in line with international standards. 80% of principles partly, broadly or fully implemented.</b>	Number of progress reports monitoring the findings and recommendations of the peer review considered by the FSB Exco.	4 reports.	4 reports on progress with implementation of findings and recommendations of international peer review bodies.	4 reports on progress with implementation of findings and recommendations of international peer review bodies.	N/A	A peer review is performed every four years by international experts who will then pronounce on the level of implementation achieved. In the intervening period, progress on implementation is monitored via quarterly reports to Exco.
	Adherence to the legislative review deadline for the year.	Submitted proposed legislation changes to National Treasury by 30 September 2015.	Submit proposed legislation changes to National Treasury by 30 September 2016. Exco review of progress with legislative review.	Legislative review programme submitted to National Treasury on 29 September 2016.	N/A	N/A
<b>Risk-based supervision to monitor and improve financial investment environment.</b>	Targets set out in risk-based supervision plans.	FAIS 98% Investment institutions 100% Insurance 82% CIS 100% Pensions 85%.	Achieve 80% of targets set out in risk-based supervision plans.	Achieved average of 92% CIS - 100% FAIS - 97% Investment Institutions - 89.5% Insurance - 77% Pensions - 94%.	12%	Targets exceeded due to additional staff and improved processes.
<b>Effective enforcement of compliance with legislation.</b>	Commitment timelines in the service level agreement/ commitment (Inspectorate and Enforcement)	Achieved 90%	80% achievement of commitment timelines.	Achieved 95%	15%	Targets exceeded due to additional staff and improved processes.
	Commitment timelines in the service level agreement/ commitment.	FAIS 100% Investment institutions 100% Insurance 93% CIS 99% Pensions 72%.	Achieve the turnaround times set in each of the core divisions Service-level commitments (SLCs) with regard to licensing, registrations and other applications or submissions for 90% of the cases received, where all information necessary for the processing has been provided.	Achieved average of 90% CIS - 99% FAIS - 91% Investment Institutions - 100% Insurance - 91% Pensions - 70%.	N/A	Except for pensions, the FSB exceeded targets. The target was not achieved by the Pensions Department due to the volume of enquiries on unclaimed benefits following related media coverage. Improved systems and additional staff contributed to the other departments exceeding their targets.

# PROGRESS AGAINST STRATEGIC GOALS

Strategic objective	Performance indicator	Achievement 2015/16	Target for 2016/17	Achievement 2016/17	Variance	Comment/ Reason for variance
STRATEGIC OUTCOME 4 – IMPROVED INTERNAL POLICIES, PROCESSES AND PROCEDURES						
Goal statement: improved internal policies, processes and procedures						
<b>Adequately resourced FSB to deliver on strategic plan.</b>	Vacancy rate.	10% vacancy rate.	<10% vacancy rate.	6% vacancy rate.	N/A	N/A
	Expenditure variations: actual expenditure from budget expenditure.	-5%	Variation not more than 5% over or under budget.	-5%	N/A	N/A
	Invoice % of budgeted income.	Invoice 101% of budgeted income.	Invoice 100% of budgeted income.	Invoice 100% of budgeted income.	N/A	N/A
	Collection % vs invoiced amounts.	98%	95%	100%	5%	Target exceeded as, contrary to the prior year, all invoiced amounts were collected.
	Demand plan in place by end February, assessing the service landscape and planning accordingly.	Demand plan in place by end of February 2016.	Demand plan in place by end of February – assessing the service landscape then planning and budgeting accordingly.	Demand plan in place by end of February 2017.	N/A	N/A
<b>Internal policy framework updated annually.</b>	Annual review and updating of policies relating to: Human Resources, Finance, ICT, Supply Chain, Security and Risk Management.	Policies reviewed and approved during the year.	Annual review and updating of policies relating to: Human Resources, Finance, ICT and Risk Management.	Policies relating to Human Resources, Finance, ICT and Risk Management were reviewed and updated during the year.	N/A	N/A
<b>Effective and efficient systems, processes and procedures.</b>	Percentage implementation of approved projects and percentage of ICT SLCs met.	96% implementation rate. 96% of SLC targets met.	90% implementation of all approved projects with business sign-off.	99% implementation of all approved projects with business sign-off.	9% implementation of all approved projects with business sign-off.	Target exceeded due to additional staff and improved processes.
			90% of ICT SLCs met.	98% of SLCs met.	8% SLCs met.	



Strategic objective	Performance indicator	Achievement 2015/16	Target for 2016/17	Achievement 2016/17	Variance	Comment/ Reason for variance
STRATEGIC OUTCOME 5 – EFFECTIVE TRANSITION TO THE MARKET CONDUCT REGULATOR						
Goal statement: effective transition to the market conduct regulator						
<b>Full readiness for transition to the FSCA with minimum disruption to the FSB's ongoing functions</b>	Overarching transition programme. Achieve targets relative to the transition programme.	16 RSC meetings	Achieve targets relative to the transition programme.	The overarching project programme and key sub-project activities for the transition from the FSB to the FSCA were approved on 3 March 2016. Uncertainties in relation to the timing of the legislative process and the subsequent enactment of the Financial Sector Regulation Bill means that sub-projects are not yet due to be implemented.	N/A	
<b>Recommended organisational design for the FSCA developed to support organisational readiness for transition to the FSCA.</b>	Final recommendations on an organisational design for the FSCA.	16 RSC meeting	Recommendations on an organisational design for the FSCA.	The recommendations on the organisational design for the FSCA was approved by the RSC on 9 December 2016 and tabled in the Exco meeting of 9 February 2017.	N/A	

# PERFORMANCE BY KEY DIVISIONS

## RETIREMENT FUNDS

Our mission is to promote a safe and stable environment for members of retirement funds so that obligations of all stakeholders are met when due through our commitment, professionalism and teamwork.

The Retirement Funds Division is mandated by the Pension Funds Act 1956 (PF Act) to licence and supervise retirement funds, beneficiary funds,

pension fund benefits administrators and related persons and entities.

There are, however, a few funds that are not subject to regulation and supervision in terms of the PF Act as they were established in terms of specific provisions in other statutes. These funds include the Government Employees Pension Fund (GEPF), Associated Institutions Pension Fund and the Transnet Pension Fund. The Exco decided to transfer the responsibility for registration and supervision of friendly societies from

this division to the Insurance Division, effective 1 April 2016.

There are over 5 000 registered retirement funds (with only around 40% of retirement funds regularly receiving contributions and/or paying benefits). The combined value of their assets is over R4 trillion.

The division comprises four departments, with the following primary responsibilities:

Department	Responsibilities
Licensing and Registration	<ul style="list-style-type: none"> <li>• Registering rules and amendments to the rules of funds</li> <li>• Granting of approval to pension fund administrators to conduct related business</li> </ul>
Prudential Supervision	<ul style="list-style-type: none"> <li>• Analysing annual financial statements</li> <li>• Overseeing the liquidation process of retirement funds</li> </ul>
Surveillance and Enforcement	<ul style="list-style-type: none"> <li>• Conducting on-site visits and managing risk-based supervision</li> <li>• Overseeing complaints submitted to the FSB</li> </ul>
Research and Policy	<ul style="list-style-type: none"> <li>• Researching trends to prepare proposals for new regulatory instruments and supervision</li> <li>• Strategies for retirement funds</li> </ul>

## Significant industry-related issues

### Litigation

The court application instituted by the former Deputy Registrar of Pension Funds against, among others, the FSB, Registrar of Pension Funds and the Minister of Finance was dismissed. The court found in favour of the respondents and Rosemary Hunter was ordered to pay a portion of the costs of the application.

### Unclaimed benefits

The aggregate value of unclaimed benefits reported by retirement funds regulated and supervised under the PF Act as at 31 March 2017 is R41,6 billion

in respect of approximately 4 million members and beneficiaries.

As this is a significant amount due to members and beneficiaries, it is important to trace and pay the respective members and beneficiaries to whom such benefits are due. In order to best facilitate the tracing and payment of these benefits, the Retirement Funds Division has established an unclaimed retirement benefit search engine to enable members of the public to establish if there are possible unclaimed retirement fund benefits due to them from any fund of which they were previously a member or to beneficiaries of members, which remained unclaimed since the member passed away. This facility will be launched in 2017.

### Licensing matters

The licensing and registrations section has implemented new processes and requirements for the cancellation of funds and the termination of participation by employers in umbrella funds.

### Conduct supervision matters

The Registrar is taking a proactive approach in assessing the conduct of trustees and administrators.

Acting under section 25 of the PF Act and the Retirement Fund Division's current risk-based supervisory plan, 178 on-site visits were conducted on funds and administrators.

Significant supervisory issues were identified during the conduct of these on-site visits in respect of the following:

- Boards not properly constituted in terms of section 7A of the PF Act and/or fund rules.
- Overseas trips are sponsored for Board members by service providers
- Delegations are not properly formulated, signed or do not exist in respect of responsibilities delegated to sub-committees and/or service providers.
- Failure by Boards to monitor compliance with provisions of the PF Act, specifically section 13A of the PF Act, and regulation 33.
- Expenses and remuneration of Board members are very high.
- Remunerating Board members for services despite fund rules not providing for such remuneration.
- Failure to reapply for section 7B exemptions prior to the expiration of the exemption.
- Failing to timeously submit annual financial statements and valuation reports.
- Delays in distributing annual benefit statements to members or failure by Boards to distribute annual benefit statements.

The Registrar has exercised his powers under section 26(2) of the PF Act to appoint people to the Boards of funds without properly constituted Boards and has instructed them to establish such Boards.

## Prudential supervision matters

Until the PF Act has been amended to provide clarity to the relevant provisions in section 28 of the PF Act, clarification is being obtained in respect of liquidators that are no longer able to perform their duties as liquidator or passed away.

Discussions have been held with liquidators to bring long outstanding liquidations to finality. Penalties have been issued for late and non-submission of annual financial statements, statistics and audit reports.

The Registrar's 2015 annual report has been tabled in Parliament and published on the FSB website.

## Litigation matters

### FSB Appeal board

The number of appeals against the Registrar's decisions in the review period increased slightly from the previous year. It is not anticipated that appeals to this Board, or the Financial Services Tribunal in the Twin Peaks dispensation, will be significantly different from current trends.

Five appeals were pending at the beginning of the review period and 17 new appeals were received during the period. Eight appeals were settled or withdrawn after the Registrar supplied reasons for his decisions and four appeals were decided by the appeal Board.

Of the remaining ten cases, three have been set down for hearing by mid-2017, four appeals have been pended awaiting finalisation of cases in the high courts and three appeals were received in the final month of the reporting period and will be ripe for hearing in the next reporting period.

The pended cases await the outcome of applications in the High Court for orders setting aside PF Act regulation 35(4), promulgated by the Minister of Finance in 2003. It requires funds that have allocated to special-purpose 'contingency reserve accounts' shares of surplus allocated to former members (section 15B of the PF Act) to provide in full for the face values of its liabilities

for these shares of surplus even if, despite taking all reasonable steps to trace and pay entitled recipients, they have been unable to do so. The Registrar has enforced compliance with this regulation by rejecting reports on the statutory actuarial valuation of funds in which provision for such shares of surplus is lower than the full aggregate face values of the associated liabilities.

The Registrar's decisions are the subject matter of these postponed appeals. Once the validity of the regulation has been determined, there should be few remaining impediments to finalising surplus apportionment schemes.

The settled appeals include cases where employers discovered that the fund in which they participated had its registration cancelled, but the fund had not ceased to exist because there were still assets, liabilities and members in the fund. The cancellation of registration of the fund was set aside by the Appeal Board by agreement between the parties.

# PERFORMANCE BY KEY DIVISIONS

## Policy and regulation matters draft amendments to the PF Act

In the review period, proposals for amending the PF Act were submitted to National Treasury for consideration and submission to Parliament.

## Transition to the Twin Peaks model of regulation and supervision

There are ongoing discussions about the impact on this division's work following the shift to the Twin Peaks regulatory model contemplated in the FSR Bill, once this is enacted:

- The FSCA will replace the FSB.
- The prudential authority under the Reserve Bank will have the power of prudential supervision over pension funds, but may delegate exercise of this power to the FSCA.

The division is reviewing the regulatory framework to design new, more fit for purpose regulatory instruments and supervision methods to embed TCF principles and provide greater protection for customers.

## Notices

- PF Notice 2 of 2016 published on 8 July 2016 – the Registrar prescribed the criteria for financial soundness and the valuation basis in terms of which financial soundness is determined, as well as particulars relevant to a scheme of arrangement for a pension fund.

- PF Notice 3 of 2016 published on 18 July 2016, prescribes the period within which vacancies on the boards of funds must be filled.
- PF Notice 4 of 2016 published on 20 September 2016, prescribes the period within which applications for the amalgamation of any business carried on by a registered fund with any business carried on by any other person, or the transfer of any business from a registered fund to any other person, or the transfer of any business from any other person to a registered fund as contemplated in section 14(1)(a) must be submitted to the Registrar.

## Guidance and information circulars

During the period under review, the following were published:

- Information circular PF No 1 of 2016, providing guidance to funds regarding compliance with the provisions of section 13A.
- Information circular PF No 2 of 2016, informing Boards of funds of the importance of proper communication with their members and to maintain proper membership data to ensure that they comply with their obligations in terms of the PFA.
- Information circular PF No 3 of 2016, informing Boards that if fund rules provide, a Board can still take a valid decision during the prescribed period in which a vacancy on the Board must be filled, on condition that a quorum is present at such meeting where a decision was taken.

- Information circular PF No 4 of 2016, informing Boards of funds of the Registrar's intention to impose a penalty of R60 per day for the late or non-submission of the 2014 annual financial statements.
- Information circular PF No 5 of 2016 provides clarity on whether or not the transfer of an individual member who voluntarily elects to transfer his or her benefit from one retirement fund to another is regarded as a transfer of business as contemplated in section 14 of the PF Act, as well as whether it is considered to be a transfer of an accrued benefit which, will require an application for a tax directive. It further reaffirms the Registrar's view on what constitutes 'excluded' or 'exempted' transactions.
- Information circular PF No 1 of 2017 informing Boards of funds of the Registrar's intention to impose a penalty of R60 per day for the late or non-submission of the 2015 annual financial statements.

## Industry Overview

As at 31 March 2017, there were 5 119 (31 March 2016: 5 126) registered retirement funds in South Africa, of which 1 758 (31 March 2016: 1 940) funds are active (a fund with members for whom it receives contributions and/or pays benefits).

## Regulated entities supervised at 31 March 2017

Retirement funds	2017
Privately administered (with assets other than policies of insurance)	2 946
Wholly underwritten (only assets being policies of insurance)	2 173
Subtotal	5 119
Pension fund administrators	170
<b>Total</b>	<b>5 289</b>

## Financial overview

The financial information below includes GEPF, Transnet and Telkom funds, which had the highest aggregate value of assets for the year-ended 31 December 2015, according to reports submitted to the Registrar. Statistics are the latest available for retirement funds and friendly societies.

### Retirement funds: financial year ended 31 December 2015

Financial year ended	2013	Change %	2014	Change %	2015	Change %
Number of funds	5 144	(21.8)	5 150	0.1	5 143	(0.1)
Membership (000)	15 256	1.7	15 943	4.5	16 439	3.1
Contributions (Rm)	174 816	8.7	195 384	11.8	212 908	9.0
Benefits paid (Rm)	188 993	15.1	234 115	23.9	286 968	22.6
Assets (Rm)	3 211 017	16.8	3 677 244	14.5	4 035 825	9.7

## Supervision

The following supervisory activities took place during the period under review:

Activity	Number
Registrations of new funds	11
<i>Umbrella schemes:</i>	
Recording new participating employers and registering rule amendments	6 348
Recording of participation of employers	357
On-site visits	178
Approving rule amendments, revised or consolidated rules	1 452
Approving schemes to transfer assets and/or liabilities between funds and other entities	2 889
Supervising fund liquidation and cancellation of registration	23
Approvals under section 13B to administrators to conduct retirement fund administration business	1
Withdrawals of section 13B approvals	2
Complaints	2 946

*Note: The table excludes applications received but not yet decided*



# PERFORMANCE BY KEY DIVISIONS

## Retirement funds: number of funds by administrator at 31 March 2017

Administrator	Active funds*	Other funds	Total funds
Liberty Group	146	954	1 100
MMI Group	39	729	768
Alexander Forbes Financial Services	329	431	760
Sanlam Life Insurance	124	205	329
Absa Consultants & Actuaries	150	157	307
Old Mutual Life Assurance Company (South Africa)	34	154	188
NBC Fund Administration Services	78	53	131
NMG Consultants and Actuaries Administrators	84	36	120
Own administrator	45	59	104
All other administrators	729	583	1 312
<b>Total</b>	<b>1 758</b>	<b>3 361</b>	<b>5 119</b>

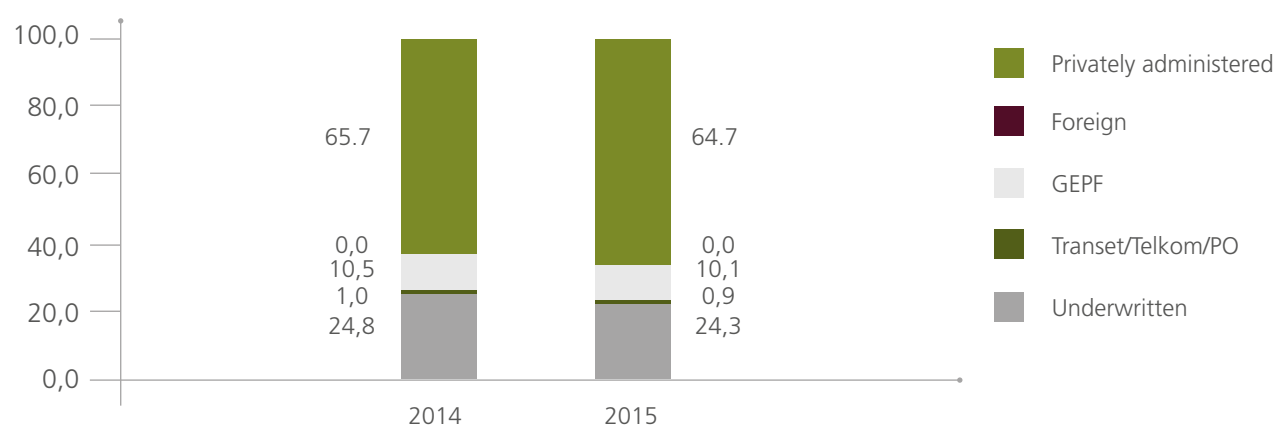
\* Includes funds that have informed the Registrar they intend to stop conducting business as such after their liquidations, or transfer their assets and liabilities to other funds or other entities, such as insurers.

## Membership

Total membership of retirement funds in South Africa at 31 December 2015 stood at 16 439 288, 11 133 510 of whom were active members and 5 305 758 pensioners, deferred pensioners, dependants and unclaimed benefit members. Some double-counting is unavoidable, as some individuals are members of more than one fund.

The graph provides more information.

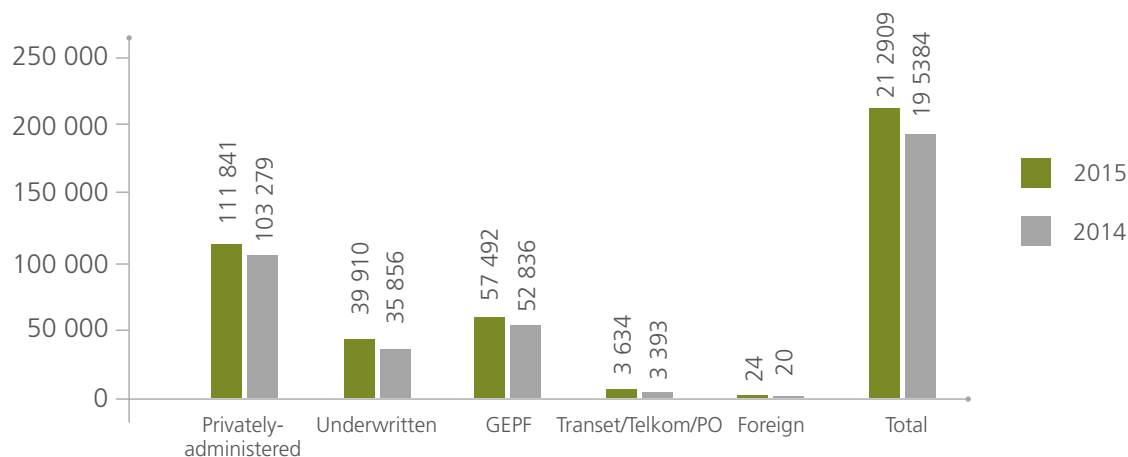
### Membership %



## Contributions

Total contributions received by retirement funds in South Africa increased by 8.97%, from R195.4 billion in 2014 to R212.9 billion in 2015.

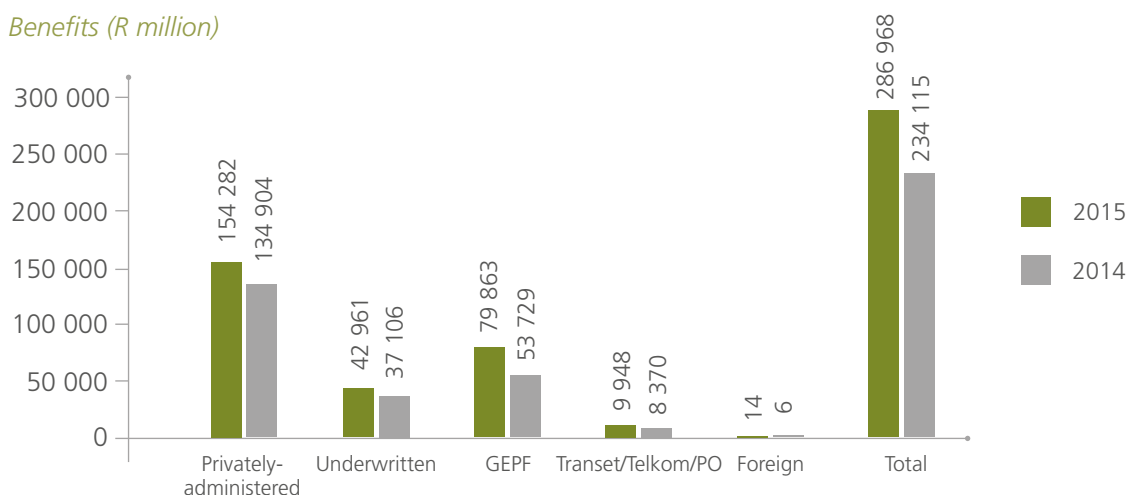
### Contributions (R million)



### Benefits

Total benefits paid by retirement funds in South Africa, which include pensions, lump sums on retirement, death and resignation benefits, increased by 22.6%, from R234 billion in 2014 to R287 billion in 2015.

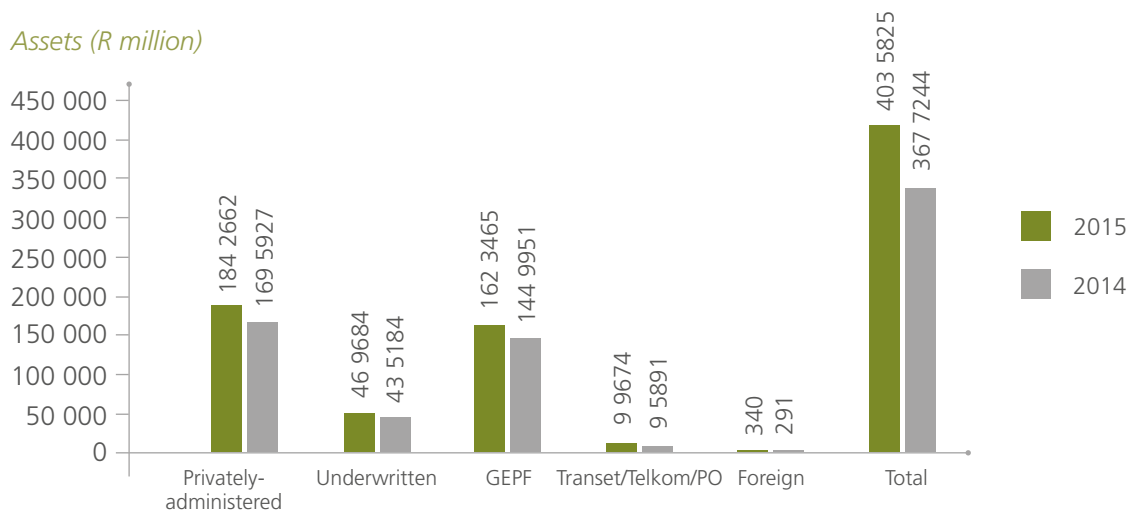
### Benefits (R million)



### Assets

Retirement fund industry assets increased by 9.8%, from R3 677 billion in 2014 to R4 036 Billion in 2015. The net assets of privately administered funds increased by 8.7%, from R1 696 billion in 2014 to R1 843 billion in 2015. The bar graph provides more information regarding assets held.

### Assets (R million)



# PERFORMANCE BY KEY DIVISIONS

## INSURANCE

The Insurance Division is responsible for supervising and enforcing the Long-term Insurance Act 52 of 1998 and Short-term Insurance Act 53 of 1998 (insurance acts) to achieve the regulatory objectives of maintaining a fair, safe and stable insurance market that protects policyholders and potential policyholders. During the period under review, the division continued to implement its risk-based supervisory framework and took regulatory action for non-compliance with the insurance acts. The regulatory framework is being enhanced by embedding the solvency assessment and management (SAM) for insurers, as well as various market conduct requirements aimed at supporting the fair treatment of customers.

The Insurance Division is also responsible for supervising and enforcing the Friendly Societies Act 25 of 1956 (FS Act). The FS Act aims to promote the registration, incorporation, regulation, and dissolution of friendly societies.

The division comprises:

- Insurance Groups Supervision Department
- Insurance Prudential Supervision Department
- Microinsurance Supervision Department
- Insurance Regulatory Framework Department
- Insurance Compliance Department
- Insurance Enforcement Department
- SAM Unit.

## Regulatory policy projects

### SAM

The FSB aims to promote the soundness of insurers and reinsurers by the effective application of international regulatory and supervisory standards, adapted to local standards. To this end, the FSB is developing a new risk-based solvency regime for the South African long-term and short-term insurance industries, termed the SAM regime.

The SAM implementation date is contingent on the legislative process and the promulgation of the Financial Sector Regulation Bill (FSR Bill). The estimated implementation date of SAM has been revised to 2018, to accommodate the legislative timeline for the Insurance Bill, 2016 (Insurance Bill).

The SAM risk-based framework is close to finalisation. A complete set of prudential standards, dealing with financial soundness (Pillar I) requirements and providing close-to-final details of the SAM quantitative requirements, was published for public comment in October 2016. The financial soundness standards (Pillar I) have replaced the technical specifications for the Comprehensive Parallel Run (CPR).

### Consumer credit insurance (CCI)

The FSB supported National Treasury in evaluating proposals to cap the cost of credit life insurance published by the Department of Trade and Industry (dti).

We also provided detailed inputs in responding to comments received on the technical report on the consumer credit market in South Africa released by National Treasury and the FSB in July 2014.

The division issued an information request (information request 3/2015 LT&ST in December 2015 to gather data on current practices in the consumer credit insurance sector to develop an appropriate supervisory approach. Responses were due mid-March 2016. These have been analysed. A draft report summarising the key trends that emerged from the responses is being finalised. The final report will inform possible supervisory interventions relating to CCI going forward.

The final Credit Life Insurance Regulations were gazetted by the dti on 9 February 2017, effective from 9 August 2017. The cost that a credit provider may charge a consumer for credit life insurance to insure a debt, including the cost of any commission, fees or expenses related to that insurance, may not exceed certain limits.

The proposed amendments to the regulations and Policyholder Protection Rules (PPRs) will facilitate alignment with the dti regulation and will give effect to certain regulatory reforms proposed in the technical report (refer to the proposed amendments to insurance regulations and policyholder protection rules under *Regulations and rules*).

## Microinsurance

The prudential regulatory framework for microinsurance will be included in the Insurance Bill. This Bill, in turn, will give effect to National Treasury's microinsurance policy document by supporting the development of an inclusive insurance sector and introducing proportionate regulation and supervision of microinsurance operations and providers. The conduct of business regulatory framework will be included in subordinate legislation to be issued under the remaining parts of the short- and long-term insurance acts and the FAIS Act.

## Third-party cell captive insurance and similar arrangements

Certain matters relating to third-party cell captive arrangements will be given effect to in the Insurance Bill, while conduct-related matters will be given effect to in the future conduct of business legislative framework (Long-term Insurance Act, Short-term Insurance Act and ultimately Conduct of Financial Institutions Bill - CoFI Bill).

The Insurance Bill gives effect to new licensing requirements for cell captive insurance. It is proposed that all cell captive insurance will in future have to be conducted in a separate legal entity and under a dedicated cell captive insurance licence. Limitations on who may be a cell owner will be introduced through licensing conditions. Specific financial soundness requirements for cell captive insurers and cell owners will be given effect in the prudential standards.

The future conduct of business regulatory framework will introduce conduct of business requirements that will impose greater accountability on cell captive insurers for the conduct of their cell owners, particularly where such cell owners perform outsourced functions. A policy paper on third-party cell captive insurance and similar arrangements setting out the above regulatory proposals in more detail will be issued during the course of 2017.

## Regulatory framework

### Bills

The Insurance Bill will introduce a proactive and risk-sensitive approach to prudential supervision of insurers and insurance groups, and a microinsurance framework. Cabinet approved the draft Bill on 15 April 2015 and released it two days later for public comments by 29 May 2015. The Bill, certified by the state

law advisers on 19 October 2015, was presented at Cabinet on 4 November 2015 and tabled in Parliament on 28 January 2016 for consideration, deliberation and adoption. On 15 December 2016, Parliament's Standing Committee on Finance invited written submissions on the Insurance Bill. Public hearings were conducted by Parliament on 7 February 2017.

### Regulations and rules

- *Demarcation regulations on health insurance and medical schemes:*  
The purpose of the draft Demarcation Regulations is to specify which types of health insurance policies are permissible under the insurance acts, and accordingly excluded from regulation under the Medical Schemes Act 131 of 1998, despite such health insurance policies meeting the definition of the business of a medical scheme. They recognise the role that appropriately designed and marketed health insurance policies can play in meeting the need for protection against unanticipated health events, but balances this with the need for products to operate within a framework where they complement medical schemes and support the social solidarity principle embodied in medical scheme cover. The first draft regulations were published for public comment in March 2012. They were revised after taking into account public comments. The second draft was gazetted on 29 April 2014 by National Treasury for further public comment. The third draft regulations were tabled in Parliament on 28 October 2016.

The final Demarcation Regulations were published by National Treasury after taking into account public comments on 23 December 2016, effective from 1 April 2017. The

Demarcation Regulations provide for transitional arrangements for contracts that were entered into before the effective date of the Regulations.

The Regulations exclude primary healthcare products and hospital indemnity products and these products will in the future fall within the ambit of the Medical Schemes Act. As a result, after 1 April 2017, any provider of primary healthcare products and hospital indemnity products shall be conducting the business of a medical scheme as defined, and fall within the ambit of the Medical Schemes Act.

The CMS has, in consultation with the FSB, National Treasury and the Department of Health, concluded an Exemption Framework, which serves as a guideline to providers of indemnity products who conduct business of a medical scheme, who wish to apply for exemption in terms of section 8(h) of the Medical Schemes Act. The Exemption Framework is a transitional arrangement, while the Department of Health leads the development of low-cost benefit option (LCBO) type of product for medical schemes. The Exemption Framework provides for granting a two-year exemption, subject to certain conditions.

- *Proposed amendments to Insurance Binder Regulations:*  
The proposed amendments to Insurance Binder Regulations that were issued for public comment in July 2014 seek to address emerging undesirable practices and regulatory gaps identified after implementing the Regulations in January 2012 and to better align the Regulations with stated principles. The finalisation of these Regulations was deferred, pending further development of relevant

# PERFORMANCE BY KEY DIVISIONS

proposals under the RDR<sup>1</sup>. The amendments to these Regulations have been incorporated into the draft Regulations published by the National Treasury in December 2016 that address the broader conduct of business reforms.

- *Proposed amendments to Insurance Regulations:* National Treasury and the FSB published amendments to Insurance Regulations that give effect to a number of conduct of business reforms on 9 December 2016 for public comment by 22 February 2017. The draft Regulations were formally gazetted on 23 December 2016. The reforms that will be given effect through the Regulations relate to phase 1 of the RDR, which proposes a number of improvements to how financial products are distributed and sold; additional operational and governance requirements relating to binder agreements so as to address conflicts of interest; certain matters identified in the consultations on the Technical Report on the Consumer Credit Market in South Africa published on 3 July 2014; alignment, in certain respects, with the FAIS Act 37 of 2002; and closing regulatory gaps and effecting technical improvements to clarify the intent and purpose of certain provisions.
- *Proposed amendments to PPRs* The FSB published the proposed replacement of the PPRs made under the insurance acts on 15 December 2016 for public comment by 22 February 2017.

A notice on the release of the proposed replacement PPRs was published in the Government Gazette on the same date.

The reforms that will be given effect through the PPRs relate to the phase 1 of the RDR, which proposes a number of improvements to how financial products are distributed and sold; certain matters identified in the consultations on the Technical Report on the Consumer Credit Market in South Africa published by the National Treasury and the FSB on 3 July 2014; appropriate minimum requirements for advertising, brochures and similar communications; appropriate minimum requirements for complaints and claims management; additional critical protections for policyholders identified through supervision (principles to inform premiums and premium reviews, minimum data governance requirements and negative option marketing); and closing regulatory gaps, and effecting technical improvements to clarify the intent and purpose of certain provisions.

## Conduct of Business Returns

The Insurance Conduct of Business Returns (CBRs) are a new set of market conduct returns. The CBRs will form part of the off-site supervision framework for insurers, with the aim of providing the FSB with a quantitative summary of key market conduct risk indicators. The market conduct risk indicators have been informed by

various data sources, such as on-site visits, complaints information, and local and international policy and regulatory developments. The CBRs will feed into the overall market conduct risk-based supervision framework, which contemplates the development of conduct risk profiles for individual insurers and groups.

The final templates for completion of the CBRs were published on 15 December 2016. The first biannual CBR submission by insurers is required by 30 April 2017<sup>2</sup>, covering the reporting period 1 January 2016 to 30 June 2016. During the first two submission periods, life insurers will not be required to report on linked and group business, and non-life insurers will not be required to report on commercial lines business. Further industry consultations are planned for the second half of 2017 to finalise these sections of the CBRs.

## Supervisory matters

### Insurance group supervision

The division continues to review insurance groups with the cooperation of their management. All identified insurance groups are monitored either annually or biannually (depending on size) as part of the parallel run noted under SAM.

The FSB and bank supervision department of SARB have quarterly cross-sector supervisory colleges to discuss major domestic banking and insurance groups. Members from the division

1 The FSB released the RDR paper in November 2014 proposing far-reaching reforms to the regulatory framework for distributing retail financial products to customers in South Africa. Subsequent to the RDR paper, an update on the phase 1 proposals identified in the RDR and a general status update on the RDR were published.

2 The deadline was subsequently extended to 30 June 2017.



also attended international supervisory colleges involving registered insurers.

The division again hosted regional supervisory colleges with other African insurance supervisors for the four large insurance groups. The South African supervisor is the lead regulator for three of these groups.

## Stress testing

The division receives annual submissions for all long- and short-term insurers on both economic and insurance stress tests. Based on these submissions, insurers remain resilient to adverse economic stresses and scenarios.

## Financial Intelligence Centre Act (FICA) matters

The division conducts FICA inspections and attends quarterly enforcement forum meetings.

During the period, it conducted two FICA on-site inspections on accountable institutions under section 45B of FICA to ensure compliance with anti-money laundering and combating terrorist financing activities. Long-term insurers, as per schedule 1 of FICA, are considered accountable institutions under FICA.

## Licences

### Long-term insurers

During the period, one new long-term insurer was registered and two were deregistered. The number of registered long-term insurers at 31 March 2017 is shown in the following table:

Types	2017	2016
<b>Insurers</b>		
Typical insurers	28	28
Niche insurers	12	13
Linked insurers	14	15
Cell captive insurers	6	6
Assistance insurers	7	7
Insurers in run-off	5	5
<b>Reinsurers</b>		
Long-term only	3	3
Long- and short-term (composite)*	4	4
<b>Total</b>	<b>79</b>	<b>81</b>

\* Composite insurers are treated as separate entities

### Short-term insurers

During the period, one new short-term insurer was registered and four were deregistered. The number of short-term insurers registered at 31 March 2017 is shown in the following table:

Types	2017	2016
<b>Insurers</b>		
Typical insurers	33	31
Niche insurers	33	33
Cell captive insurers	6	6
Captive insurers	8	8
Insurers in run-off	8	11
<b>Reinsurers</b>		
Short-term only	3	3
Short- and long-term (composite)*	4	4
<b>Total</b>	<b>95</b>	<b>96</b>

\* Composite insurers are treated as separate entities

### On-site visits

Fourteen prudential on-site visits at solo insurers were conducted, based on their risk profile assessments. These visits highlighted the following:

- Improved governance structures in most insurers, mainly attributable to the division's introduction of Board notice 158 of 2014 dealing with governance and risk management requirements. However, it was observed that many insurers do not perform regular Board assessments.
- Lack of adequate data to optimise underwriting and business decisions. However notable initiatives and projects are still underway at various insurers to improve data quality, with formal data governance processes being implemented. The improvement is partly in response to insurers' increased awareness of the management information necessary to undertake the own-risk and solvency assessment (ORSA).
- Improved insurance expertise in the internal audit functions of insurers.

# PERFORMANCE BY KEY DIVISIONS

During the period, the division conducted 14 prudential risk-based visits at large insurance groups (focusing on either insurance group-related issues or on the solo insurance companies within an insurance group), which did not highlight any serious concerns.

The division conducted 19 market conduct on-site visits at insurers during the period under review. The major concerns highlighted during these visits related to inadequate levels of governance and oversight by insurers who conduct insurance business through binder and outsourced arrangements, as well as inconsistent progress in respect of the operational embedment of TCF principles across the insurance value chain. In addition, compliance resource and technical constraints were evident across most insurers who were visited during the year. Ten of those visits were at insurers conducting microinsurance business (assistance business), highlighting some concerns with non-compliance with section 48 of the Long-term Insurance Act (i.e. providing policyholders with summary of a policy), non-compliance with rule 15 of the PPRs (long-term insurance) 2004, (i.e. conditions of cancellation of assistance business group scheme agreements) and non-compliance with rule 16 of the PPRs (long-term insurance) 2004, (i.e. proper notification to policyholders regarding repudiation of a claim). Any non-compliance was addressed with the relevant insurers and corrective action was taken.

## Thematic visits

### *Market conduct thematic visits*

*Claims thematic review:* The division conducted a second phase of the claims thematic review, the first phase of which was completed during the previous year. During the second phase, an additional three long-term and four short-term

insurers were visited. The review was undertaken to assess the current practices in the industry relating to the management of claims by insurers and to determine the level of alignment of such practices with the TCF outcomes. Key findings and observations have informed proposed amendments to the PPRs. Areas of concern relevant to specific insurers identified during the thematic review will be addressed with the relevant insurers, and these will continue to be closely monitored as part of the ongoing supervisory process.

*Causal event charges:* The division issued a request for information to the five largest long-term insurers directing them to provide quantitative and qualitative information on their approach to and treatment of causal events and the calculation of causal event charges in terms of part 5 of the Regulations made under the Long-term Insurance Act 52 of 1998 and Directive 153.A.ii (LT). These insurers were also visited as part of the review. The findings of the review were used to inform amendments to the Regulations and will impact future supervisory interventions in respect of causal event charges.

*Premium reviews:* The division undertook a thematic review of premium escalation practices among the five largest long-term insurers after a number of complaints were received relating to steep increases in premiums for whole-of-life, universal-life and back-to-back policies offering a form of capital protection on death in addition to providing an income to policyholders. The objective of the review was to understand the reasons for the premium reviews, including the underlying actuarial methodology used to determine the value of the increases that were proposed, and

how the insurers satisfied themselves that the manner in which the premium reviews were implemented was fair to policyholders. The results of the review informed amendments to the PPRs, as well as specific changes to the practices at one of the insurers.

## Inspections, referrals, curatorships, and liquidations

### *Inspections*

During the year, an inspection of saXum Insurance Limited was requested following saXum being placed in liquidation. The inspection was still underway by year-end. One inspection requested in the prior period was completed, and two were still underway by year-end. One inspection initiated by the FAIS Department was referred to the Insurance Division as the entity was also contravening the Long-term Insurance Act.

### *Referrals to the South African Police Service (SAPS)*

Four matters were referred to SAPS to investigate unregistered insurance businesses. The division regularly follows up on progress.

### *Referrals to the EC*

The division refers contraventions of the insurance acts, including entities conducting unregistered insurance business, to the EC. During the year, the division referred one entity for contravening section 7(1) of the Short-term Insurance Act. Six insurers, one intermediary and one entity were referred to the EC, with two insurers fined for contravening rule 16.1(c) of the PPRs (long-term insurance) 2004,

and one insurer fined for contravening rule 15(a) and (b) of the PPRs (long-term insurance) 2004. The intermediary was fined for contravening section 8(2)(d) of the Short-term Insurance Act. The remaining cases are still being considered by the EC.

### *Curatorships*

New Era Life Company Limited entered curatorship in September 2009 and was placed under business rescue in October 2012. On 25 October 2016, approval was granted to Limpopo Economic Development Agency to acquire the entire shareholding in New Era. The prohibition imposed on New Era in terms of section 12 of the Long-term Insurance Act 52 of 1998 to conduct new long-term insurance business was lifted subject to certain conditions being met.

### *Liquidations*

On 20 October 2016, the Johannesburg High Court granted an urgent application launched by the Registrar of Short-term Insurance to place saXum Insurance Limited under final liquidation. In launching this application, the Registrar was satisfied that it was in the interests of saXum's policyholders that the company be placed into liquidation due to its insolvency and to prevent further erosion of its assets. On 28 November 2016, the Master of the High Court appointed four liquidators as joint final liquidators of saXum. Subsequent to the liquidation, the Registrar instructed an inspection into the business activities of saXum and the third parties that it conducted business with before its liquidation. saXum remains in liquidation and the said inspection is continuing. The FSB is working closely with the liquidators of saXum and other relevant stakeholders to assist policyholders by expediting the finalisation of all outstanding claims.

### *Appeals*

One appeal against a decision of the Registrar was lodged in September 2016 and later withdrawn during November 2016. Another appeal that was lodged in the previous reporting period was stayed by the agreement of the parties pending finalisation of a review application in the High Court. The application was heard in February 2017 and judgment is awaited.

## **Regulatory actions**

### *Unregistered insurance business*

The division continued its campaign to name and shame entities conducting unregistered insurance business by publishing their details in national newspapers or FSB media releases. During the period under review, we published the names of 29 entities. These notices warn the public to be cautious when buying funeral insurance policies and ensure that entities are underwritten by a registered long-term insurer.

### *Consumer complaints*

During the period, the division received 729 complaints, 74% of which were resolved. Outstanding cases are being investigated.

## **Engaging with industry associations**

The division liaises regularly with industry ombuds, representative bodies of insurers, intermediary associations, and the auditing and actuarial professions.

## **International engagements**

### *International Association of Insurance Supervisors*

The International Association of Insurance Supervisors (IAIS) is the

global standard-setting body for insurance regulation. Its membership spans over 200 jurisdictions worldwide. Our Deputy Executive Officer: Insurance is an executive committee member of IAIS, its regional coordinator for sub-Saharan Africa, and chairs its implementation committee. Members of the division attended numerous IAIS working group and committee meetings during the year.

### *Committee of insurance, securities and non-banking financial authorities for SADC*

CISNA falls under the SADC committee of senior treasury officials. Its members are supervisory authorities of capital markets, retirement funds, collective investment schemes, insurance companies, medical schemes, microfinance and financial cooperatives, and providers of intermediary services from SADC countries. Its secretariat is housed at the FSB, and the committee meets at least biannually. Members of the division attended a number of CISNA meetings during the year.

# PERFORMANCE BY KEY DIVISIONS

## FINANCIAL ADVISORY AND INTERMEDIARY SERVICES

The FAIS Division is responsible for administering the FAIS Act through three divisions.

### REGISTRATION

The Registration Department is responsible for:

- Processing new licence applications for FSPs.
- Profiling changes (any changes to application details under the licence conditions of FSPs).
- Approving compliance practices, compliance officers and those that provide these services under supervision.
- Updating the central representative register, approving mandates, voluntary lapsing of licences collection and recording of the market value of funds under the management of categories II, IIA and III for purposes of calculating the levy to be raised, approving recognition of qualifications and regulatory examinations.

The Registrar authorises five categories of FSPs:

- Category I consists of financial advisers and intermediaries, who render financial services without discretion.
- Category II FSPs (also referred to as discretionary) render intermediary services of a discretionary nature, as regards the choice of a particular financial product, but without implementing bulking.
- Category IIA FSPs represent hedge fund managers.
- Category III FSPs represent administrative FSPs, specialising mainly in bulking of collective investments on behalf of clients (linked services providers).

- Category IV is a new category in terms of which assistance business administrators render intermediary services in relation to the administration of assistance policies on behalf of the insurer, to the extent agreed upon in terms of a written mandate between the insurer and the assistance business FSP.

Given the different categories and business models of each applicant, the department adopts different approaches in scrutinising each licence application. Pre-on-site visits are conducted in all highly complex categories (mainly IIA and III), which could have an impact on the outcome of the Registrar's decision.

We continually consult with both local and foreign regulatory authorities when considering applications. This consultation is on the basis of a

memorandum of understanding for information sharing.

A total of R9 trillion was reported as assets under the management of categories II, IIA and III FSPs as at 30 June 2016.

### Licence applications

During the reporting period, 1 133 new applications were authorised, compared to 785 in the previous year. Some 90% of the applicants were authorised as category I FSPs, and the remainder for category II and IIA financial services activities. Twenty applications were declined due to not meeting the fit-and-proper requirements for FSPs. A total of 421 FSPs voluntarily requested to have their authorisation lapsed.

The table provides more information about registered FSPs.

### Authorised FSPs as at 31 March 2017

Category I (Advisory/ Intermediary Services and Foreign FSPs)	Category II (Discretionary FSPs)	Category IIA (Hedge Fund Manager FSPs)	Category III (Administrative FSPs)	Category IV (Assistance Business Administration FSPs)
9784	629	119	27	110

\* It should be noted that some FSPs have multiple licence categories.

### Profile changes

The department still receives high volumes of profile change applications. During the reporting period, 40 316 profile change applications were received and processed and 36 929 were completed. The department continues to improve efficiencies in respect of this process to ensure adherence to the service level commitment.

### Compliance officers

In terms of the FAIS Act, an authorised FSP with more than one key individual or more than one representative must appoint one or more compliance officers. This compliance officer must meet the minimum prescribed

requirements to be approved by the Registrar. The department approves three types of compliance arrangements, namely compliance practices (juristic and natural persons); in-house compliance officers who monitor compliance for specific FSPs by virtue of their contract of employment and compliance officers under supervision.

During the reporting period, the department approved nine compliance practices, 107 compliance officers (both in-house and those employed by compliance practices) and 54 compliance officers under supervision.

Compliance officers under supervision are individuals who do not have the required experience and render services

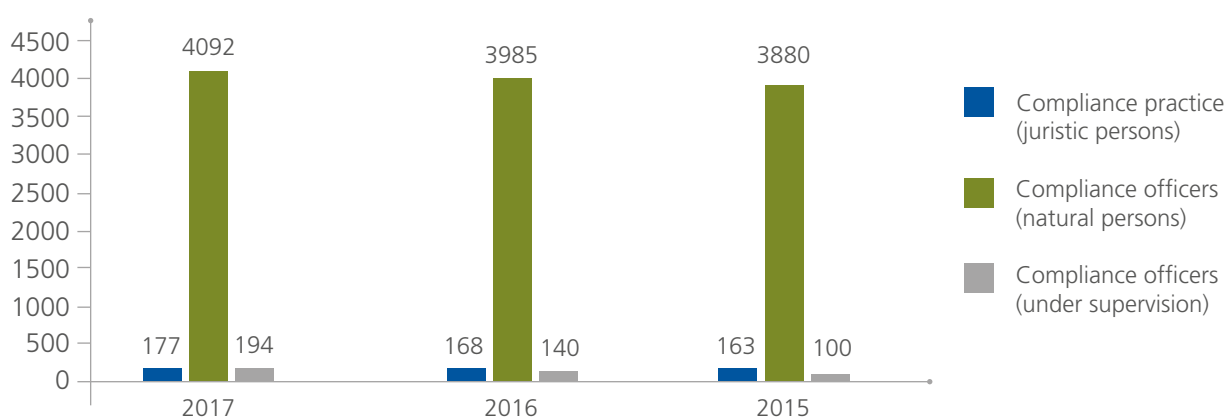
under the guidance, instruction and oversight of a supervisor in terms of an exemption by the Registrar under Board Notice 126. The number of approved compliance officers under supervision has increased.

#### *Approved compliance practices and compliance officers at 31 March 2017*

Year	Compliance practices (juristic persons)	Compliance officers (natural persons both in-house and external)	Compliance officers approved under supervision
2017	177	4 092	194
2016	168	3 985	140
2015	163	3 880	100

The graph below depicts an increase in the number of compliance practices and compliance officers approved:

#### *Benefits (R million)*

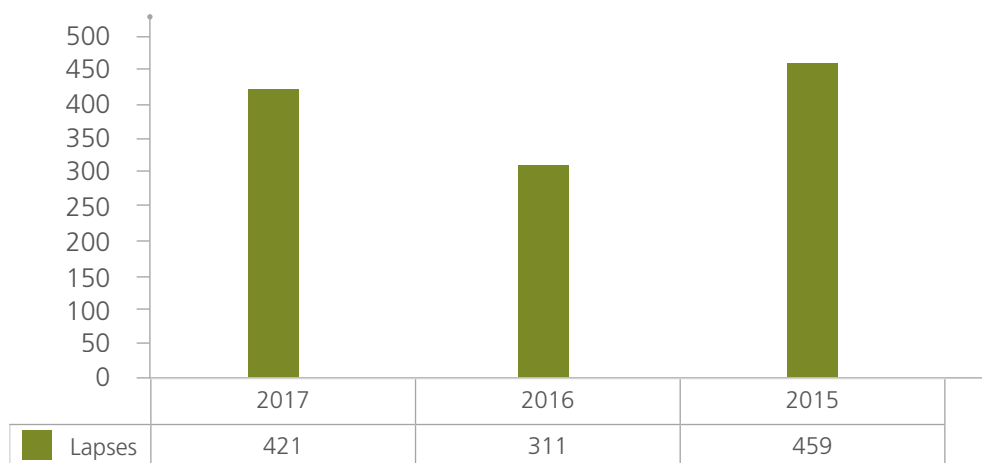


#### **Lapses**

A total of 421 licences were voluntarily lapsed, an increase from 288 in the previous year. These were due to business mergers, retirements and independent FSPs who decided to provide financial services as juristic representatives under other authorised FSP licences.

The graph provides more information about lapses during the period 2015-2017.

#### *Lapses*





# PERFORMANCE BY KEY DIVISIONS

## Regulatory examinations (RE)

The regulatory examinations continued without any significant developments or amendments. Processes were put in place to deal with the update of examination questions once the draft fit-and-proper requirements have been finalised and published.

Compliance officers are required to write the Regulatory Exams (RE1) as part of the fit-and-proper requirements. Compliance officers serving under supervision are required to pass the RE within 24 months of the date of approval.

## Recognised qualifications

The department continued to approve qualifications submitted for recognition. In order to be recognised, the submitted qualifications must meet the specific criteria as published in the current fit-and-proper requirements. The draft fit-and proper requirements make provision for the recognised qualification to be

published on the website of the FSB, therefore making the process to identify

recognised qualification more practical and convenient for the industry.

## Qualifications recognised during the period 1 April 2016 to 31 March 2017

Total received	Approved	Declined
152	146	6

## SUPERVISION

The Supervision Department has oversight of FSPs and compliance officers. It uses a risk-based supervision framework for onsite and offsite monitoring. Offsite monitoring entails analysing financial statements and compliance reports, updating risk information by analysing FSPs' information on record, dealing with enquiries and exemption requests. Onsite monitoring entails risk assessment visits to FSPs and compliance officers.

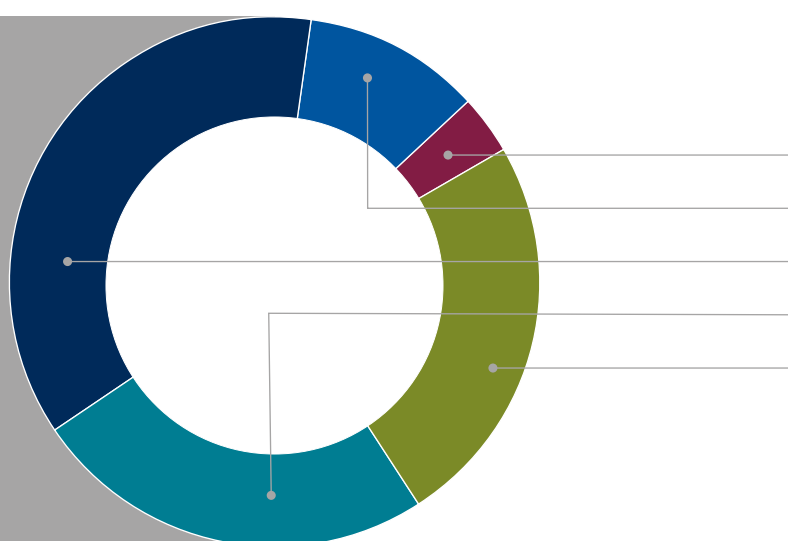
The risk-based supervision framework is continually reviewed and enhanced in response to the changing regulatory

landscape, international trends and outcomes of onsite and offsite monitoring. This entails revising the risk-based framework, risk elements and implementing an annual review programme of FSPs' profiles to enhance the focus on areas of non-compliance and equip supervisors to be more proactive.

## Categorising FSPs

The risk-based supervision approach categorises FSPs according to the risks underlying their business activities and the impact thereof on consumers of financial services and products. The breakdown as at 31 March 2017 is shown in the pie chart below.

Categorisation of FSPs



360	High Impact
1175	Medium High Impact
3904	Medium Impact
2635	Small Medium Impact
2595	Small Impact
<b>Total</b>	<b>10 669</b>

## Supervisory developments

### Offsite monitoring

#### Financial statements

In terms of the FAIS Act, authorised FSPs are required to submit annual financial statements. The risk categorisation of FSPs determines whether or not financial statements have to be audited.

A total of 10 282 financial statements were received and analysed during the reporting period. A total of 460 financial statements are pending for further information.

#### Financial year-end and submission dates

Financial year-end	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Number of FSPs	60	8492	399	88	68	596	67	112	112	33	18	624

Submission Date	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Percentage (%)	056	79.60	3.74	0.82	0.64	5.59	0.63	1.05	1.05	0.31	0.17	5.85

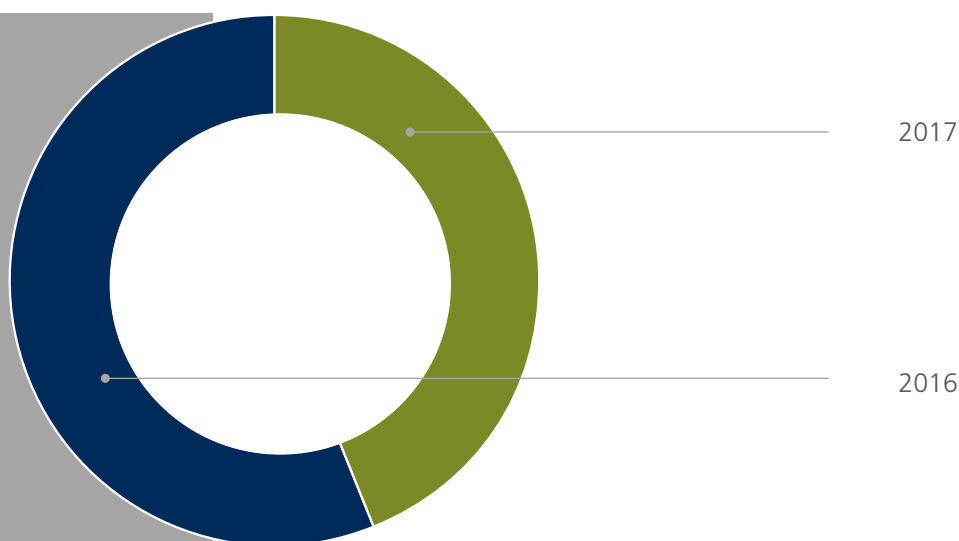
#### Financial statements extension requests

The department continues to grant extensions for the submission of financial statements. During the period under review, 779 extension applications were

considered, 540 granted, 86 declined and 153 are still under consideration. The department follows stringent criteria when considering extension applications. Where FSPs requests were not supported by sufficient reasons and motivation, or there were outstanding financial

statements and compliance reports for prior years, or missed deadlines for previous extension requests, those applications were declined. The graph below shows a decrease of 21% in the number of extension requests from the previous reporting period.

#### Financial statement extension requests trends



# PERFORMANCE BY KEY DIVISIONS

## Compliance reports

Authorised FSPs are required to submit compliance reports. Category I and IV FSPs submit these annually, while category II, IIA and III FSPs submit these biannually. A total of 11 987 compliance reports were received and analysed and 1 838 compliance reports were pending for further information during the reporting period.

## Submission of compliance reports

Category of FSP	Frequency	Number of FSPs	Percentage (%)
Category I	Annual	8 883	83.26
Category II & IIA	Biannual	748	7.01
Category III	Biannual	27	0.25
Category IV	Annual	110	1.03
Funeral Assistance FSPs	Annual	901	8.45

## Referrals for regulatory action

A total of 323 FSPs were referred for regulatory action for contravening the FAIS Act and subordinate legislation, including primarily for failing to meet fit-and-proper requirements and complying with general/specific codes of conduct.

## Irregularity reports

Under the FAIS Act, compliance officers and auditors must report material breaches (irregularities) to the Registrar. During the review period, 61 irregularity reports were received. These were investigated and 40 finalised and 21 were still under consideration at 31 March 2017.

## Conduct of business report

Since the implementation of the FAIS Act, the regulatory framework has evolved with the focus now on market conduct, RDR and TCF. This shift in focus required a revision of the compliance report in content and format.

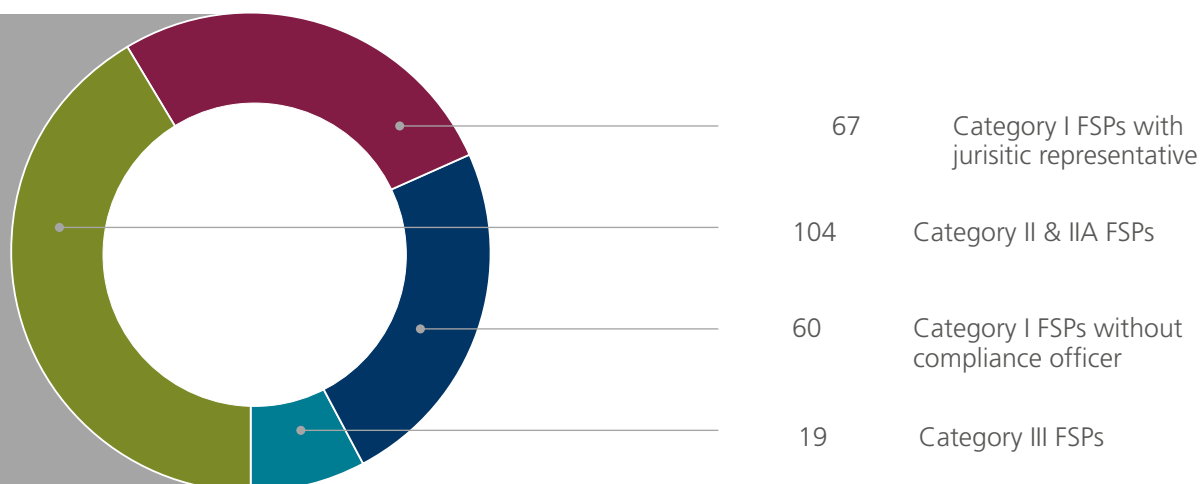
The proposed conduct of business report seeks to integrate and to understand the business model and nature of activities of the specific FSP. This will enable the Registrar to understand the business model of the FSP and its activities. The report will be customised to the nature and type of business within the specific licence category of the FSP.

The Registrar published the proposed Conduct of Business Report for comment on 6 December 2016. Comments were due on 28 February 2017.

## Onsite monitoring activities

A total of 250 thematic reviews were conducted during the reporting period. Management meetings were also held with various FSPs where regulatory matters and developments in their respective businesses were discussed and considered. The breakdown of the said visits by category is shown below.

## Thematic risk assessment visits conducted



### *Category I FSPs with juristic representatives*

The focus was to identify the way in which FSPs implement the provisions of section 13(1)(c) of the FAIS Act, with particular reference to the contractual relationships between FSPs and product suppliers. The implementation of section 13(1)(c) has in general been complied with by FSPs visited. However, the main area of concern is the collection of premiums in bank accounts held in the name of the FSP. The Registrar recognised that the blanket application of section 13(1)(c) may not be suitable for some of the FSPs' business models and it's currently engaging the affected sectors and will issue guidance in this regard in due course.

### *Hedge funds and discretionary FSPs (category II and IIA)*

The objective was to review the overall compliance culture of the FSPs authorised for activities under the two categories.

There were no material findings from this project that necessitated regulatory action against any of the FSPs that were visited.

### *Category I FSPs (small FSPs without compliance officers)*

A training intervention for Category I FSPs, which do not employ the services of a compliance officer and where legislative guidance is sought, was initiated in 2014. The intervention provided guidance and assistance in developing a sound compliance culture within the affected FSPs businesses to ensure sustainability of licences. A total of 60 FSPs were visited and participated in this initiative during the period under review.

In addition to these onsite visits conducted, the Registrar also conducted face-to-face workshops with the said FSPs. Two workshops were conducted and 108 FSPs participated in the workshops. The Registrar conducted an impact study on the compliance culture of the FSPs that went through the training intervention during the

2014/15 and 2015/16 financial years to determine the effectiveness thereof. The outcome of this study shows an increase in the number of FSPs who understand their regulatory obligation and comply with the FAIS Act. This shows a positive shift in the compliance culture of small to medium-sized FSPs (SMMs).

The Registrar intends to continue with this initiative and to support newly authorised SMMs and those with existing licences and who still have challenges with meeting their regulatory obligations.

### *Nominee companies*

A nominee company that holds assets on behalf of financial institutions or their clients must be approved under the requirements of Board Notice 63 of 2007. This notice also prescribes the obligations for nominees to operate in South Africa. The approval of nominee companies was delegated to the deputy registrar of FSPs. Three nominee companies were approved during the reporting period.

The following table shows general compliance with the code of conduct by authorised FSPs. FSPs who failed to comply with the legislation, despite being afforded ample opportunities to address identified areas of non-compliance, were referred for regulatory action.

### *Compliance with general code of conduct*

Description	2017	2016	2015
1. Section 4 and 5 of general code of conduct (code): disclosure documentation non-compliant	29	35	38
2. Licence conditions: business information not updated within 15 days of change occurring	48	42	44
3. Non-compliance with part VIII of the determination of fit-and-proper requirements – FSP does not have a business continuity plan	23	30	31
4. Sections 11 and 12 of the code: FSP's risk management plan is inadequate	15	27	17
5. Non-compliance with part IX of determination of fit-and-proper requirements – FSP does not comply with financial soundness requirements	8	22	19
6. Sections 8 and 9 of the code: FSP does not have required procedures to perform analysis of client's situation and objectives before advice is furnished	8	6	12
7. Sections 16-19 of the code: FSP does not have complaints handling policy and resolutions system in place	18	22	18
8. FSP has not adopted, maintained and implemented a conflict of interest management policy	11	18	-
9. FSP doesn't have service level agreement in place with third parties	7	15	-
10. Areas of concern/non-compliance raised with the FSP in the FICA inspection feedback letter	42	-	-
11. Part VIII of Board Notice (BN) 106 of 2008: FSP has a business continuity plan in place but it is inadequate	22	-	-
12. Section 4(4)(a)(ii) of the Act: External compliance officer does not conduct regular visits to business premises, business units and branches at least once a month	13	-	-
13. Sections 11, 12 of the code: FSP does not have a documented risk management plan	10	-	-
14. BN 123 of 2009: FSP does not have the required PI cover	10	-	-
15. Section 13(1)(c) of the Act: The FSP does not comply with this section of the Act	10		

# PERFORMANCE BY KEY DIVISIONS

## Financial Intelligence Centre Act 2001 (FICA)

The department oversees the implementation of FICA by authorised FSPs designated as accountable institutions. It uses various supervisory tools and approaches to monitor compliance, including meetings and

inspections, in terms of section 45B of FICA. The department also analyses compliance reports, which contain a self-assessment section of FICA compliance,

Out of a total of 250 FICA inspections, four were joint onsite inspections conducted with the Financial

Intelligence Centre. The key focus areas were the compliance of Category II FSPs (asset managers), Category IIA FSPs (hedge funds) and Category III FSPs (administrative FSPs) with the FIC Act.

The FAIS Supervision Department also participates in the FIC Act Enforcement Forum.

### Exemption application status at 31 March 2017

Status	Number
Exemptions granted	10
Exemptions declined	0
Pending applications	39
Withdrawn applications	4
<b>TOTAL</b>	<b>53</b>

During the reporting period, a total of 53 financial soundness exemption applications were received.

## COMPLIANCE

The Compliance Department’s goal is to ensure that all FSPs are held to a high degree of compliance with the FAIS Act.

It considers complaints on contraventions of the FAIS Act and referrals of non-compliance from other

departments on evidence of misconduct and non-compliance.

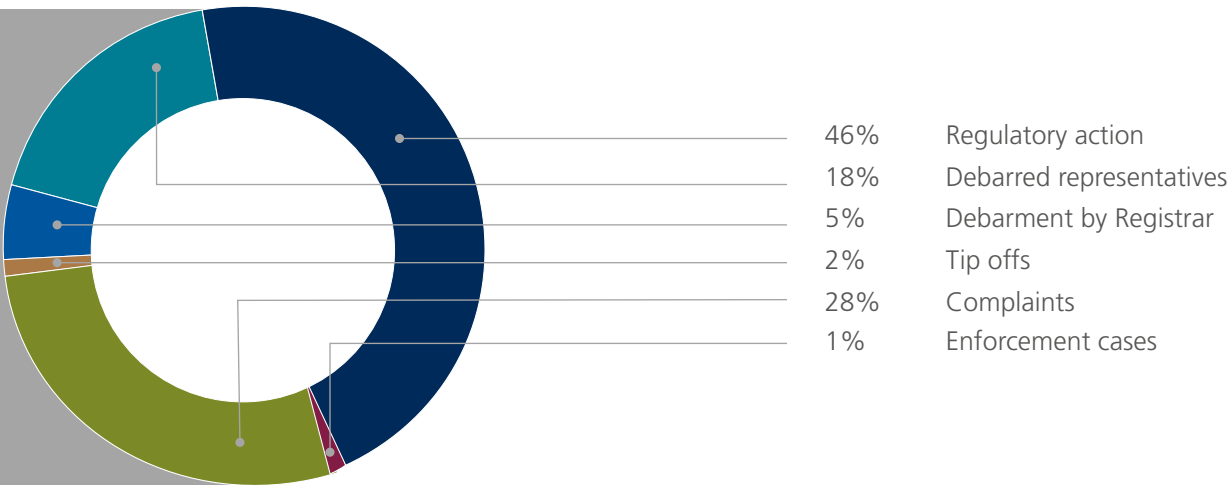
This can result in the suspending or withdrawing of licences. The department’s responsibilities include the following:

- Complaints handling
- Tip-offs anonymous

- Regulatory action
- Register of debarred representatives
- Debarment by the FSB and
- Enforcement cases

The pie chart provides more information regarding the departmental activities during the period.

### Departmental Activities





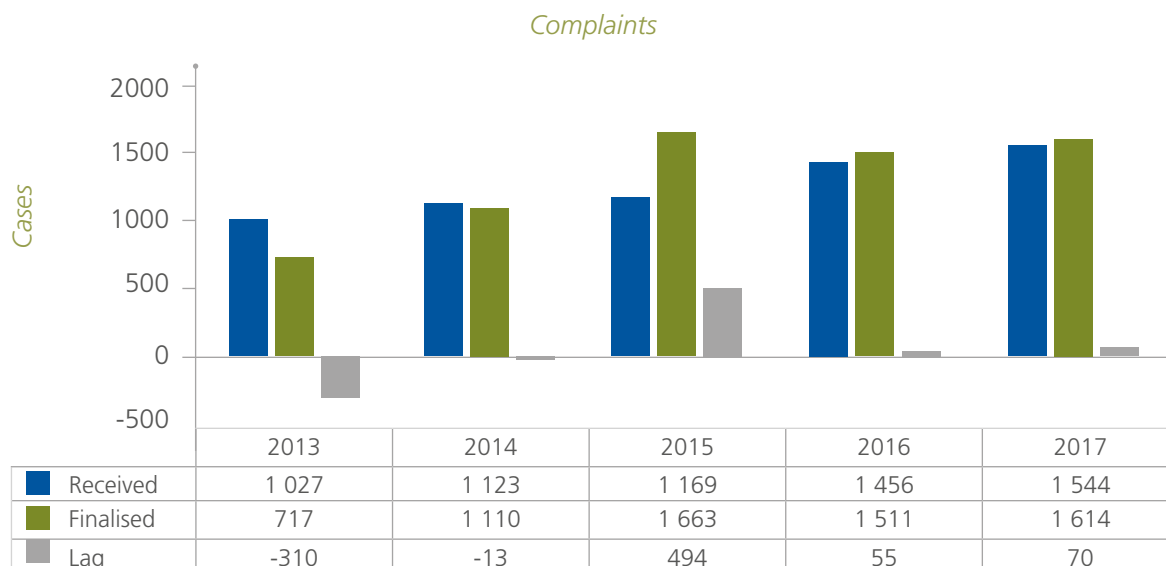
## Complaints

There has been a sharp upward trend of complaints received during the five-year period, 2013 to 2017. Cases received increased by 517, from 1 027 in 2013

to 1 544 in 2017, an increase of 50%. The increase is largely attributable to increased stakeholder awareness of the regulators functions, as a result of consumer education awareness programmes. During the reporting

period, complaints received increased by 6%.

The graph below provides more information.



## Regulatory action

### *Suspension and withdrawals*

Regulatory action cases opened against authorised FSPs, who failed to comply with the provisions of the FAIS Act, declined by 28% during the five-year period, from 3 521 in 2013, to 2 552

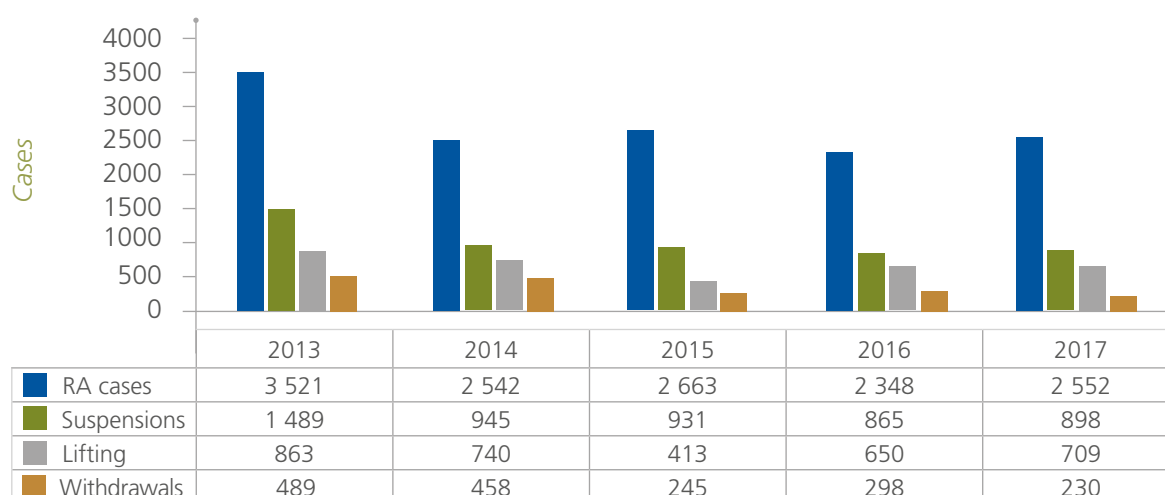
in 2017. The number of licences that were suspended declined by 40%, and withdrawn, by 53% during the same period.

However, the percentage of licences that were able to comply with the conditions for the lifting of a suspension, increased during the

period. In 2013, only 58% of the suspended licensees managed to comply with the conditions for the lifting of a suspension compared to 79% in 2017. There was an increase of regulatory action cases during the current period compared to the previous reporting period, from 2 348 to 2 552, an increase of 9%.

The graph below provides more information regarding regulatory action during the period 2013 to 2017.

### *Regulatory Action*



# PERFORMANCE BY KEY DIVISIONS

## Debarments

The Registrar is empowered in terms of section 14A of FAIS Act to debar any person for a specified period from rendering financial services if satisfied on the basis of available facts and information that the person does not meet, or no longer meets, the requirements contemplated in section 8(1) or has contravened or failed to comply with any provision of the Act.

During the reporting period, 1 200 representatives, compared to 918 during the previous reporting period, were debarred by the FSPs. This represents an increase of 31%. The increase is attributable to representatives who failed to complete the regulatory examinations requirements by 30 June 2016. Representatives that were appointed between 1 January 2014 30 June 2014 and were required to complete the RE5 before 30 June 2016.

In addition, 140 persons were debarred by the Registrar compared to 180 in the previous year. The department focused on an inspection report relating to an inspection carried out into the conduct of several regulated persons. The inspection report found that approximately 145 persons had obtained the regulatory examination and qualifications fraudulently and that necessitated the department to roll out the debarment process of the persons involved.

## Enforcement orders

Six enforcement orders were issued against FSPs and individuals for contravening the FAIS Act. Penalties totaled R3.3 million.

## Legislative developments

The FAIS Division is responsible for supervising and enforcing the FAIS Act, to achieve the regulatory objectives of creating a responsible and safe investment environment for investors by regulating the conduct of financial services providers and their representatives. The legislative framework is continuously enhanced by embedding market conduct requirements aimed at supporting fair treatment of clients.

### *Amendments to Act*

Amendments have been proposed to the FAIS Act, the objectives of which, inter alia, are to close regulatory gaps, to ensure FSPs act fairly and follow due administrative process when debarring representatives and to include the activities of private equity funds managers within the ambit of the FAIS Act.

### *Revised fit and proper requirements*

During October 2016, proposed amendments to the fit and proper requirements applicable to FSPs, key individuals and representatives were published for public comment. The amendments are designed to meet the consumer protection objectives of the FAIS Act and were informed by the review conducted on the competency framework.

The objective of the review, which was conducted in consultation with industry, was to build on the existing competency requirements by establishing an effective, proportionate and outcomes-based regulatory framework to ensure FSPs have adequate, appropriate and

relevant skills, knowledge and expertise in respect of the financial services, financial products and functions that they perform and that they maintain their competence.

The amendments propose, inter alia, the replacement of the second level regulatory examinations with class of business training and product-specific training, and enhancements to the governance requirements to ensure fair treatment of clients. They further introduce requirements that are proportionate to the nature, scale and complexity of the financial services rendered and the financial products in respect of which those services are rendered.

The FSB has considered the regulatory and financial impact of the proposed requirements and is satisfied that an appropriate balance has been achieved between the likely costs to industry in respect of the current requirements viz-a-viz the costs likely to be incurred as a result of the proposed new requirements balanced against the consumer protection objective of the FAIS Act. This assumption will be tested through an impact analysis. The proposed requirements will be finalised after consideration of the outcome of the impact analysis.

### *Amendments to general code of conduct*

Proposed amendments to the advertising, marketing and complaints handling requirements are being finalised to ensure appropriate alignment with other sectoral laws administered by the FSB.

Amendments are further being proposed to the conflict of interest provisions to allow financial services providers to receive or offer enterprise development contributions as contemplated in the Financial Services Sector Code. The proposed amendment supports and promotes transformation and inclusion.

### Exemptions and appeals

The division received 9 718 applications for exemptions, of which 9 412 were granted with conditions during the review period. The majority of the

exemptions related to non-compliance with competency requirements.

Exemptions are granted for a limited period only to allow a person to meet the regulatory obligations and are granted only if reasonable grounds exists, it is consistent with the purpose and objectives of the FAIS Act and it will not prejudice the interests of clients or conflict with the public interest.

Conditions are imposed on all exemptions, inter alia, to ensure compliance with the regulatory requirements at expiry of the exemption

and to provide for more intensive oversight by this Office.

All exemptions are published on the official website of the FSB and disclosure of the exemption to clients prior to the rendering of any financial services is made a condition of the exemption to ensure transparency.

During the review period, 25 appeals were lodged against decisions of the Registrar, most of which related to the withdrawal of licences due to a lack of honesty and integrity.

# PERFORMANCE BY KEY DIVISIONS

## COLLECTIVE INVESTMENT SCHEMES

### Industry overview

#### *South African collective investment schemes in securities (CIS)*

The South African CIS industry set a new record of R2.06 trillion assets

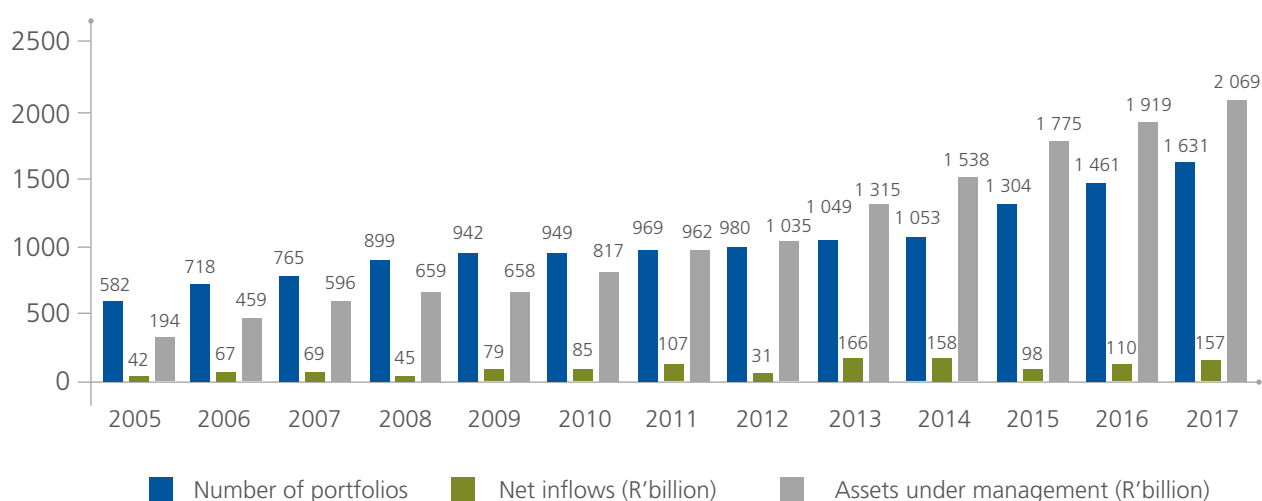
under management at the end of March 2017, compared to R1.9 trillion in March 2016.

During this period, the CIS industry experienced an increase in net inflows of R157 billion across 1 631 portfolios, which is above the previous net inflows of R110 billion achieved in 2016.

The bulk of new investments,

representing 31% of inflows for the year, came via direct investors. Institutional investors contributed 27%, while linked investment service providers (LISPS) and intermediaries' investors contributed 19% and 23% respectively.

#### *Assets for CIS in securities (local)*



#### *Foreign collective investment schemes in securities (FCIS)*

FCIS are offshore schemes authorised for promotion in the Republic of South Africa, subject to certain prescribed conditions. Only authorised FCIS can be marketed to South African investors. FCIS portfolios are dominated in foreign currencies, typically the US dollar, pound, euro and yen.

The number of foreign portfolios available for investment in South Africa increased from 383 to 407 at the end of March 2017.

Foreign total assets under management increased from R348 billion at end of March 2016 to R383 billion at the end of March 2017. During the period, FCIS experienced net flows of R32 billion as compared to -R5.9 billion in 2016 net flows. These net inflows were attributable to new investments in the FCIS.

### Assets for CIS in securities (foreign)



### Collective investment schemes in participation bonds

As at the end of March 2017, the aggregate amount owing to the 7 467 participants was R1.54 billion. This represents a 2% increase in the number of participants and an 18% increase in the aggregate amount owing. During the period, the number of schemes was reduced by one

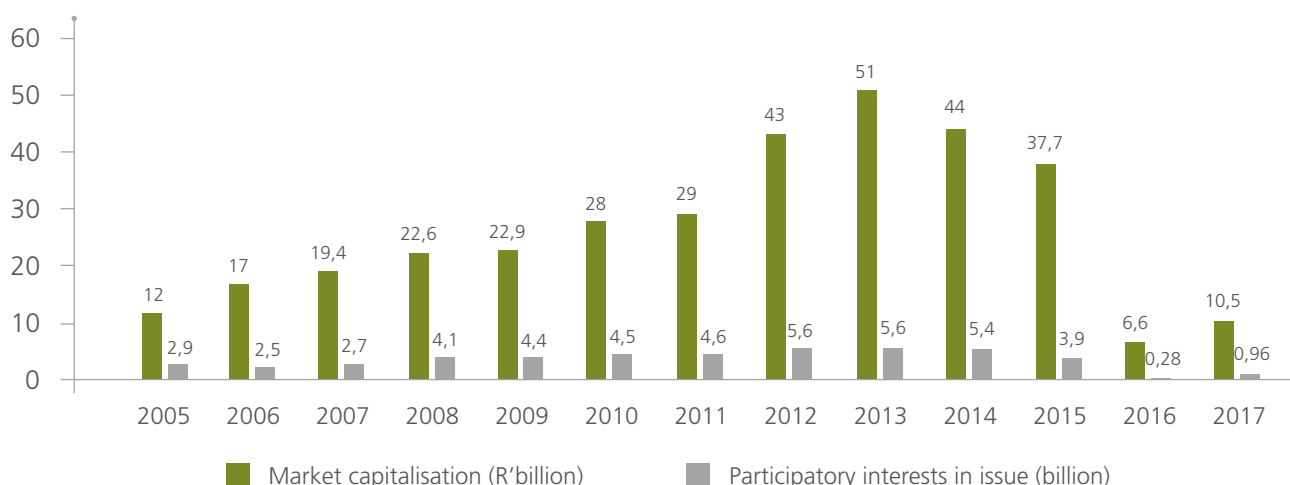
to three schemes. A total of 135 participation bonds are registered across the three schemes.

### Collective investment schemes in property

While the trend for collective investment schemes in property is to deregister as collective investment schemes and convert to company-

structured JSE-listed real estate investment trusts, the industry welcomed one new entrant, namely Liberty Two Degrees, in December 2016. As a result, the number of participatory interests in issue increased from 251 million to 964 million, and the market capitalisation increased to R10.4 billion at the end of March 2017 compared to R6.6 billion a year earlier.

### Participatory interest and market capitalisation of CIS in property



### Regulatory developments

During the period under review, the department focused on enhancing regulations to promote growth in the industry and offer better protection to investors. Key activities are explained in the following paragraphs.

### Conditions of registration and fit and proper requirements

The revision of the conditions for registration of managers and fit and proper requirements for directors and management of CIS is in progress. The

comments from the public are under consideration. The department has, as part of this process, also engaged with the Independent Regulatory Board for Auditors (IRBA) regarding the audit obligations arising from the draft notice. This engagement has necessitated a review of the draft notice to ensure



# PERFORMANCE BY KEY DIVISIONS

adequate wording is used and where the obligations require agreed upon procedures, that the necessary processes are followed.

## Delegation of administration functions

In terms of section 4(5) of the Collective Investment Schemes Control Act 45 of 2002 (CISCA), a manager requires the approval of the Registrar to effect any delegation of functions. The Registrar has determined applicable requirements to the delegation of functions and the appointment of authorised agents. A draft notice was published in December 2016 for public comment. The review of the public comments received has been finalised. It is envisaged that the final notice will be published by the end of May 2017.

## Standard on net asset value calculation for CIS portfolios

The financial sector assessment programme review findings in 2014 included a negative finding on the lack of a standard for the valuation of securities and pricing of a CIS portfolio,

notwithstanding that the legislation and conditions provide various requirements in this regard.

To address this shortcoming, the CIS Department had various discussions with industry and the auditing profession to establish a standard on net asset value calculation on CIS portfolios. A draft standard has been finalised and will be published in due course for public comment.

## Foreign member funds

In line with the Minister of Finance's 2014 and 2016 budget speeches, a working group comprised of National Treasury, the SARB, and the FSB has prepared a framework for foreign members which will be published for public comments in due course.

## Exemptions

During the period under review, the Registrar granted an exemption to managers of CIS from the provisions of Board notice 90 pertaining to the limits applicable to investment in securities, in light of the slow development of the Shari'ah market in South Africa. In this regard, Board notice 136 of 2016 (Board notice 136) was gazetted, and took effect

from 8 August 2016 for 36 months or until the exemption is repealed.

## Supervisory developments

### Onsite visits

The Supervision division conducted 25 joint onsite visits with Financial Intelligence Centre staff during the period under review. There were no major findings.

## COLLECTIVE INVESTMENT SCHEMES IN HEDGE FUNDS

On 25 February 2015, the Minister declared the business of hedge funds as a collective investment scheme in terms of section 63 of CISCA. In terms of the declaration, all hedge funds had to apply for registration under CISCA by 30 September 2015.

The Hedge Funds Department has spent the last year assessing the applications received from managers wanting to operate schemes in hedge funds. Applications were assessed broadly on the basis of business structure, segregation of duties, adequate oversight, business sustainability, risk management and IT capacity. The table below reflects the statistics of the approved applications.

	Qualified investor hedge funds	Retail hedge funds	Total
No. of schemes	18	10	28
No. of portfolios	167	129	296
AUM (R billion )	64.6	12	76.6

## Objectives for 2017

In the new financial year, there will be a focus on 'post registration reviews'. This is a process of assessing whether the approved managers have implemented the processes and controls outlined in their applications. The process is intended to provide the managers with guidance and assistance in interpreting and implementing the provisions of the hedge fund legislation. This will assist the managers in preparing for a complete risk-based oversight approach that will commence during the 2018 financial year.

## INVESTMENT INSTITUTIONS

### CAPITAL MARKETS

The Capital Markets Department is responsible for regulating and supervising licensed exchanges, central securities depositories, clearing houses and trade repositories in terms of the Financial Markets Act, Act 19 of 2012 (FMA). It aims to ensure sound, efficient and fair capital markets and related services for trading, clearing and settlement of securities, including appropriate mechanisms for investor protection.

#### Industry overview

##### *Johannesburg Stock Exchange Limited (JSE) market participants*

	Year ended March 2016		Year ended March 2017	
	Members	Dealers	Members	Dealers
Equity	58	1 275	65	1 471
Equity derivatives	107	780	95	777
Commodity derivatives	65	672	67	718
Interest rate	193	626	91	936

The table provides more information regarding performance indicators.

##### *Performance indicators*

	Year ended March 2016	Year ended March 2017
Number of companies with shares listed	397	386
Turnover of shares	R5 347 trillion	R5 643 trillion
Average number of trades per day	258 977	285 771
New equity capital raised	R194.8 billion	R115.3 billion
Liquidity	35.9%	32.39%

Market capitalisation of all securities listed on the JSE totalled R13.6 trillion (some US\$1 014 trillion) at 31 March 2017 (2016: R15.3 trillion or around US\$1 013 trillion). This maintained the JSE as the 17th largest stock exchange in the world by market capitalisation.

The performance of JSE markets is detailed on its website.

# PERFORMANCE BY KEY DIVISIONS

## Strate Limited (Strate)

Strate is licensed as a central securities depository (CSD) in terms of the FMA for equities and bonds, and a clearing house for bonds. The table provides more information.

Description	Bonds	Equities	Money Market
Number of securities held on accounts at the CSD at 31 March 2017	2 078	872 (including exchange traded funds ETFs and listed warrants)	5 817
Value of securities held on accounts at the CSD at 31 March 2017	R2,597 trillion	R7,77 trillion	R792,44 billion
Number of settlement instructions processed at the CSD from 1 April 2014 to 31 March 2017	515 317	7 230 393	107 199
Value of settlement instructions processed at the CSD from 1 April 2014 to 31 March 2017	R28,97 trillion	R6,24 trillion	R1,97 trillion
Value of corporate actions payments processed at the CSD from 1 April 2014 to 31 March 2017	R438,43 billion	R403,18 billion	R779,39 billion

*Data Source: Strate Limited*

The nominal value of bond holdings under management at Strate amounted to R2,597 trillion in 2017. This figure represents 100% of fixed income instruments listed on the JSE interest rate market for electronic settlement. At 31 March 2017, the total value of dematerialised equities listed on the JSE amounted to R7,77 trillion.

## Industry developments

### Market infrastructure licence applications

#### Exchanges

During this period, the Registrar of Securities Services received a number of applications for exchange licences. On 31 August 2016, ZAR X and 4AX were granted exchange licences by the Registrar of Securities Services and the A2X application was approved by the Registrar on 4 April 2017. A further three licence applications are in the process of being assessed.

In February, the FSB Appeal Board dismissed with costs, two separate, but consolidated appeals brought by 4AX and the JSE against the Registrar of Securities Services for granting of an exchange licence to ZAR X.

The Appeal Board confirmed that the Registrar of Securities Services acted within his power to grant an exchange licence to ZAR X, which complied with the FMA and its objectives to ensure that financial markets are fair, efficient and promote investor protection.

ZAR X began trading on February 20th 2017 and adopted a T+0 settlement cycle.

#### CSD

The CSD department continues to monitor Granite Central Securities Depository to ensure that it meets all its conditions in terms of its licence.

### JSE's move to T+3 settlement cycle for equities

On 11 July 2016, South Africa's financial markets went live with a shorter three-day settlement cycle, (referred to as T+3) to align the South African market with international best practice settlement standards.

The JSE had initially anticipated that between 5% and 10% of trades would roll in the new environment (a rate already lower than international benchmarks). A zero roll rate was, however, achieved.

### Electronic trading platform for South African government bonds

National Treasury is developing an ETP for government bonds where secondary market quoting obligations under the primary dealers' contract will need to be met.

The main aim is to enhance transparency in the domestic bond market and enable National Treasury to more accurately monitor the activities of primary dealers. The move to an electronic platform will enable participants to trade anonymously and have open trading lines with other ETP participants. Under the existing model in the JSE, reported or offshore market participants allocate trading lines to each other based on internal credit processes.

National Treasury, SARB, the JSE, Strate and key representatives from settlement banks are working through legal, regulatory, operational and risk issues raised by the proposed trading platform so that, under all circumstances, including the default of an ETP participant, outstanding matched trades will settle.

In terms of market architecture, the ETP model is aligned with the European model, and with the International Organisation of Securities Commissions' (IOSCO) objectives and principles of securities regulation. For the secondary market, IOSCO regulations stipulate that systems for clearing and settlement of securities transactions should be subject to regulatory oversight and reduce systemic risk.

### *South African Securities Markets Investor Protection Fund*

The objective of this fund is to promote the rights of investors in the South African securities markets.

The fund agreed to approve a request for R2.6 billion for the formulation of a framework for the regulation of securities lending and borrowing activities in the South African capital markets environment. Deloitte & Touché, is currently conducting global research and will provide recommendations to the Registrar on regulating securities lending and borrowing.

## **Legislative developments**

### **Subordinate legislation (under FMA)**

#### *Ongoing legislative work*

#### *FMA amendments*

The FSR Bill required certain consequential amendments to the FMA, which are currently being drafted. These include the introduction and licensing of a central counterparty (CCP) as a market infrastructure, the equivalence and recognition of external market infrastructures, introducing principles of cooperation between market infrastructures, and licensing an external CCPs.

#### *Over-the-counter derivative regulations*

The FSB, National Treasury, SARB and other stakeholders are finalising subordinate legislation under the FMA, which includes ministerial regulations on over-the-counter (OTC) derivatives for the South African market.

The aim is to align domestic legislation with G20 recommendations by bringing OTC derivatives transactions under the regulatory ambit. Regulations include licensing a trade repository, reporting obligations for OTC derivative providers and margining requirements.

#### *Interoperable and cooperative relationships between market infrastructures*

In response to the changing landscape of South African capital markets, with several entities expressing an interest in participating, the Registrar is investigating interoperability and cooperation arrangements between market infrastructures operating or wishing to operate in these markets.

With the market moving away from being served by a single market infrastructure towards multiple market infrastructures, this investigation aims to provide guidance to ensure the FSB continues to meet its regulatory mandate and objectives under the FMA.

The amended draft directive was published for the second time on 16 November 2016 and the closing date for comments was 16 December 2016. At the request of the JSE and other stakeholders, the Registrar extended the period to the 17 January 2017.

The CMD is finalising responses to the comments received and is planning to have a workshop with stakeholders to consider the draft directive for the last time before the final publication.

## **International cooperation**

### *International Organisation of Securities Commissions (IOSCO)*

IOSCO's objectives include cooperation in promoting high standards of regulation to maintain fair, efficient and sound markets. Member countries exchange information to promote the development of domestic markets, and embed effective surveillance and enforcement.

The FSB actively participates in the growth and emerging markets (GEM) committee, the Africa/Middle East regional committee (AMERC), the assessment committee, the screening group and a number of task forces within IOSCO. In addition, the FSB is a member of the secondary markets committee and a member of the investment management committee within IOSCO.

#### *International liaison*

The Markets in Financial Instruments Directive 2 (MiFID 2) is scheduled to come into force on 3 January 2018.

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Its provisions include a share trading obligation, which obliges firms in the European Union (EU) to trade shares on EU venues or on third country venues that have been recognised as equivalent i.e. have similar laws and supervisory frameworks.

The obligation applies to shares traded on or admitted to trading on an EU exchange (it will, therefore, apply to the shares dual listed or traded on the London Stock Exchange and the JSE).

If equivalence is not obtained, any share dealing in these stocks by EU investment firms could not be routed to the JSE, but instead, would have to be carried out on an EU venue. In order to obtain equivalence, the CMD is responding to a questionnaire prepared by the Directorate General Financial Markets, Financial Services Board and Capital Markets Union of the European Commission, which requires a description of South Africa's regulatory regime to enable it to assess whether South African trading venues abide by legally binding obligations that are equivalent to those rules that govern EU shares trading venues. They will also determine whether the trading venues are subject to effective supervision and enforcement.

## Legal entity identifier (LEI)

On 18 December 2015, the legal entity identifier Regulatory Oversight Committee (ROC) endorsed Strate (Pty) Ltd (Strate) as a pre-local operating unit (pre-LOU), which allowed Strate to proceed with the LEI application program. There are 23 registered LEIs on the Strate system.

Effective 7 October 2015, new institutions that wish to become LEI issuers need to be accredited by the Global Legal Entity Identifier Foundation (GLEIF). The GLEIF assumed the responsibility for accrediting organisations seeking to become LEI issuers with the conclusion of a memorandum of understanding between GLEIF and the ROC. Prior to this, the ROC was responsible for endorsing organisations as LEI issuers. Existing LEI issuers, previously endorsed by the LEI ROC, are referred to as 'pre-LOUs'.

Strate is in the process of being accredited as a local operating unit (LOU) by the GLEIF. Strate signed a non-disclosure agreement with the GLEIF, which was approved on 20 May 2016. On 7 July 2016 Strate submitted an accreditation plan which is a prerequisite for the submission and the signing of a master agreement with the GLEIF. The master agreement

is currently being countersigned by Strate's Exco members.

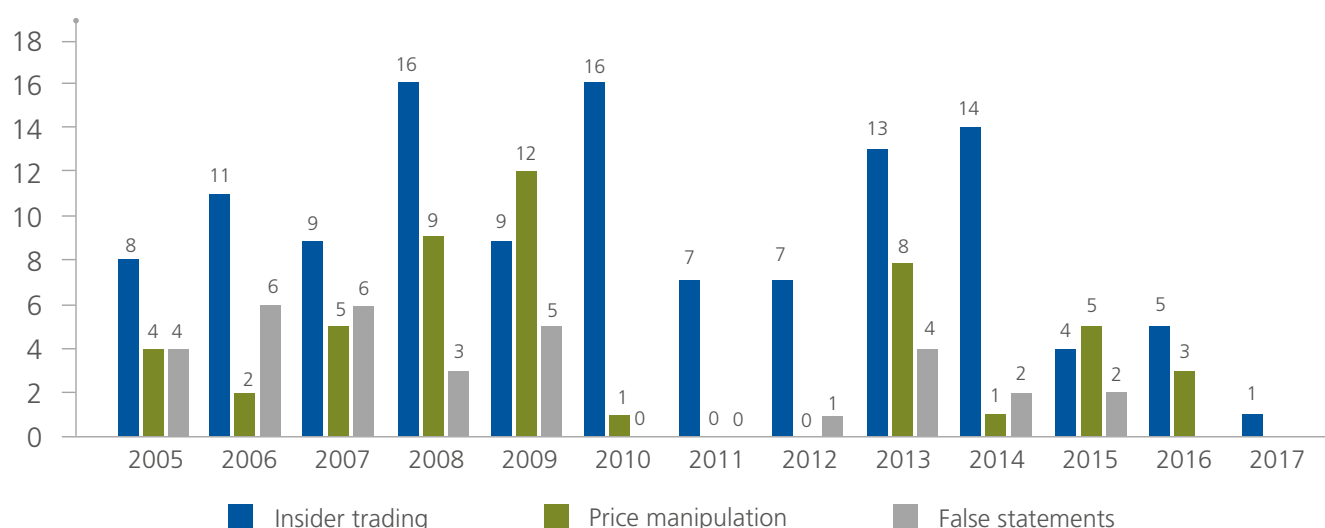
## MARKET ABUSE

The Directorate of Market Abuse (DMA) is responsible for combating market abuse, particularly those forms prohibited by the FMA insider trading, prohibited trading practices (market manipulation) and publishing false or misleading statements on listed companies.

The DMA has representatives from the FSB, JSE, legal and accounting professions, insurance industry, fund management industry, banking industries, Association for Savings and Investments South Africa and South African Reserve Bank (SARB). The Market Abuse Department will investigate a matter and report it to the DMA, which in turn will either close the case or refer it for enforcement action.

During the period under review, the DMA registered 13 new cases for investigation (seven for insider trading, three for market manipulation, one for false reporting and two for assistance to foreign regulators), bringing total cases registered since inception to 381. These were incidents that warranted investigation, but were not necessarily found to constitute a market abuse contravention.

Market-abuse incidents since 2005 below.





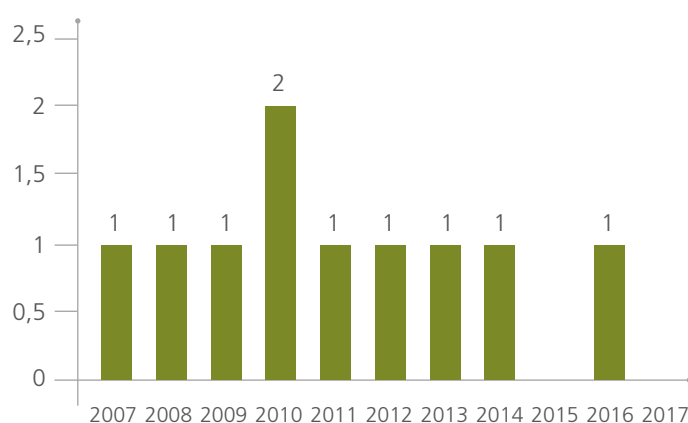
The table below sets out new cases registered per calendar year and investigations completed since the inception of the DMA in 2005 (excludes investigations completed by the Insider Trading Directorate).

	Opening balance	New cases	Completed cases	Closing balance
2005	12	11	(1)	22
2006	22	20	(28)	14
2007	14	16	(15)	15
2008	15	19	(21)	13
2009	13	21	(12)	22
2010	22	23	(20)	25
2011	25	16	(21)	20
2012	20	9	(15)	14
2013	14	25	(21)	18
2014	18	17	(18)	17
2015	17	11	(17)	11
2016	11	16	(17)	10
2017	10	3	(2)	11
Total		207	(208)	

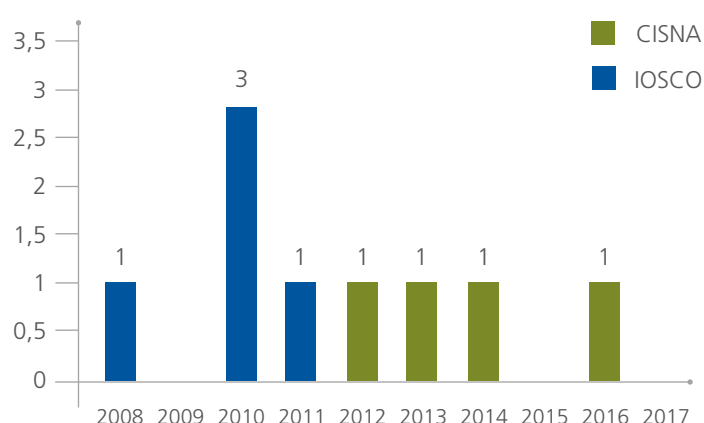
### Assistance to foreign regulators

One new case was registered, where assistance was requested by a foreign regulator.

### Matters registered



### Regulators assisted



### Completed investigations

During the past financial year, the DMA held four meetings and considered 16 completed investigations, of which 13 were closed (investigations are closed once it becomes evident that no/insufficient evidence has been obtained to warrant action in terms of the FMA). The DMA was satisfied that anti-market abuse provisions were not contravened in these cases.

The DMA referred three cases for enforcement action. The cases were

referred for enforcement action due to alleged price manipulation in the shares of ConvergeNet Holdings Limited, SacOil Holdings Limited and Sallies Limited. These cases concerned only trading in these companies' shares on the stock exchange.

Most matters were detected via sophisticated surveillance systems at the JSE. DMA investigators and JSE surveillance staff meet bi-weekly to consider surveillance results and the progress of cases under investigation. The success of DMA investigations can also be attributed partly to the high level

of cooperation from market professionals and their compliance functions.

### Enforcing anti-market abuse legislation

The EC finalised eight market abuse cases and imposed administrative penalties against ten individuals and one stockbroker:

- R2 million each against two individuals for price manipulation in Afgri Limited;

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- R2 million against an individual for price manipulation in Sunflower September 2013 contract;
- R1 million against an individual for price manipulation in SacOil Holdings Limited;
- R850 000 against an individual for insider trading in Basil Read Holdings Limited;
- R500 000 against a stockbroker for price manipulation in Afgri Limited;
- R500 000 against an individual for price manipulation in Vox Telecom Limited;
- R467 388 against an individual for insider trading in Basil Read Holdings Limited;
- R350 000 against an individual for insider trading in Coal of Africa Limited;
- R200 000 against an individual for price manipulation in Miranda Minerals Holdings Limited; and
- R25 000 against an individual for price manipulation in Comair Limited.

These penalties serve as a deterrent to other market participants who may consider engaging in similar practices.

## Outlook

The department operates in a dynamic and innovative industry. To fulfil its mandate, it needs to keep abreast of developments in the financial markets industry and anti-market abuse regime. During the review period, it considered the impact on the South African financial markets with regards to issues such as companies that make markets in their own shares and the changing environment whereby there will be more than one licensed exchange in South Africa.

## CREDIT RATING SERVICES

The supervision of credit rating agencies (CRAs) helps to ensure responsible and accountable CRAs, as well as enhance the integrity, good governance and independence of credit rating activities.

The FSB's oversight promotes the quality of the credit rating process and the protection of investors' interests.

During the year under review, the Credit Rating Services Department (CRSD) conducted three onsite reviews using a risk-based approach.

The reviews focused on the following:

- IT assessment (IT operations and information security)
- Investigating the process of issuing credit ratings
- Workload of credit rating analysts and their involvement in their provision of ancillary services, and
- The surveillance and monitoring of credit ratings.

The CRSD also undertook a review on the adoption of the principles contained in the revised IOSCO code of conduct by CRAs and engaged the CRAs on the requirements for the endorsement of external credit ratings.

The European Securities and Markets Authority (ESMA) published on its website on 30 June 2016 that it considers the South African legal and supervisory framework "at least as stringent" as the EU regulatory regime for CRAs. This decision allows a European CRA to endorse credit ratings issued by its South African subsidiary or parent company. Likewise, credit ratings issued by analysts based in the EU may be endorsed by South African-registered credit rating agencies of the same group. Endorsed credit ratings may be used for regulatory purposes.

A memorandum of understanding confirming cooperation between ESMA and the FSB was signed in June 2016. The cooperation agreement recognises supervision and enforcement related activities of ESMA registered credit rating agencies operating in South Africa.

## LEGAL

The Legal Department provides ongoing legal support services to the entire FSB. Legal services are mainly available in-house, especially in the areas of legislation, litigation management and general corporate legal advice. Where necessary, the department engages external professionals (attorneys, counsel) to provide the requisite legal services, particularly for litigation.

Key objectives include:

- i. Minimising the FSB's exposure to external and internal legal risk
- ii. Facilitating ongoing legislative review to enable line departments to deal with any regulatory gaps that may exist with a view to submission to National Treasury as an addition to its annual legislative programme.
- iii. Legal support in litigation

The department also provides ongoing secretarial support to the FSB Appeal Board. The department has achieved its objectives and targets for the year.

## Legal proceedings

### Curatorships

The FSB continued with its oversight role in the curatorship of various pension funds, inter alia, Fidentia, Cadac, Ovation, Corporate Money Managers and Rockland.

In respect of the Rockland curatorship, the curator's seventh report was accepted by the court on 21 February 2017. The 31 January 2018 is the next reporting date for the curator to court.

No new curatorship applications were launched by the FSB during the period under review.

### Civil damages claim against the FSB

The PEP Fund is claiming an amount of approximately R70 million from the FSB and the Registrar for losses allegedly suffered due to the FSB failing in its duties as the regulator with regard to investments made by the fund with the Trilinear Group of Companies. Following the withdrawal of a first summons served on the FSB during May 2014, a second summons was served on the FSB's attorneys on 21 August 2014. Following an amendment of the particulars during December 2014, pleadings closed and the parties have approached the DJP for the allocation of a trial date. A three-week period from 16 April 2018 to 11 May 2018 has been allocated for the trial.

### Other applications

On 19 January 2016, an application was received in which the deputy Registrar of pension funds seeks relief against the Board of the FSB and, in the alternative, against the Minister of Finance. The chairperson of the Board, the executive officer, the former deputy Registrar of pension funds and the Minister have been cited as respondents in the matter. The application was dismissed on 14 December 2016. The court made various orders with regard to costs including that the FSB Board has to pay the applicant's costs up to and including 1 August 2016, that the other respondents shall bear their own costs up to and including 1 August 2016 and that the applicant shall pay the costs of all the respondents from 2 August 2016 inclusive of the cost of two counsel. The

applicant lodged an application for leave to appeal on 9 January 2017. Leave to appeal was refused on 16 March 2017.

### Review applications

Various review applications were reported on between 1 April 2016 and 31 March 2017 and the Registrar continued to receive applications by debarred representatives to review and set aside their debarments by FSPs and the FSB, in terms of section 14(1) and 14A of the FAIS Act. The summary below of the matter involving Francois Petrus Ellis/Appeal Board of the FSB and Registrar is the latest of such applications to review and set aside a debarment by a FSP.

On 6 September 2016, an urgent application was received in which the applicant sought to review and set aside a ruling by the Appeal Board on 4 July 2016 to dismiss his appeal against the Registrar's decision to debar him for a period of two years in terms of section 14A of the FAIS Act. The applicant was debarred as a result of, among other things, the misappropriation of client funds. Central to his grounds of review is an allegation that the Appeal Board failed to consider various factors after the misappropriation of funds took place which, according to the applicant, demonstrate that he now satisfies the required character qualities of honesty and integrity.

The urgent application was set down for hearing on 20 September 2016, but was struck off the roll for lack of urgency. The applicant subsequently filed a replying affidavit in which new matter was raised. The Registrar filed a further affidavit on 25 November 2016 addressing the new matter.

On 15 February 2017, the applicant filed heads of argument. The Registrar's heads of argument were filed on 1 March 2017. The matter may now be set down for hearing.

## The FSB Appeal Board

The FSB Appeal Board, established in terms of section 26A (1) of the Financial Services Board Act 22 of 1990, continues to hear appeals from parties aggrieved by decisions of decision-makers. The decisions of the Appeal Board are continually published on the FSB website.

During the period under review, 68 appeals were lodged with the Appeal Board. Thirty two decisions were delivered and published on the FSB website.

Two appeals lapsed; fifteen appeals were withdrawn by appellants; eight matters were remitted to the various decision makers for reconsideration and three decisions were reversed by the various decision makers in compliance with the FSB requirements in terms of applicable legislation; 11 matters were resolved by way of settlements and consent orders being granted; three decisions were taken on review to the High Court.

A total of twenty one applications for leave to appeal were lodged with the Appeal Board emanating from the office of the FAIS Ombud, four of which were refused and two are still pending.

## Legislation

The legislation report below refers to the development of various pieces of legislation in which the FSB is involved.

### Financial Sector Regulation Bill, 2016

The Bill was tabled in Parliament on 27 October 2015. The Standing Committee on Finance (SCOF) adopted the Bill on 30 November 2016 and the National Assembly voted on the Bill on 6 December 2016. The bill has subsequently been passed by Parliament and is awaiting the President's signature.

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## Insurance Laws Bill, 2016

The draft Bill was tabled in Parliament on 28 January 2016. An initial briefing on the Bill was made to SCOF on 21 September 2016. SCOF invited the public to make written submissions on the Bill by 3 February 2017. Public hearings on the Bill took place on 7 February 2017.

## Financial Services Laws General Amendment Bill (Omnibus Bill)

The Omnibus Bill will address necessary and urgent amendments to the various laws administered by the FSB. The various departments provided their legislative requirements and a matrix containing the required amendments was submitted to the National Treasury on 9 December 2016.

## Conduct of Financial Institutions Bill

In the second phase of Twin Peaks, the existing sectoral legislation will be gradually amended or replaced with laws that more appropriately align with the Twin Peaks framework. A comprehensive market conduct framework will be legislated, to ensure a comprehensive, consistent and complete approach to governing the conduct of financial institutions across the financial sector. The National Treasury established a working group consisting of FSB and SARB representatives to develop the Conduct of Financial Institutions Bill.

## Subordinate legislation

The Legal and Policy Department continues to support the operational departments with regard to the development and review of subordinate legislation.

## CONSUMER EDUCATION

The FSB has a mandate to 'provide, promote or otherwise support financial education, awareness and confidence regarding financial products, institutions and services'. To achieve this mandate, the FSB's Consumer Education Department (CED) uses a multifaceted approach to increase the financial literacy levels of South Africans and create a greater awareness of their rights and responsibilities when dealing with authorised FSPs. This year marks 15 years of the FSB's consumer financial education programme in South Africa.

CED prides itself on developing new approaches to consumer financial education and introducing new ways to better engage content with consumers, which is both entertaining and informative, thereby aiding better retention. The most innovative methodology used this year was a two-workshop approach during which the same participants attended multiple workshops within a three-month period. This was used as a test to see if any behavioural change was apparent among participants.

## Activities

The purpose of CED's activities and initiatives is to market the FSB and what it does as a Regulator, create financial awareness and disseminate financial information on budgeting, savings, insurance, managing debt, retirement planning, investing, cash versus credit, the debt trap, rights and responsibilities as well as recourse mechanisms. These themes and topics are mediated through face-to-face interactions, train-the-trainer and employee wellness workshops, roadshows and exhibitions, community initiatives, outside broadcasts, television interviews and television series shows, radio, printed media and edutainment

(industrial theatre). These programmes are reinforced by providing consumers with resource material in the form of booklets and brochures and are available on [www.fsb.co.za](http://www.fsb.co.za) and [www.mylifemymoney.co.za](http://www.mylifemymoney.co.za) for increased visibility and reach.

The CED conducts these initiatives across all nine provinces in ten of the South African official languages and partners with various stakeholders and existing networks to achieve the department's objectives.

## Workshops

During the year, 465 workshops and presentations reached 33 589 consumers. The CED concentrated on partnering with programmes that create job opportunities for South Africans. For example, the memorandum of agreement signed with the Department of Public Works (DPW) to collaborate on the Extended Public Works Programme (EPWP) project has already assisted in reaching consumers in LSMS1-5. The partnership assisted the CED in reaching the participants of the EPWP. This collaboration reached first time job owners and contract workers. The programmes' messaging included managing your money through budgeting and provided tips on saving for the future.

The EPWP project used the two-workshop approach mentioned before, reaching 4 943 beneficiaries during the first phase of workshops (July – September 2016) and 4 062 during the second phase (October – December 2016). This was the first time that the CED had used the same participants over multiple workshops. The independent monitoring and evaluation report showed that based on the participants' socio-economic environment the following changes in behaviour were evident:

- 10% increase in terms of financial control;
- 21% increase in budgeting behaviour and;
- 19% increase in savings behaviour.

Following on the very successful Taking Regulation to the People project in Soweto in 2015, the CED conducted a joint initiative in Vosloorus and Brits with the FSB's pension and FAIS registration departments, reaching 1 371 consumers. The purpose of the programme was to address unclaimed pension benefits and how one can register to become an FSP. FSB staff assisted consumers in completing forms to determine their eligibility as a beneficiary of an unclaimed pension fund. The project continues in the 2017/18 financial year.

### Online

The MyLifeMyMoney website went live in October 2014. By March 2016, site visits were 95 111. From April 2016, various enhancements were done to the website to improve user experience and refresh

the overall look and feel of the portal. Due to the upgrade of the underlying technology, the visitor counter was reset in August 2016, and by March 2017, the site visits stood at 90 883. The website focuses on financial responsibilities faced at various life stages, such as graduation, buying your first car, getting married, having a baby, buying a house, retirement and funeral planning.

The most popular pages remain the 14 financial calculators, the downloadable free budget template, weekly financial tips and topical articles.

The website can be viewed at [www.mylifemymoney.co.za](http://www.mylifemymoney.co.za) and aims to help you make the most of your finances.

### Trustee training and other qualifications

The FSB's online Trustee Training Toolkit (TTK) for trustees of retirement funds continues to grow in popularity. To date, 5 082 (2016: 4 416) trustees have registered on the e-learning system, and

1 861 (2016: 1304) have passed the summative assessment test. The online e-learning programme can be accessed via [www.trusteetoolkit.co.za](http://www.trusteetoolkit.co.za) and registration is free.

The CED has also facilitated the development of the content for the Professional Principal Executive Officer qualification. The FSB will authorise the Council of Retirement Funds for South Africa (Batseta) to use the content as it is the assessment quality partner for the qualification.

In addition, the CED, in collaboration with the Pensions Department, has been instrumental in registering the qualification: Professional Principal Executive Officer (Retirement Fund Trustees) on the National Qualifications Framework. The qualification is listed on the National Learners' Records Database (NLRD) at the link <http://regqs.saqa.org.za/viewQualification.php?id=99574>

## Statistical Summary

Table 1 Statistical Summary of activities for 2016/2017

Medium	Activities	Target reached	Urban	Rural
Workshops and presentations	465	33 589	19 359	14 230
Exhibitions	27	13 146	7 753	5 393
Media	162 (including live reads)	2 115 841		
Print	5 articles published on the web and in magazines	FSB Bulletin (3) Online article (1) Buzz from the Board (1)		
Web visitors	378 Uploads	90 883 users (as from October 2016)		
Resources developed, including reprints and translations	8	80 000 printed 71 000 distributed		

## Research, monitoring and evaluation

This year saw an increase in the number of consumer financial activities being monitored and evaluated. Though the focus remains on determining project success and assessing knowledge

retention, during the period, the CED also focused on assessing projects with the intention of identifying examples of good practice. The FSB continues to use an external service provider to assess a selection of projects. In the 2017 financial year, the following projects were monitored and evaluated: the

Gauteng school's speech competition, the student radio project, South African Institute of Chartered Accountants (SAICA) youth project, train-the-trainer, taking regulation to the people and the EPWP project.



# PERFORMANCE BY KEY DIVISIONS

The Human Sciences Research Council (HSRC) completed the annual survey into the financial literacy levels of South Africans. The study was done as part of the South African Social Attitude Survey

(SASAS). This is the fourth iteration of this study and provided the first look at trends across the previous four years. Of concern was how South Africans are responding to current economic

conditions, with more South Africans exercising financial control, but fewer undertaking financial planning for the medium-to long-term. The other two indices remain largely unchanged.

*Table 2: Financial literacy levels of South Africans per domain over the period 2011-2015*

Domain	2011	2012	2013	2015	Trend
Financial control	58	61	61	63	Increased
Financial planning	53	50	48	48	Decreased
Product choice	45	46	44	46	Stable
Financial knowledge	56	55	56	58	Stable
Overall financial literacy	54	54	52	55	Stable

*Source: Financial literacy in South Africa, results from the 2015 SASA's Report (HSRC)*

## International engagements

In 2017, there was representation at the following conferences:

- 21 April 2016, Amsterdam, Netherlands – OECD Symposium on Financial Resilience throughout life - *Promoting responsible use of credit among young people*.
- May/June 2016, Jakarta, Indonesia – OJK-OECD High-level Regional Seminar on Empowering MSMEs through Financial Literacy and Inclusion - *Beyond Financial Literacy: Improving Business Knowhow in MSMEs (Moderator)*.
- 25 July 2016, Maputo, Mozambique – ASEL Conference – (Lusophone Association Of The Insurance Supervisors) – *The impact on consumer financial education campaigns*.
- 29 to 30 September 2016, Sandton, South Africa, A2ii-IAIS-FSB Seminar

on Financial Education: Challenges, Trends and Measures of Success in Supporting Financial Inclusion in Sub-Saharan Africa.

- 13 October 2016, Auckland, New Zealand – NZ-OECD High-level Global Symposium on Financial Education - *Culture and Money*.

## Funding

The FSB sources its funding for financial consumer education from the discretionary fund, a repository for all penalties paid by the industry, and the Financial Services Consumer Education Foundation (Foundation), an independent trust founded by the FSB. In April 2016, the FSB's Audit Committee approved R7 million from the discretionary fund and in October 2016, the Trustees of the Foundation approved R22 million for the CED's financial consumer education initiatives.

## The way forward

Financial education plays a crucial role in the consumer protection environment. By implementing programmes that assist consumers gain the confidence, knowledge, information and access to make appropriate choices, they are able to fully participate in financial markets using regulated financial services and products.

With the greater priority placed on financial education and inclusion in the FSR Bill, CED is preparing to take on the role of thought leader nationally and continue with processes to develop standards and guidelines to implement, monitor and evaluate financial education.

However, while preparing for the implementation of Twin Peaks, the department will continue to implement its various activities to reach consumers and to ensure that consumers are being made aware of their rights and responsibilities.

## ACTUARIAL

The Actuarial Department is assigned specific regulatory functions by the FSB's retirement funds and insurance teams. In addition, the Actuarial Department provides broader support and advice where required. Issues of mutual concern are covered in the respective divisional sections.

## Pensions

### Transfers between funds

The department considers applications to transfer business between pension funds under section 14 of the PF Act. During the reporting period, 3 355 new applications were considered.

We are not satisfied with the quality of some applications received and this leads to a large number of cases being pending. As at 31 March 2017, some 982 cases were pending. We will continue to engage with the affected administrators and funds to improve the quality of their submissions.

The process of revising Directive PF6 is underway. This will clarify certain matters concerning section 14 transfers.

### Actuarial valuation reports

The department assesses actuarial valuation reports concerning the financial condition of pension funds and their compliance with the PF Act.

Funds are required to submit statutory actuarial valuation reports at least every three years, within 12 months of the financial year end (although funds can apply for exemption from this requirement, if they comply with specified criteria).

During the period, the Registrar accepted 855 actuarial valuation reports and 906 reports were pending at the

end of the reporting period due to unresolved queries.

The Notice on Financial Soundness was published on 8 July 2016, prescribing the actuarial valuation basis in terms of which valuers must prepare statutory actuarial valuation reports and to which the financial soundness criteria will be applied. If a fund is not financially sound, it will be required to present to the Registrar a scheme of arrangement to restore financial soundness.

### Surplus schemes

At the end of the previous reporting year, most funds had already complied with surplus legislation promulgated in December 2001, with their surplus apportionment schemes either approved or nil surplus returns noted. By the end of the current reporting period, the apportionment of an actuarial surplus of R49.41 billion had been approved.

## Insurance

During the period, we supported the Insurance Division with prudential and market conduct matters. From a prudential aspect, the department made recommendations to the Insurance Division on various applications received. We dealt with 24 cases in the review period. The Actuarial Department also assisted the Insurance Division with conducting onsite visits, provided technical input into various supervisory colleges held and provided support in refining the risk-based supervisory approach.

Actuarial assistance was also provided as part of the development of SAM. The actuarial team assisted the SAM team with developing the standards, database development and the internal model approval process.

Furthermore, the actuarial team assisted with the analysis of the

actuarial elements of the mock ORSA submissions as well as the returns submitted as part of the comprehensive parallel run.

Assistance was provided for market conduct matters. The actuarial team has been involved in a number of projects that have a TCF element such as premium reviews for policies with premiums guaranteed for a set term and consumer credit insurance.

During the reporting period, we continued to support the engagements with the National Treasury and SARS on developing a suitable tax basis for insurers post-SAM implementation.

## General

The FSB Actuarial Department is actively involved in industry matters, locally and abroad.

The chief actuary is a member of the retirement matters, life assurance, short-term insurance and international affairs committees of the Actuarial Society of South Africa (ASSA). He is also involved with the International Actuarial Association (IAA) and is immediate past chair of its pension benefits and social security (PBSS) section. He is a member of the insurance regulation committee and actuarial standards committee of the IAA.

The head of actuarial pensions is a member of ASSA's retirement matters committees and serves on its short-term insurance and life assurance committees.

# PERFORMANCE BY KEY DIVISIONS

## Objectives for 2017

The Actuarial Department's main objectives for the year ahead are to:

- Reduce the number of late, pending and outstanding submissions. To this end, further administrative penalties will be levied on late or outstanding actuarial valuation reports. In addition, administrative penalties are being considered on the late submission of section 14 applications to reduce non-compliance with the submission dates for section 14 applications under the PF Act.
- Review the section 14 directive with the following notable issues being considered:
  - The requirements for what constitutes adequate member communication;
  - The treatment of unclaimed benefits upon transfer;
  - A review of the current practice on prospective 'blanket' transfers;
  - The inclusion of transfers of trusts to beneficiary funds;
  - Current exemptions and those proposed for the future.
- Ahead of implementation of the SAM programme:
  - Assist in the continued development of quantitative and qualitative requirements.
  - Assist in analysing SAM submissions from the comprehensive parallel run.
  - Assist with the internal model approval process.
  - Assist with ad hoc projects, such as thematic reviews.

## INTERNATIONAL AND LOCAL AFFAIRS

The unit's mandate is to manage relations with internal and external stakeholders by monitoring local and international developments in the financial sector, by liaising with other regulators (local and foreign) mainly on the basis of the memorandums of understanding entered into between the FSB and other regulators. It also monitors developments within the Financial Stability Board (Finstab), International Monetary Fund, Southern African Development Community (SADC) and similar bodies. The unit also serves as the Secretariat for CISNA, a committee of SADC.

The unit's functions include the following:

- Provision of secretariat and administrative services to CISNA;
- Researching and monitoring local, regional and international developments relevant to the FSB mandate, and informing other FSB departments;
- Coordinating and enhancing bilateral or multilateral cooperation between the FSB and foreign regulatory authorities through memorandums of understanding; and
- Coordinating the FSB's interaction with foreign bodies and other relevant stakeholders, including foreign requests, visits, peer reviews, and assessments.

### Liaison

The unit received a number of requests from foreign regulators to visit the FSB for benchmarking purposes. Other requests include completion of surveys, letters of good standing, as well as requests to enter into a memorandum of understanding.

## Visits

During the course of the 2016/17 financial year, the unit coordinated visits from the Securities Exchange Commission Ghana in April 2016, Uganda Retirement Benefits Regulatory Authority in May 2016, Malawi Financial Services Appeals Committee in June 2016, National Bank of Ethiopia in August 2016, Capital Markets Regulator Uganda in September 2016, Reinsurance Solutions of Mauritius in September 2016 and the Namibia Financial Institutions Supervisory Authority in November 2016.

Locally, the unit strengthened its engagement and cooperation with the National Treasury, SARB, Independent Regulatory Board for Auditors (IRBA) and the dti.

It received 19 reports of reportable irregularities from IRBA, and manages the process of monitoring and reporting on these irregularities.

Requests	No.
Foreign delegation visits	7
Requests for information	192
Requests to complete surveys and questionnaires	9
Requests to sign memorandum of understanding	1

### *FSB familiarisation and training programme*

The unit hosted the familiarisation and training programme in November 2016 to further strengthen cross-border relations between the FSB and its counterparts. Delegates from Botswana, Ghana, Kenya, Namibia, Swaziland, Uganda and Zambia attended the programme which was

aimed at exchanging information and sharing experiences on the regulatory and supervisory frameworks, and practices of the non-banking financial authorities within the SADC region, including recent regulatory developments within the various jurisdictions.

### *Memoranda of understanding (MOU)*

In the 2016/17 financial year, memorandums of understanding were signed with the Jordan Securities Commission, the Abu Dhabi Global Market and the European Securities and Markets Authority, and the Bank of Russia. The FSB also became a signatory to the IAIS multilateral memorandum of understanding. Negotiations to sign memorandums of understanding are underway with Anguilla Financial Services Commission and the Capital Markets Authority of Kuwait.

Locally, the FSB entered into a memorandum of understanding with the Office of the PFA and the Office of the Ombud for Financial Services Providers. There are currently 95 signed memorandums (bilateral and multilateral) between the FSB and other regulatory authorities (local and foreign).

### *CISNA secretariat*

The CISNA is a structure of the SADC committee of senior treasury officials, comprising the authorities that regulate and supervise non-banking financial services from within the SADC region.

The secretariat provided the necessary support for the biannual and other meetings of CISNA, held in Zambia in April 2016, Swaziland in July 2016, Lesotho in October 2016 and South Africa in February 2017. The main focus of the meetings was on the 2014 and 2015 CISNA annual reports, monitoring and evaluation of CISNA strategic plan 2016-2020 and the bidding process

proposal for the establishment of the office of permanent CISNA secretariat.

The unit has established and manages the CISNA website [www.cisna.net](http://www.cisna.net), together with the FSB's ICT Department.

The FSB representatives chair the technical committee for consumer financial education as well as the subcommittee for insurance, retirement funds, medical schemes and intermediaries of CISNA. The mandates of these committees are to develop harmonisation frameworks for the non-banking financial sector authorities in SADC.

### *Surveys and/or matrices*

In the 2016/17 financial year, the unit coordinated the following surveys and or questionnaires:

- a. Implementation Monitoring Network (IMN) survey;
- b. Japanese Financial Services Agency Survey on the Cross-Border Transactions;
- c. Questionnaire from the Banking Association of South Africa on how government authorities around the world are addressing cyber security threats to financial institutions operating in their jurisdictions;
- d. Questionnaire on the implementation of derivatives market from AMMC Morocco;
- e. Pension Annuities Survey from NBFIRA Botswana;
- f. Questionnaire commissioned by NAMFISA on the commission remunerated to insurance intermediaries;
- g. Questionnaire from the Financial Stability Board on the effects of derivatives reforms;
- h. Questionnaire commissioned by OECD on corporate governance aspects of listed companies; and
- i. Questionnaire from FinCoNet on digitalisation of short-term high-cost lending: supervisory challenges to promote responsible lending.

### *Financial sector assessment programme (FSAP)*

The unit has been monitoring and reporting to Exco on the progress made with the implementation of the recommendations made by FSAP. The final FSAP report was released by the IMF in December 2014, followed by detailed assessments reports released in March 2015.

## COMMUNICATIONS

This department supports the vision and mandate of the FSB by building and maintaining a positive reputation for the organisation through the strategic management of key relationships with internal and external stakeholders. The aim ultimately, is to make a contribution towards the achievement of the FSB's vision and mandate of promoting and maintaining a sound financial investment environment in South Africa.

Highlights during the period include the implementation of a comprehensive Twin Peaks communication initiative, which included a consumer-facing six part television series, two dialogues and a workshop for regulated entities. These events shed light on the Twin Peaks model of financial regulation and highlight how the financial services industry and consumers, will be impacted by this change in legislation.

The following activities were completed during the period:

- Four media roundtable discussions to help the media to better understand various aspects of the work of the FSB.
- 63 media releases and 16 broadcast interviews were recorded in the period.
- 264 media-related queries managed
- Over 6 324 written and 51 000 telephonic queries received.

# PERFORMANCE BY KEY DIVISIONS

- Six part series on BDTV, unpacking Twin Peaks
- Two consumer facing dialogues with Sowetan, discussing the impact of Twin Peaks on South African consumers
- Industry-wide workshop in partnership with CNBC Africa
- Over 6 000 written queries and just over 51 000 telephonic queries received from the public and regulated entities

## LANGUAGE BUSINESS UNIT

The Language Business Unit is a statutory unit established in compliance with the Use of Official Languages (UOLA) Act 12 of 2012. This Act proclaims that each national government department, national public entity and national public enterprise should develop a language policy and establish a language unit. The unit's responsibility is to guide and monitor the use of official languages by the FSB, both internally (staff members) and externally (interaction with members of the public), advising the Board and Exco on the different activities regarding language policy provisions.

Representatives from the unit attended the national language forums organised by the Department of Arts and Culture (DAC). These forums are organised for the national government departments, national public entities and national public enterprises, to report on their activities regarding the implementation of the UOLA and to share information.

Responsibilities during this financial year included:

- Translation of official documents from English into various official languages of the Republic of South Africa, and requests for translation into Portuguese. The department also translated emails and query letters.
- Editing and proofreading official documents, including internal tender specification documents, to ensure proper use of language, grammar and punctuation within the organisation and also in communicating with members of the public by eliminating errors from the documents to preserve the dignity of the information that the organisation produces and distributes.
- Terminology development took place in the form of the financial terminology project undertaken in partnership with the Terminology Coordination Section (TCS) of the DAC. The TCS is funding the project and facilitating the meetings and updating data in the terminology management system (TMS), and the FSB is providing subject specialists. A total of 19 meetings were held and final consultative workshops were held in different provinces.

The next phase of the project is layout and designing, and the dissemination of the final product to different stakeholders. The project will be concluded during the 2018/19 financial year.

- Language policy promotional material for the FSB language policy was developed. Material included banners, placards, policy booklets in all official languages and Braille.

- The South African sign language interpreting service was rendered successfully to an internal staff member. Sign language basic training sessions were held quarterly, to create awareness of hearing impairment within the FSB. These were open to all interested staff members and positive feedback was received from attendees.

The FSB has signed memoranda of understanding with the Office of the Ombud for Financial Services (FAIS Ombud) and the Office of the PFA for language services. During the period under review, the Language Business Unit provided advice and translation services to these entities. The entities, together with the FSB, were included in the DAC report to the Standing Committee of Arts and Culture, in the list of public institutions that are complying with the UOLA.





# **PART C**

## GOVERNANCE



# BOARD MEMBERS



**AM (Abel) Sithole**  
Chairperson  
(Appointed 2002)

*MA (International Relations) (Stellenbosch University), MPhil (Futures Studies) (Stellenbosch University), MBA (Wits), EDP (City University New York), BA (Lawrence University), HED (Wisconsin), Dip Actuarial Techniques (IISA), FILPA*

Abel joined the Board on 1 January 2002. He has held the position of Chief Executive of Metropolitan Employee Benefits since 1 July 2001, Managing Director of Metropolitan Asset Managers and the position of executive director member of the board of Metropolitan Holdings Limited until 2008. He served on the Board of Metropolitan Life Limited. He was previously the Chief Executive and Principal Officer of the Eskom Pension and Provident Fund and senior executive at Southern Life Association Limited. He has served as the president of the Institute of Retirement Funds of Southern Africa and was appointed to the advisory Board of the South African Savings Institute in January 2004. He brings extensive industry experience to his role as chairperson of the FSB. He spent 10 years in the insurance industry, specifically in corporate actuarial, employee benefits and asset management. He was Deputy Director and Senior Research Associate of the Institute for Future Research and lecturer at the University of Stellenbosch Business School. He is currently the Principal Executive Officer of the Government Employee Pension Fund (GEPP).



**HS (Hilary) Wilton**  
Deputy Chairperson  
(Appointed 2002)

*BCOM (WITS), MBA (Wits Business School), FSII*

Hilary joined the FSB Board on 1 July 1997. She started her career with Willis Faber Enthoven in 1979 where she held various positions before being appointed Director in 1988. She joined Eskom in 1989 where she held various positions. She was appointed senior General Manager, commercial resource management, in 1994. She held various positions at Aegis Insurance Company Ltd, Hollard Insurance Company Limited and Fedsure Holdings/ Medscheme. She joined Barloworld Ltd as Group Risk Manager in 2003 and is currently Group Executive: Legal and Insurance. She has extensive experience in the insurance industry (primarily short-term). Hilary chairs the FSB Risk and Remuneration Committees and serves on the Human Resources and Audit Committees.



**Zarina Bassa**  
Non-executive  
(Appointed 2008)

*CA (SA), ALP (Wharton, Univ Pennsylvania)*

Zarina is the Executive Chairman of Songhai Capital, and Non-Executive Director of several blue-chip companies. She was an Executive Director of Absa Bank, partner at Ernst & Young, and chaired the Public Accountants and Auditors Board. She brings extensive banking and finance experience to her role on the Board and chair of the FSB's Human Resources Committee.



**Olano Makhubela**

**National Treasury representative  
(Appointed in 2010)**

*BCom (UKZN), Hons Economics  
(Unisa), LLB (Wits), MSc  
(Development Economics) (SOAS)*

Olano is currently the Chief Director of Financial, Investments and Savings at National Treasury. He brings a wealth of experience as an economist to the FSB Board deliberations.



**Francois Groepe**

**SARB representative  
(Appointed 2012)**

*BA LLB (Unisa), LLM (Unisa),  
BBA(cum) (Stellenbosch), MBA  
(Stellenbosch), Postgraduate Dip  
Law (Taxation) (UCT), CIMA*

An advocate of the High Court of South Africa, Francois is Deputy Governor of the South African Reserve Bank and has served on its board for 10 years. He chairs SARB's Risk Committee, and serves on its Audit and Non-Executive Directors Committees. He also chairs the Audit Committee at Stellenbosch University. From 2004 to 2011 he was Financial Director and then Managing Director of Naspers subsidiary, Media24.



**Jabu Mogadime**

**Non-executive  
(Appointed 2004)**

*BA (Univ Botswana), MBA  
(Univ Wales), Dip Marketing (CIM)*

Jabu is co-founder and Executive Director of Uranus Investment Holding, a black-empowered company, with a primary focus on the financial services and ICT sectors. She brings extensive finance and internal audit experience, which includes municipal and public-sector bodies in South Africa and the Auditor-General's office of Botswana. Jabu chairs the FSB Audit and Licensing Committees and serves on the Human Resources, Remuneration and Risk Committees.

# BOARD MEMBERS



**Ismail Momoniat**

**National Treasury representative  
(Appointed in 2010)**

*BSc (Hons) and MSc (London School of Economics and Political Science)*

Ismail is currently Deputy Director-General at National Treasury. His insight gained as a former lecturer and head of Intergovernmental Relations adds important depth to the FSB Board.



**Hamilton Ratshefola**

**Non-executive  
(Appointed 2010)**

*BCom (Information Systems) (Univ. North West), IBM executive Leadership (New York), IMB Engineering School, Executive Leadership Certificate (Cornell University)*

Hamilton was co-founder and Chief Executive Officer of Cornerstone Technology Holdings, a leading manufacturer and exporter of South African-made software. He has extensive local and global experience in the ICT field, both in the public and private sectors. He is currently the Country General Manager of IBM South Africa.



**Diana Turpin**

**Non-executive  
(Appointed 2010)**

*B Bus Sci (Honours in Marketing) (UCT)*

Di is on the Boards of Nedgroup Collective Investments and Shine Literacy, a non-governmental organisation focused on second language literacy. She is Chairman of Old Mutual Wealth and Fairbairn Capital Retirement Funds and a trustee on Nedgroup Investments Retirement Funds. She serves on the FSB's Risk, Litigation and Legislative Committees.



## Dudu Msomi

**Non-executive  
(Appointed 2010)**

*BA (hons) (Univ. Natal),  
Postgraduate Dip) (Advertising  
and Marketing), Postgraduate Dip  
(Corporate Governance), MBA and  
PMD (Gordon Institute of Business  
Science, Univ. Pretoria)*

Dudu Msomi is the CEO of Busara Leadership Partners, which is a research-orientated strategic advisory and consulting company whose expertise is to facilitate the development and effectiveness of leaders to achieve their desired goals. Dudu is a strategist, leadership and life coach, business advisor, a thought-provoking, attitude and behaviour shifting speaker and writer. She was awarded the 2013 Laureate Award by the University of Pretoria as a GIBS Alumnus. She is the Institute of Directors (IoDSA) Fellow member and serves on the FSB's Audit, Licensing and Legislature Committees. She is also a Trustee on the Humulani Trust (Invicta Holdings) and member of the GIBS MBA Alumni Bursary Committee.



## Philip Sutherland

**Non-executive  
(Appointed 2002)**

*BCom LLB (cum laude)  
(Stellenbosch),  
PHD (Univ Edinvergh)*

Philip has been professor of mercantile law for 10 years and now heads that department at Stellenbosch University. He serves on the Governance Committee of the Centre for Corporate Governance in Africa, and was a member of the Actuarial Governance Board for five years. Philip chairs the FSB's Litigation Committee and serves on the Audit and Legislative Committees.

# EXECUTIVE COMMITTEE



**Jurgen Boyd**

Deputy Executive Officer  
(Collective Investment  
Schemes)

**Tshifhiwa Ramuthaga**

Chief Information Officer

**Jonathan Dixon**

Deputy Executive Officer  
(Insurance)

**Paul Kekana**

Chief Financial Officer

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## Vacant Positions:

1. Mr J. Boyd has been acting in the capacity of Deputy Executive Officer for Investment Institutions from January 2017.
2. Mr M. Du Toit has been performing the management oversight for Retirement Funds Division from 1 August 2016.



**Caroline da Silva**

Deputy Executive Officer  
(FAIS and Consumer Education)

**Marius du Toit**

Chief Actuary

**Dube Tshidi**

Executive Officer



# CORPORATE GOVERNANCE REPORT

## The Board

The Board is responsible for monitoring standards of corporate governance and had endorsed and supported the application of the King IV report on governance, where applicable, at its Board meeting on 28 March 2017. The Board is committed to governance processes that assure stakeholders that the FSB's operations are conducted ethically, within prudent risk parameters and in pursuit of best governance practices.

To the best of the Board's knowledge, information and belief, the FSB complied with applicable legislation, policies and procedures, as well as the codes of governance in the review period.

## Composition of the Board and its role

The FSB Board comprises 11 non-executive members from diverse backgrounds, appointed by the Minister of Finance after considering experience, technical skills, the interests of users and providers of financial services, as well as public interest.

The Board is primarily responsible for the leadership of the FSB strategic direction and policy, operational performance, financial, risk management and compliance matters. It exercises leadership, integrity and judgment in directing the FSB based on transparency, accountability and responsibility. It is also the focal point of the corporate governance system of the FSB. Authority for day-to-day management of the FSB's activities is delegated to the management team. The mandate, role and responsibilities of the Board are stipulated in the Board charter as set out in the FSB Act.

## Portfolio Committee on finance

The representatives of the FSB Executive Committee (EXCO) attended meetings with the Parliamentary Standing Committee on Finance to present the 2016 FSB annual report. The EXCO also responded to questions raised by the parliamentary portfolio committee.

## Induction of new members

The Board Secretariat Business Unit has developed a comprehensive induction programme to ensure new Board and Governance Committee members are adequately briefed and have the required knowledge of the FSB's structure, operations, policies and industry-related issues to enable them to fulfil their duties and responsibilities. There were no new Board and governance committee members appointed during the period under review.

New members are given details of all applicable legislation, minutes of Board and relevant committee meetings for the previous 12 months, the latest management accounts and relevant committees' terms of reference.

## Delegation of authority

The Board has oversight authority to lead, control and manage the business of the FSB. Through a comprehensive delegation-of-authority framework, it has delegated certain aspects of its authority to the executive officer and Exco to manage the day-to-day business affairs of the FSB. This delegation of authority assists in decision-making

and meeting strategic objectives without exonerating the Board of its accountability and responsibilities for the FSB.

## Executive Committee

In terms of the FSB Act, Exco performs the functions of the Board between Board meetings. However, in terms of the statute, the Board charter and delegation-of-authority document, some non-delegated matters are reserved for approval by the Board and/or the Minister of Finance.

## Board Secretariat Business Unit

All Board and governance committee members have access to the advice and services of the Board Secretariat Business Unit, which is responsible for ensuring proper governance of the Board and assisting Board members to discharge their responsibilities under the enabling legislative framework. The acting chief operations officer had assumed the management of the Board Secretariat Business Unit.

## Board meetings

Board meetings are held at least once every quarter and special meetings are convened when necessary. During the period under review, four scheduled meetings were held and several extraordinary meetings convened. Exco members attend Board meetings as ex officio. Details of attendance are shown from page 79.

Board member	27/07/2016	19/10/2016	01/12/2016	28/03/2017
A Sithole (chairperson)	✓	✓	✓	✓
H Wilton (deputy chairperson)	A	✓	✓	✓
Z Bassa	A	✓	✓	✓
F Groepe	✓	A	✓	A
O Makhubela	✓	A	A	✓
J Mogadime	A	✓	✓	✓
I Momoniat	✓	A	A	A
D Msomi	✓	A	A	✓
H Ratshefola	✓	✓	✓	A
PJ Sutherland	✓	A	✓	✓
D Turpin	✓	✓	✓	✓

✓ : Attended      A: Apologies

## COMMITTEES OF THE BOARD

The Board has oversight of the FSB's operations through a governance structure with appropriate committees. These governance committees are responsible for ensuring the FSB complies with relevant legislation, codes of good corporate governance and practices. Each committee has its own terms of reference, which are reviewed annually in line with best practice.

### Audit Committee

The committee assists the Board in its responsibility for safeguarding assets, operating control systems, combined assurance, finance functions, internal and external audit services. The committee met six times in the previous year, Attendance is indicated in the table below.

Member	27/05/16	21/07/16	02/09/16	03/11/16	18/01/17	17/03/17
J Mogadime (chairperson)	✓	✓	✓	✓	✓	✓
D Msomi	✓	✓	✓	✓	✓	✓
PJ Sutherland	✓	✓	✓	✓	✓	✓
H Wilton	A	A	A	A	✓	A

✓ : Attended      A: Apologies

### Risk Management Committee

The committee assists the Board in ensuring the FSB implements effective policies and plans for risk management that will enhance its ability to achieve strategic objectives. It advises the Board on the adequacy of risk management processes and strategies. It met four times during the review period, with attendance reflected in the table.

Member	01/06/2016	31/08/2016	01/11/2016	01/03/2017
H Wilton (chairperson)	A	A	✓	✓
Z Bassa	✓	A	A	✓
J Mogadime	A	✓	A	✓
H Ratshefola	✓	✓	✓	✓
D Turpin	✓	✓	✓	✓

✓ : Attended      A: Apologies

# CORPORATE GOVERNANCE REPORT

## Human Resources Committee

The function of this committee is to ensure the FSB's human resources strategy and policies are implemented. It met four times during the period, with attendance shown below:

Member	01/06/2016	20/09/2016	01/12/2016	01/03/2017
Z Bassa (chairperson)	✓	✓	✓	✓
A Sithole	✓	A	A	✓
H Wilton	✓	✓	✓	✓

✓ : Attended      A: Apologies

## Remuneration Committee

The committee ensures the FSB's remuneration strategies and policies are implemented. It reviews compensation matters, benchmarks salaries of staff and makes recommendations to the Board. The committee met four times during the review period, with attendance reflected below:

Member	01/06/2016	20/09/2016	01/12/2016	01/03/2017
H Wilton (chairperson)	✓	✓	✓	✓
A Sithole	✓	A	A	✓
Z Bassa	✓	✓	✓	✓

✓ : Attended      A: Apologies

## Licensing Committee

The committee provides oversight to ensure the Registrar (executive officer) acts in terms of legislation administered by the FSB in discharging his duties pertaining to licensing matters. The committee met 11 times in the period, with attendance indicated below:

Member	05/04/2016	10/05/2016	07/06/2016	05/07/2016	02/08/2016	06/09/2016	11/10/2016	08/11/2016	06/12/2016	07/02/2017	07/03/2017
J Mogadime (chairperson)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
D Msomi	✓	✓	✓	✓	A	✓	✓	✓	✓	✓	✓
H Ratshefola	✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
A Roots	✓	✓	✓	A	✓	✓	✓	✓	✓	✓	✓
S Moraba	A	A	✓	✓	✓	✓	✓	A	✓	✓	A
L Vilakazi	A	✓	✓	A	A	✓	✓	✓	✓	✓	✓
B Naidoo	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓ : Attended      A: Apologies

## Litigation Committee

Member	02/06/2016	01/09/2016	02/11/2016	02/03/2017
PJ Sutherland (chairperson)	✓	✓	✓	✓
A Loubser	✓	✓	✓	✓
K Mackenzie	✓	✓	✓	✓
D Msomi	✓	✓	✓	✓
AMJ Pinnock	A	A	✓	✓
S Martin	✓	✓	✓	✓
D Msomi	✓	✓	✓	✓
D Turpin	✓	✓	✓	✓

The committee oversees the FSB's litigation process for claims against, or by, the FSB. It met four times during the period.

✓ : Attended      A: Apologies

## Legislative Committee

The committee considers new legislation or amendments to existing legislation related to the FSB's supervisory functions. It meets four times a year with attendance in the review period shown below:

Member	02/06/2016	01/09/2016	02/11/2016	02/03/2017
H Ratshefola (chairperson)	A	✓	✓	A
A Sithole	✓	A	✓	✓
D Turpin	✓	✓	✓	✓
M Katz	A	A	✓	✓
A Meyer	✓	✓	✓	✓
PJ Sutherland	✓	A	✓	✓
E Mphahlele	A	✓	✓	A

✓ : Attended      A: Apologies

# AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2017.

The Audit Committee was appointed by the Board of the FSB and comprises four external Board members. The executive officer, chief financial officer and chief risk officer are permanent invitees to committee meetings, while the external and internal auditors attend by invitation.

## ROLES AND RESPONSIBILITY

The committee is regulated by approved terms of reference and has discharged these responsibilities. The terms of reference, including roles and responsibilities, are aligned with the requirements of the Public Finance Management Act 1 of 1999 (PFMA), Treasury Regulations and King III.

## EFFECTIVENESS OF INTERNAL CONTROL

The Audit Committee has reviewed the:

- Effectiveness of internal financial control systems effectiveness of the internal audit function risk areas of the FSB's operations covered in the scope of internal and external audits adequacy, reliability and accuracy of financial information and accounting practices provided by management
- Accounting and auditing concerns identified by internal and external audits
- FSB's compliance with legal and regulatory provisions
- Activities of the internal audit function, including its annual work programme, cooperation with the external auditors, reports

of significant investigations and responses of management to specific recommendations

- Independence and objectivity of both internal and external auditors.

A high-level review of the design, implementation and effectiveness of the FSB's internal financial controls was performed as per the internal audit plan. The review is aimed at providing comfort on financial reporting controls that are relied on in preparing the annual financial statements. Based on the information and explanations given by management, the internal auditors and discussions with the independent external auditors on the result of their audit, the committee believes the system of internal control for the period under review was adequate, efficient and effective.

## INTERNAL AUDIT

The committee is responsible for the appointment, compensation, retention and oversight of the internal auditors. The internal audit function is outsourced to Nkonki Inc. The internal auditors operate under terms of reference approved by the Board. The committee believes internal audit is functioning effectively and has addressed material risks to the FSB in its audit. Internal audit reports functionally to the Audit Committee chairperson and operationally to the executive officer.

The following internal audit work was completed during the period under review:

- Enterprise risk management, including fraud risk management
- Internal financial controls review
- Evaluation and review of reporting of performance information

- Consumer education
- Supply chain management review
- Stakeholder management
- Review of human resources recruitment, retention and leave-logging processes, including conflict of interest declarations
- Information technology audit, including IT applications review in the CIS Department and in the DMA unit, employee VPN security and interface link between the FSB and the Pension Fund Adjudicator;
- Detailed audits of the following departments: CIS, Credit Rating Services and FAIS Compliance.

## EXTERNAL AUDIT

The committee is satisfied with the independence and objectivity of the external auditors and has met with the external auditors to ensure there were no unresolved issues.

## GOVERNANCE OF RISK

The Board has established a Risk Committee to oversee risks associated with the FSB. The chairperson of the Audit Committee is a member of the Risk Committee and vice versa to ensure relevant information is transferred effectively.

The Risk Committee oversees enterprise-wide risks, including compliance risks, fraud risks, and information technology risks.

## SUSTAINABILITY

The FSB is committed to promoting and implementing good sustainability practice by minimising its impact on the environment and contributing to the development of our communities

and economy. It strives to play an active role in transformation, social development, and sustainable environment and economic performance.

## ANNUAL REPORT

The committee has reviewed the annual report of the FSB for the year ended 31 March 2017 and submits that management is presenting an appropriate view of the entity's position and performance.

## EVALUATION OF FINANCIAL STATEMENTS

The committee evaluated the annual financial statements of the FSB for the

year ended 31 March 2017. It also reviewed:

- The external auditors' report
- The FSB's compliance with applicable laws and regulation
- Information on predetermined objectives included in the annual report
- Significant adjustments resulting from the audit.

Based on the information provided by management, internal audit and external audit, the committee considers that these statements comply, in all material respects, with the requirements of the PFMA, and the basis of preparation set out in the accounting policies in note 1 of the annual financial statements.

The committee concurs that adopting the going-concern assertion in preparing the annual financial statements is appropriate.

At its meeting on 14 July 2017, the committee recommended the approval of the financial statements to the Board.



**Ms Jabu Mogadime**  
*Chairperson: Audit Committee*



# REMUNERATION COMMITTEE REPORT

The Remuneration Committee (RemCom) is committed to applying independent and objective oversight. Its mission is to ensure that Remuneration, and associated practices, are defensible, which enables the FSB to attract, motivate and retain top talent, and execute on its business strategy.

## Remuneration philosophy, strategy and policy

The FSB's remuneration mix is comprised of a guaranteed package and variable pay. The FSB does not subscribe to the practice of awarding long-term incentives as this does not align to its business operating model.

The FSB, on an ongoing basis, adapts its reward strategies to reward good behaviour and retain staff. Funding for the incentive scheme is based on a budgeted percentage of the annual cost to employer payroll. Short-term incentives are subjected to Board approval each year, based on the overall performance of the organisation. In 2016, 79% of staff were rewarded with performance bonuses in line with their

final year performance scores.

Performance targets are set annually and are approved by the Board. Executive members' individual performance targets are linked to organisational targets and are cascaded to individual performance goals. The executive incentive scheme is separate from the staff incentive scheme and the total payout is linked to the individual performance score.

## Role of the Remuneration Committee

This committee is tasked with ensuring that senior management and staff are appropriately rewarded to ensure, as far as possible, that we are able to attract, retain and motivate people with the skills we require.

The RemCom is a subcommittee of the FSB Board. Its purpose is to ensure that the FSB adheres to fair pay practices and that staff are rewarded appropriately. The committee dealt with the following matters during the past year:

Period	Work programme
Quarter 1	<ul style="list-style-type: none"><li>• Mid-year performance review</li><li>• Review of remuneration aspects</li><li>• Staff promotions and structural adjustments</li><li>• Approval of terms of reference</li></ul>
Quarter 2	<ul style="list-style-type: none"><li>• Salary increases (market trend surveys)</li></ul>
Quarter 3	<ul style="list-style-type: none"><li>• Performance bonus (approval)</li><li>• Salary increase (approval)</li><li>• Performance report (year-end)</li><li>• Staff promotions and structural adjustments</li></ul>
Quarter 4	<ul style="list-style-type: none"><li>• Budget provisions</li></ul>

## Key remuneration decisions in 2016

The FSB ensured that the majority of its staff are paid within market parameters. Salaries were benchmarked between -25 and a maximum of 25% above market median. Structural adjustments are granted to performing staff members twice a year (July and December) and the following table summarises adjustments made in July 2016.

## General Staff

Table 1 - summary of July 2016 structural adjustments

No. of staff	Adjustment	Motivation
35	4%	Staff, who were appointed late 2015, or who were internally appointed, who did not qualify for annual increase
17	6%	Salary below -25%, plus motivation by head of department HoD or executive member. The amount is budgeted annually by the HoD

As at 30 August (after structural adjustments and analyst progressions), 346 employees (62%) were paid below market median. 34 (6%) were paid below -25% of market median, and 60 (11%) were paid above 25% of the market median.

Table 2 - summary of July promotions

No. of staff	Adjustment	Motivation
17	Between 3% and 15%	Budgeted analyst progression, as well as motivations received from HoD

## Actuarial staff

As part of our retention strategy, we have a policy to encourage the growth and development of actuarial students. The strategy is aligned to industry practices. When students pass their examinations, they receive an incentive either as a structural salary adjustment or once-off bonus payment. The bonus differs as per the level of the examination. The incentive is applied twice a year and is linked to the actuarial study discipline. Incentives granted to actuarial staff during the year are summarised below:

Table 3 - summary of actuarial salary changes

Date	Structural adjustments	Number	Bonuses
January 2016	R90 000.00	3	R60 900.00
July 2016	R75 000.00	3	R28 700.00
January 2017	R469 501.00	2	R15 000.00
<b>Total</b>	<b>R634 501.00</b>	<b>7</b>	<b>R104 600.00</b>

## Summary of executive remuneration

Table 4 - summary of Exco remuneration mix

Name	GP R000	STI R000	Total R000
DP Tshidi	5 299	887	6 186
JA Boyd	3 203	481	3 684
JI Dixon	3 186	519	3 705
MM du Toit	3 148	423	3 571
TG Ramuthaga	2 840	500	3 340
CK Chanetsa*	2 276	115	2 391
CD da Silva	2 897	346	3 243
RT Hunter*	883	-	883
LP Kekana	2 616	423	3 039
R Harichunder, CRO	2 402	-	2 402

\*CK Chanetsa (contract ended 31 December 2016)

\*RT Hunter (contract ended 31 July 2016)



A photograph of a modern building's entrance. On the left, a wall is covered in stacked, light-colored stones. To the right, a series of white, square columns support a roof structure with a white, slatted skylight. In the foreground, two large, spiky plants in a wide, shallow, light-colored bowl-shaped planter sit on a paved area. A semi-transparent brown rectangle is overlaid on the lower part of the image, containing the text.

# **PART D**

## HUMAN RESOURCES MANAGEMENT



# HUMAN RESOURCES MANAGEMENT

## Overview

To ensure a sustainable, sound financial investment environment, the FSB uses various talent management processes to meet its strategic and operational objectives. An increase of more than 12% in employees attending various training interventions (in-house and external) was achieved during the period under review. In addition, 19 recently qualified graduates were trained either as interns or trainee analysts. The FSB is proud to be contributing to the national imperative of creating sustainable jobs for graduates to alleviate the shortage of skills in the financial sector and to the overall reduction of unemployment in the country.

### Graduate development programme (internship and trainee analysts)

A total of 19 graduates were enrolled as either interns (9) or trainee analysts (10). We are proud to report that from the group of those who successfully completed the programme (12 months of training), 80% were offered permanent employment after successfully

completing a competitive interview process. The trainee analysts were also exposed to the Hedge Funds Learning Academy and have all successfully obtained a learnership qualification. This process has assisted in ensuring that we have a pipeline for the junior entry-level positions and has led to a reduction/savings in our recruitment costs.

### Actuarial bursary programme

The FSB had four university students on its bursary scheme. Two students completed their academic studies in 2016, and were placed in permanent positions effective 1 January 2017. The other two students, who commenced their studies at the beginning of 2016, are expected to complete their academic programme at the end of the 2019 academic year.

### Employee wellness programme (EWP)

The physical and psychosocial wellness of FSB employees is of paramount importance for the organisation to achieve its mandate and, to that extent,

the FSB has a programme, which has been outsourced to the Careways Group. The programme also supports immediate family members. Besides the services offered by the Careways Group, the FSB staff are also encouraged to participate in various physical wellness programmes such as walking/road running, soccer and netball. Employees have created internal leagues for the soccer initiative, while for walking/road running, employees have affiliated to Athletics Gauteng North, which is a member of Athletics South Africa.

## Human Resource oversight statistics

### Our workforce

The staff complement at March 2017 was at 589, including contracted employees and employees living with disabilities. The staff complement increased by 9% during the period under review. The FSB was unable to fill all positions in terms of the approved resource plan, due to various reasons, some of which relate to the timing with regards to the implementation of Twin Peaks.

### Personnel cost by programme/ activity/objective

Programme/activity/objective	Total expenditure (R000)	Personnel expenditure (R000)	% of total expenditure	No. of employees	Average personnel cost per employee (R000)
Administration	252 784	146 326	58	233	628
Supervise financial advisory and intermediaries in the financial services sector	144 982	66 601	46	140	476
Supervise collective investment schemes in terms of relevant legislation	28 017	17 710	63	35	506
Supervise South African licensed exchanges, central securities depositories and clearances	16 132	10 241	63	18	569
Supervise long-term insurance industry in terms of relevant legislation	105 337	64 437	61	94	686
Supervise retirement funds and friendly societies	126 612	46 966	37	75	626
Directorate of Market Abuse (securities)	15 992	10 990	69	12	916
Regulate credit-rating agencies	4 889	3 599	74	5	720
Regulate hedge funds	9 793	6 340	65	10	634

# HUMAN RESOURCES MANAGEMENT

## Personnel cost by salary band

Level	Personnel expenditure (R000)	% of total personnel cost (R000)	No. of employees	Average personnel cost per employee (R000)
Top management	26 342	7	9	2 927
Senior management	62 303	17	37	1 683
Professional qualified	181 288	48	247	734
Skilled	78 367	21	231	339
Semi-skilled	24 909	7	98	254
<b>Total</b>	<b>373 209</b>	<b>100</b>	<b>622</b>	<b>600</b>

## Performance rewards

The FSB awarded performance bonuses to exceptional performers, including Exco members at the end of the performance cycle.

Level	No. of employees	Incentive paid	% of incentive rewards
Top management	8	3 694	25
Senior management	33	2 502	17
Professional qualified	198	6 291	43
Skilled	107	1 542	10
Semi-skilled	73	747	5
<b>Total</b>	<b>419</b>	<b>14 777</b>	<b>100</b>

## Training costs

To optimise individual performance and to improve business performance, the FSB encourages progressive personal development through investment in training and formal studies relevant to its core business.

Programme/activity/objective	Personnel expenditure (R000)	Training expenditure (R000)	Training expenditure as % of personnel cost	No. of employees trained	Avg training cost per employee (R000)
Administration	146 326	2 028	1.4	226	9
Supervise financial advisory and intermediaries in the financial services sector	66 601	791	1.2	137	6
Supervise collective investment schemes in terms of relevant legislation	17 710	221	1.3	32	7
Supervise South African licensed exchanges, central securities depositories and clearances	10 241	129	1.3	17	8
Supervise long-term insurance industries in terms of relevant legislation	64 437	626	1	87	7
Supervise retirement funds and friendly societies	46 966	349	0.7	73	5
Directorate of Market Abuse (securities)	10 990	84	0.8	12	7
Regulate credit rating agencies	3 599	32	0.9	6	5
Regulate hedge funds	6 340	536	8	7	77

## Employment and vacancies

Programme/activity/objective	2016 no. of employees	2017 approved posts	2017 no. of employees	2017 vacancies	% vacancies
Administration	199	242	205	37	71
FAIS	121	132	132	0	0
CIS	29	34	32	2	4
Capital markets	17	18	17	1	2
Insurance	85	92	90	2	4
Pensions	69	75	73	2	4
Market abuse	12	12	10	2	4
Credit agencies	5	6	5	1	2
Hedge funds	5	13	8	5	10

Level	2016 no. of employees	2017 approved posts	2017 no. of employees	2017 vacancies	% vacancies
Top management	9	10	7	3	6
Senior management	31	34	33	1	2
Professional qualified	244	286	251	35	67
Skilled	164	195	186	9	17
Semi-skilled	94	99	95	4	8
<b>Total</b>	<b>542</b>	<b>624</b>	<b>572</b>	<b>52</b>	<b>100</b>

## Employment changes

The FSB appointed a total of 83 new staff members during the period. The average vacancy rate was 8%, which is within the target set by management. The staff turnover rate dropped from 12% to 8% during the financial year.

Level	Employed at beginning of period	Appointments	Internal movements	Terminations	Employed at end of the period
Top management	9	-	-	2	7
Senior management	31	-	3	1	33
Professional qualified	244	22	12	27	251
Skilled	164	53	-14	17	186
Semi-skilled	94	8	-5	2	95
<b>Total</b>	<b>542</b>	<b>83</b>	<b>-4</b>	<b>49</b>	<b>572</b>



# HUMAN RESOURCES MANAGEMENT

## Significant terminations

A total of 43 staff members left during this period. Two terminations were at an executive level as indicated below.

- Deputy executive officer: Investment Institutions contract expired in December 2016.
- Deputy executive officer: Retirement Funds contract expired in July 2016.

Reason	Number	% of total staff leaving
Death	-	-
Resignation	40	93
Dismissal	1	2
Retirement	-	-
Ill health	-	-
Expiry of contract	2	5
Other	-	-
<b>Total</b>	<b>43</b>	<b>100</b>

## Labour relations: misconduct and disciplinary action

Nature of disciplinary action – General Staff	Number
Enquiry	-
Grievance	-
Verbal warning	-
Written warning	3
Final written warning	-
Dismissal	1
Matters referred to CCMA	2

There was a reduction in the number of employee relations cases during the period, which indicates a possible improvement in working relations and better engagement.

## Equity target and employment equity status

The FSB embraces fair and non-discriminatory employment policies and practices, and is committed to identifying and eliminating any unfair discrimination which may exist in the workplace. To monitor progress on this commitment, the HR Department provides quarterly updates on the progress made to the Board, management and staff with respect to implementation of the approved FSB employment equity plan and targets.

The table below indicates the FSB employment equity profile at 31 March 2017. Efforts are being made through various staff development programmes to advance constituencies where targets are underrepresented.

Levels	MALE							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	2	2	1	1	-	1	2	2
Senior management	4	5	2	3	2	-	7	10
Professional qualified	88	73	4	8	3	4	19	13
Skilled	93	68	5	10	-	2	4	2
Semi-skilled	26	59	1	12	1	1	-	-
Unskilled	-	-	-	-	-	-	-	-
<b>Total</b>	<b>213</b>	<b>207</b>	<b>13</b>	<b>34</b>	<b>6</b>	<b>8</b>	<b>32</b>	<b>27</b>

Levels	FEMALE							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	1	1	-	1	-	-	1	-
Senior management	8	6	1	2	1	-	8	8
Professional qualified	88	71	3	7	10	5	36	19
Skilled	69	66	5	8	1	2	9	8
Semi-skilled	54	61	4	8	1	2	8	4
Unskilled	-	-	-	-	-	-	-	-
<b>Total</b>	<b>220</b>	<b>205</b>	<b>13</b>	<b>26</b>	<b>13</b>	<b>9</b>	<b>62</b>	<b>39</b>

Levels	DISABLED STAFF			
	Male		Female	
	Current	Target	Current	Target
Top management	-	-	-	-
Senior management	-	-	-	1
Professional qualified	1	2	1	-
Skilled	2	2	1	1
Semi-skilled	1	3	-	2
Unskilled	-	-	-	-
<b>Total</b>	<b>4</b>	<b>7</b>	<b>2</b>	<b>4</b>

# SECURITY AND FACILITIES

The Security and Facilities Business Unit continued to provide reliable, effective and responsive services to the FSB in order to ensure a functioning, safe and sustainable work environment.

This support encompasses multiple disciplines to ensure functionality of the built environment by integrating people, systems, place, process and technology.

The unit continuously seeks to identify new opportunities and ways to improve in all areas.

## Sustainability

The FSB is committed to sustainable business operations.

### Environment

As an office-based organisation, the FSB has a limited impact on the environment. Our office building incorporates many green features, particularly energy- and water-saving elements.

### Energy and water efficiency

The FSB is committed to sustainable business operations. Accordingly, we undertake our activities with corporate social responsibilities integrated into our objectives. This includes monitoring and measuring our continuous improvement to meet our broader obligations.

The FSB has a number of water saving measures in place, eg. monitoring water consumption to detect possible leaks, monitoring and repairing taps,

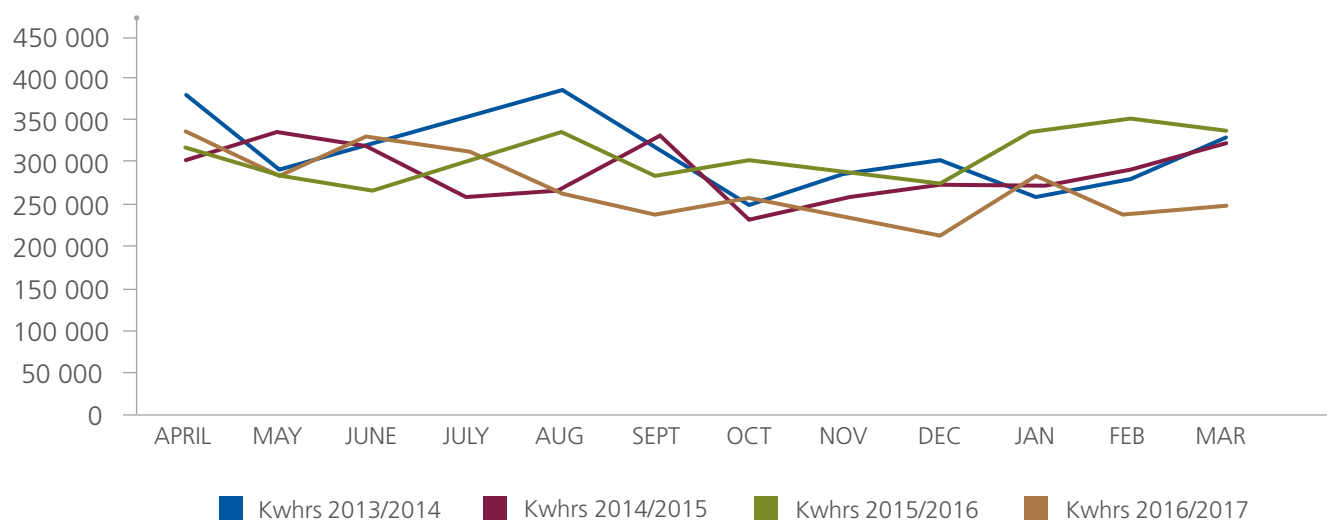
pipes and toilet leaks. The building also has hydroboils that provide instant warm water and water coolers that provide instant cold water, sensor-activated taps in bathrooms etc.

To reduce electricity use, light-switch timers were installed in April 2016 and airconditioning timer switches activated in May. In addition, office lights (excluding common areas) are switched off between 20h00 and 06h00. The HVAC (heating, ventilation and airconditioning) is switched off between 20h00 and 05h00 (weekdays), and between 17h00 and 08h00 on weekends.

As a result of these initiatives, we reduced our electricity consumption in 2016/17. In addition to the cost benefit, we drew fewer kilowatt hours from the national grid.

## FSB BLOCK B Consumption

### Block B

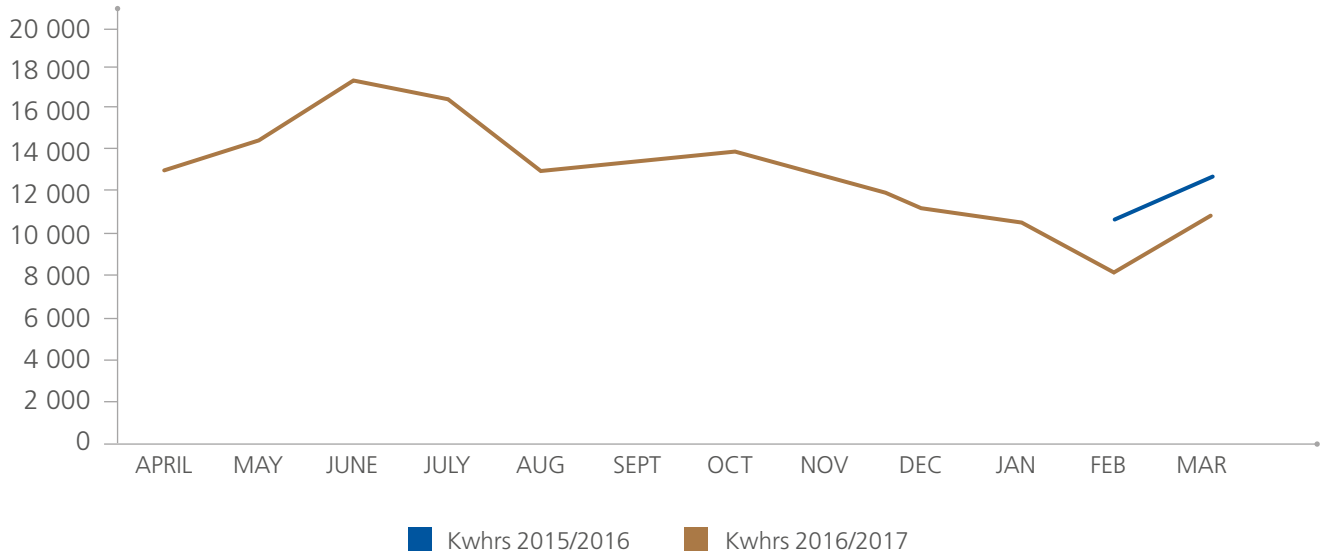


	Total	Average/Month
Kwhrs 2013/2014	3 791 379	315 948
Kwhrs 2014/2015	3 491 784	290 982
Kwhrs 2015/2016	3 706 081	308 840
Kwhrs 2016/2017	3 266 387	272 199

# SECURITY AND FACILITIES

## FSB BLOCK C (second floor) consumption

Block C 2nd floor



	Total	Average/Month
Kwhrs 2015/2016	2 3748	
Kwhrs 2016/2017	156 424	13 035

## Recycling

The FSB is measuring the percentage of paper purchased being recycled as a result of operational use.



A photograph of a modern building's interior, featuring a multi-level atrium with white walls, glass railings, and large windows. A teal rectangular overlay is positioned in the lower-left quadrant, containing the text 'PART E' in bold white letters and 'ANNUAL FINANCIAL STATEMENTS' in white letters below it.

# **PART E**

## ANNUAL FINANCIAL STATEMENTS



# ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

**THE REPORTS AND STATEMENTS SET OUT BELOW COMPRISE THE ANNUAL FINANCIAL STATEMENTS TO BE PRESENTED TO THE PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA:**

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# REPORT BY THE MEMBERS OF THE BOARD

for the year ended 31 March 2017

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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 Public Finance Management Act 1 of 1999 (PFMA) and other applicable legislation, it has developed and maintains a system of internal control.

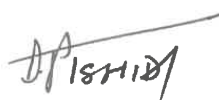
Internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with Generally Recognised Accounting Practice, as well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

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 2017, as set out on pages 101 to 144, were approved by the Board on 26 July 2017 and were signed on its behalf by:



**Mr AM Sithole**  
*Chairperson of the Board*



**Adv DP Tshidi**  
*Executive Officer*

# REPORT OF THE AUDITOR-GENERAL

## to the accounting authority on Financial Services Board

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Unqualified opinion

1. I have audited the financial statements of the Financial Services Board set out on pages 101 to 144, which comprise the statement of financial position as at 31 March 2017, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Services Board as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act of South Africa, Act 1 of 1999 (PFMA).

#### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of accounting authority for the financial statements

6. The accounting authority is responsible for the preparation and fair presentation of the financial statements in

accordance with GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

7. In preparing the financial statements, the accounting authority is responsible for assessing the Financial Services Board's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the public entity or cease operations, or there is no realistic alternative but to do so.

#### Auditor-general's responsibilities for the audit of the financial statements

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

### REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

#### Introduction and scope

10. In accordance with the Public Audit Act of South Africa, Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

# REPORT OF THE AUDITOR-GENERAL

## to the accounting authority on Financial Services Board

11. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Strategic objective 1 – empowered consumers of financial products and services	27
Strategic objective 3 – ensure sound financial institutions	29
Strategic objective 5 – effective transition to market conduct regulator	31

13. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

14. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

**Strategic objective 1** – empowered consumers of financial products and services

**Strategic objective 3** – ensure sound financial institutions

**Strategic objective 5** – effective transition to market conduct regulator.

## REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

### Introduction and scope

15. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

16. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice in terms of the PAA.

## OTHER INFORMATION

17. The public entity's accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

18. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

19. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

# REPORT OF THE AUDITOR-GENERAL

## to the accounting authority on Financial Services Board

### INTERNAL CONTROL DEFICIENCIES

20. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. I did not identify any significant deficiencies in internal control.

### Other reports

21. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

22. The public entity's board commissioned an investigation to establish whether there was any likelihood that any pension fund or its members suffered financial prejudice as a result of action taken by the registrar to cancel the registration of dormant and other inactive pension funds during the period 1 January 2007 to 31 December 2013, in terms of section 27 of the Pension Funds Act, as amended. The matter is still before the courts and the investigation is ongoing. The final outcome is expected in the 2017-18 financial year.

*Auditor - General*

Pretoria

31 July 2017



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



# REPORT OF THE AUDITOR-GENERAL

## to the accounting authority on Financial Services Board

### ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgment and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

#### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit 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 public entity's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
  - conclude on the appropriateness of the accounting

authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Financial Services Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a public entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

#### Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards

# STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

	Note(s)	2017 R	2016 R
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	361,306,505	302,916,002
Receivables from exchange transactions	4	10,225,743	7,676,150
Receivables from non-exchange transactions	5	14,678,176	9,053,670
Prepayments	6	3,866,032	3,757,700
Financial assets at fair value	9	875,778	227,771
		<b>390,952,234</b>	<b>323,631,293</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	7	39,358,204	38,792,492
Intangible assets	8	9,362,150	6,526,758
Financial assets at fair value	9	64,889,933	68,088,674
		<b>113,610,287</b>	<b>113,407,924</b>
<b>Total Assets</b>		<b>504,562,521</b>	<b>437,039,217</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	10	48,983,116	66,519,181
Payables from non-exchange transactions	11	-	9,349
Levies and fees received in advance	12	32,924,548	33,315,706
Provisions	13	7,665,901	7,305,045
Finance lease obligation	14	617,459	61,529
		<b>90,191,024</b>	<b>107,210,810</b>
<b>Non-Current Liabilities</b>			
Provisions	13	3,966,514	3,536,086
Finance lease obligation	14	1,134,702	71,683
Post-retirement benefit obligations	15&16	50,208,853	45,265,629
		<b>55,310,069</b>	<b>48,873,398</b>
<b>Total Liabilities</b>		<b>145,501,093</b>	<b>156,084,208</b>
<b>Net Assets</b>			
Contingency reserve	17	72,547,487	65,630,031
Discretionary reserve	17	31,689,583	23,081,785
Accumulated funds		254,824,358	192,243,193
<b>Total Net Assets</b>		<b>359,061,428</b>	<b>280,955,009</b>

# STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2017

	Note(s)	2017 R	2016 R
<b>Revenue</b>			
Revenue from exchange transactions	21	87,817,585	76,783,228
Revenue from non-exchange transactions	22	694,826,758	627,541,917
Fair value adjustment	9	-	1,348,116
<b>Total revenue</b>		<b>782,644,343</b>	<b>705,673,261</b>
<b>Expenses</b>			
Advisory and other committee fees		(5,965,759)	(6,639,990)
Contribution towards funding of the Office of the Ombud for FSPs	23	(39,127,718)	(43,422,676)
Contribution towards funding of the Office of the PFA	23	(52,315,934)	(47,136,955)
Depreciation and amortisation	7&8	(10,738,633)	(9,845,132)
Executive management remuneration	24	(33,312,902)	(32,715,175)
External audit fees	25	(3,583,727)	(2,705,748)
Fair value adjustment	9	(1,620,941)	-
Finance costs	14	(74,549)	(27,659)
Internal audit fees		(536,081)	(933,788)
Legal fees		(14,969,066)	(10,539,732)
Loss on disposal of assets		(49,216)	(62,495)
Non-executive Board members fees	24	(1,730,033)	(2,611,353)
Operating lease rentals – buildings		(47,760,298)	(41,998,190)
Other operating expenses	26	(62,152,858)	(50,985,584)
Professional and consulting fees		(22,895,643)	(24,500,599)
Provision for credit losses	27	(5,612,963)	(18,619,014)
Post-retirement medical aid fund expense	15	(4,943,224)	(1,938,667)
Salaries, staff benefits, training and other staff expenses		(397,148,379)	(364,989,576)
<b>Total expenditure</b>		<b>(704,537,924)</b>	<b>(659,672,333)</b>
<b>Surplus for the year</b>		<b>78,106,419</b>	<b>46,000,928</b>

# STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2017

	Discretionary reserve	Contingency reserve	Total reserves	Accumulated funds	Total net assets
Opening balance as previously reported	22,222,735	59,439,000	81,661,735	153,097,485	234,759,220
Adjustments					
Prior year adjustments (refer to note 34)	-	-	-	194,861	194,861
<b>Restated balance at 31 March 2015</b>	<b>22,222,735</b>	<b>59,439,000</b>	<b>81,661,735</b>	<b>153,292,346</b>	<b>234,954,081</b>
Changes in net assets					
Restated surplus for the year (refer to note 34)	-	-	-	46,000,928	46,000,928
Transfer from accumulated funds to contingency reserve	-	6,191,031	6,191,031	(6,191,031)	-
Transfer from accumulated funds to discretionary reserve	859,050	-	859,050	(859,050)	-
Total changes	859,050	6,191,031	7,050,081	38,950,847	46,000,928
<b>Restated balance at 31 March 2016</b>	<b>23,081,785</b>	<b>65,630,031</b>	<b>88,711,816</b>	<b>192,243,193</b>	<b>280,955,009</b>
Changes in net assets surplus for the year	-	-	-	78,106,419	78,106,419
Transfer from accumulated funds to contingency reserve	-	6,917,456	6,917,456	(6,917,456)	-
Transfer from accumulated funds to discretionary reserve	8,607,798	-	8,607,798	(8,607,798)	-
Total changes	8,607,798	6,917,456	15,525,254	62,581,165	78,106,419
<b>Balance at 31 March 2017</b>	<b>31,689,583</b>	<b>72,547,487</b>	<b>104,237,070</b>	<b>254,824,358</b>	<b>359,061,428</b>
Note	17	17			

# CASH FLOW STATEMENT

for the year ended 31 March 2017

	Note(s)	2017 R	2016 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash received from industry		739,484,323	671,321,848
Interest received		27,879,880	21,779,068
Dividends received		1,384,745	1,204,694
		768,748,948	694,305,610
<b>Payments</b>			
Employee costs		(429,140,611)	(398,948,269)
Suppliers		(144,619,723)	(109,658,824)
Finance costs		(25,344)	(23,194)
Other payments		(124,932,561)	(100,370,051)
		(698,718,239)	(609,000,338)
<b>Net cash flows from operating activities</b>	28	<b>70,030,709</b>	<b>85,305,272</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(7,651,649)	(16,442,182)
Finance leased assets		(193,680)	(32,557)
Purchase of other intangible assets	8	(4,724,670)	(4,371,750)
Purchase of financial assets		(5,930,102)	(9,990,435)
Proceeds from sale of financial assets		6,859,895	9,654,458
<b>Net cash flows from investing activities</b>		<b>(11,640,206)</b>	<b>(21,182,466)</b>
<b>Net increase in cash and cash equivalents</b>		<b>58,390,503</b>	<b>64,122,806</b>
Cash and cash equivalents at the beginning of the year		302,916,002	238,793,196
<b>Cash and cash equivalents at the end of the year</b>	3	<b>361,306,505</b>	<b>302,916,002</b>



# STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

for the year ended 31 March 2017

## Budget on Accrual Basis

	Approved budget	Final budget	Actual amounts on comparable basis	Difference between final budget and actual
Note(s)	R	R	R	R
<b>Statement of Financial Performance</b>				
<b>Revenue</b>				
Revenue from exchange transactions	50,115,714	50,115,714	87,817,585	<b>37,701,871</b>
Revenue from non-exchange transactions	678,753,010	678,753,010	694,826,758	<b>16,073,748</b>
<b>Total revenue</b>	<b>728,868,724</b>	<b>728,868,724</b>	<b>782,644,343</b>	<b>53,775,619</b>
<b>Expenses</b>				
Advisory and other committee fees	(8,471,963)	(8,471,963)	(5,965,759)	<b>2,506,204</b>
Contribution toward funding of the Office of the Ombud for FSPs	(39,127,718)	(39,127,718)	(39,127,718)	-
Contribution towards funding of the Office of the PFA	(52,315,934)	(52,315,934)	(52,315,934)	-
Depreciation and amortisation	(15,942,775)	(15,942,775)	(10,738,633)	<b>5,204,142</b>
Executive management remuneration	(34,371,686)	(34,371,686)	(33,312,902)	<b>1,058,784</b>
External audit fees	(2,691,404)	(2,691,404)	(3,583,727)	<b>(892,323)</b>
Fair value adjustment	-	-	(1,620,941)	<b>(1,620,941)</b>
Finance costs	-	-	(74,549)	<b>(74,549)</b>
Internal audit fees	(1,300,000)	(1,300,000)	(536,081)	<b>763,919</b>
Legal fees	(12,771,000)	(12,771,000)	(14,969,066)	<b>(2,198,066)</b>
Loss on disposal of assets	-	-	(49,216)	<b>(49,216)</b>
Non-executive Board members fees	(1,950,109)	(1,950,109)	(1,730,033)	<b>220,076</b>
Operating lease rental – buildings	(53,963,802)	(53,963,802)	(47,760,298)	<b>6,203,504</b>
Other operating expenses	(73,322,560)	(73,322,560)	(62,152,858)	<b>11,169,702</b>
Professional and consulting fees	(26,758,017)	(26,758,017)	(22,895,643)	<b>3,862,374</b>
Provision for credit losses	-	-	(5,612,963)	<b>(5,612,963)</b>
Post-retirement medical aid fund expense	-	-	(4,943,224)	<b>(4,943,224)</b>
Salaries, staff benefits, training and other staff expenses	(420,917,618)	(420,917,618)	(397,148,379)	<b>23,769,239</b>
<b>Total expenditure</b>	<b>38 (743,904,586)</b>	<b>(743,904,586)</b>	<b>(704,537,924)</b>	<b>39,366,662</b>
<b>(Deficit)/surplus for the year</b>		<b>(15,035,862)</b>	<b>78,106,419</b>	<b>93,142,281</b>

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1. Basis of preparation

#### Reporting entity

The Financial Services Board (FSB) is a National Public Entity, as specified in Schedule 3A of the Public Finance Management Act 1 of 1999 (PFMA), (as amended by Act 29 of 1999). The FSB is mandated by the South African government to supervise and enforce compliance with specific laws regulating financial institutions and to promote financial education and awareness about financial products, institutions and services in South Africa.

#### Basis of accounting

The principal accounting policies applied in the preparation and presentation of these financial statements are set out below. These policies were consistently applied to the years presented, unless otherwise stated.

The FSB's financial statements are prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), as set out in the Accounting Standards Board (ASB) Directive 5 (Determining the GRAP Reporting Framework) and the PFMA (as amended by Act 29 of 1999).

These financial statements are prepared in concurrence with the going-concern principle and, on an accrual basis, in line with the measurement base applied, being the historical cost unless stated otherwise. The financial statements are presented in South African Rand.

In terms of Notice 991 and 992 in Government Gazette 28095 of December 2005 and Notice 516 in Government Gazette 31021 of 9 May 2008, the FSB must comply with the requirements of GRAP. Directive 5 details the GRAP Reporting Framework, comprising the effective standards of GRAP, interpretations (IGRAPs) of such standards issued by the ASB, ASB guidelines, ASB directives, and standards and pronouncement of other standard-setters, as identified by the ASB on an annual basis.

Accounting policies for material transactions, events or conditions not covered by the GRAP Reporting Framework, as detailed above, were developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5, issued by the ASB.

In applying accounting policies, management is required to make various judgments, apart from those involving estimations, which may affect the amounts of items recognised in the financial statements. Management is also required to make estimates of the effects of uncertain future events that could affect the carrying amounts of certain assets and liabilities at the reporting date. Actual results in the future could differ from estimates that may be material to the financial statements. Details of any significant judgments and estimates are explained in the relevant policy, where the impact on the financial statements may be material.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1. Basis of preparation (continued)

#### Standards and amendments to standards issued but not yet effective

The following standards and amendments to standards have been issued but are not yet effective.

Standard	Summary and impact	Effective date
GRAP 20	This standard establishes principles for related party disclosure.	Issued by the ASB – June 2011
Related Party Transactions	The impact on the financial results and disclosure is considered to be minimal.	No effective date has been determined by the Minister of Finance.
GRAP 32	The objective of this standard is to establish accounting principles for the service concession arrangements.	Issued by the ASB – August 2013
Service Concession Arrangements: Grantors	The financial results and disclosure are not likely to be affected when the standard is adopted.	No effective date has been determined by the Minister of Finance.
GRAP 34	The objective of the standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.	Issued by the ASB – March 2016
Separate Financial Statements	The financial results and disclosures are not likely to be affected when the standard is adopted.	No effective date has been determined by the Minister of Finance.
GRAP 35	This standard establishes principles for the presentation and preparation of consolidated financial statements.	Issued by the ASB – March 2016
Consolidated Financial Statements	The FSB does not prepare consolidated financials, therefore no impact is envisaged when the standard is effective.	No effective date has been determined by the Minister of Finance.
GRAP 36	This standard prescribes the accounting for investments in associates and joint ventures and to set out requirements for the application of equity method.	Issued by the ASB – March 2016
Investment in Associates and Joint Ventures	The FSB does not have investment in associates and joint ventures, therefore no impact is envisaged when the standard is effective.	No effective date has been determined by the Minister of Finance.
GRAP 37	The objective of this standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.	Issued by the ASB – March 2016
Joint Arrangements	The FSB does not have investment in joint ventures, therefore no impact is envisaged when the standard is effective.	No effective date has been determined by the Minister of Finance.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

Standard	Summary and impact	Effective date
GRAP 38	The objective of this standard is to require an entity to disclose information on interest in other entities to enable users to do a proper evaluation.	Issued by the ASB – March 2016
Disclosure of Interest in Other Entities	The FSB does not have interest in other entities, therefore no impact is envisaged when the standard is effective.	No effective date has been determined by the Minister of Finance.
GRAP 108	This standard prescribes the accounting treatment and disclosure for statutory receivables.	Issued by ASB – September 2013
Statutory Receivables	The impact on the financial results and disclosure is considered to be minimal.	No effective date has been determined by the Minister of Finance.
GRAP 109	This standard outlines principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.	Issued by ASB – July 2015
Accounting by Principals and Agents	The impact on the financial results and disclosure is considered to be minimal.	No effective date has been determined by the Minister of Finance.
GRAP 110	This standard outlines principles for the recognition, measurement, presentation and disclosure requirements for living resources and disclosure for non-living resources.	Issued by ASB – March 2016
Living and Non-living Resources	The financial results and disclosure are not likely to be affected when the standard is adopted.	No effective date has been determined by the Minister of Finance.
IGRAP 17	The objective of this standard is to interpret accounting principles for the service concession arrangements where a grantor controls a significant residual interest in an asset.	Issued by ASB – Aug 2013
Service Concession Arrangements Where a Grantor Controls a significant Residual Interest in an Asset.	The financial results and disclosure are not likely to be affected when the standard is adopted.	No effective date has been determined by the Minister of Finance.
IGRAP 18	The objective of this standard is to interpret accounting principles for the recognition and derecognition of land.	Issued by ASB – March 2017
Interpretation of the Standard of GRAP on Recognition and Derecognition of Land.	The financial results and disclosure are not likely to be affected when the standard is adopted.	No effective date has been determined by the Minister of Finance.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1.1 Significant accounting judgments and estimates

The preparation of financial statements in conformity with GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the FSB's accounting policies. Estimates and judgments 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 judgment or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are disclosed below.

#### Critical accounting estimates and assumptions

##### Provisions

Provisions were raised based on management's determined estimate using the information available. The accounting policy for provisions is disclosed under note 1.11 and additional disclosure of these estimates of provisions are included in note 13.

##### Depreciation and amortisation

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

At the end of each financial year management assesses whether there is any indication that the FSB's expectations about the residual value and the useful life of assets included in property, plant and equipment have changed since the preceding reporting date.

##### Impairment of receivables

Management conducts annual tests to determine whether receivables have suffered any impairment.

##### Post-employment benefits

The cost of certain guaranteed minimum benefits in terms of defined benefit plan 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 rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

### 1.2 Property, plant and equipment

Property, plant and equipment comprises leasehold improvements, computer equipment, furniture, fittings and equipment, as well as motor vehicles.

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost of the item can be measured reliably.

At initial recognition, an item of property, plant and equipment is measured at cost. An asset acquired through a non-exchange transaction is recognised at its fair value at date of acquisition. Subsequently all items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Depreciation commences when the item of property, plant and equipment is available for use. Property, plant and equipment items are tested for impairment when there is an indicator that the asset or assets should be impaired - refer to note 1.8.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1.2 Property, plant and equipment (continued)

Leasehold improvements and finance leased assets are written off over the expected period of the relevant lease agreements. Paintings and sculptures that do not meet the definition of heritage assets are included in furniture, fittings and equipment. All other items of property, plant and equipment are depreciated on a straightline basis at rates that will reduce their carrying value to estimated residual value over their estimated useful lives.

The annual depreciation rates are based on the following average useful lives:

Item	Depreciation method	Average useful life
Leasehold improvements and finance leased assets	Straight line	Expected period of relevant lease
Furniture, fittings, equipment and paintings	Straight line	5 to 50 years
Motor vehicles	Straight line	10 years
Computer equipment	Straight line	3 to 20 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date when there's an indicator that there should be a review. If the expectations differ from previous estimate, the change is accounted for as a change in accounting estimate. For further detail refer to note 33. Items of property, plant and equipment are also tested for impairment annually when there's an indicator that the asset or assets should be impaired.

The depreciation charge for each period is recognised in surplus or deficit .

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gains or losses arising from the derecognition of an item of property, plant and equipment are included in surplus or deficit when the item is derecognised. Gains or losses arising from the derecognition of an item of property, plant and equipment are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Maintenance and repairs, which neither materially add to the value of assets nor prolong their useful lives, are charged against the statement of financial performance. The entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 7).

### 1.3 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

At initial recognition intangible assets are measured at cost. An intangible asset acquired through a non-exchange transaction is recognised at its fair value at date of acquisition. Subsequently all intangible assets are measured at cost less accumulated



# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1.3 Intangible assets (continued)

amortisation and any impairment losses. Amortisation commences when the intangible asset is available for use.

Intangible assets are tested for impairment annually when there's an indicator that the asset or assets should be impaired. Intangible assets under development and/or not available for use are tested for impairment at reporting date, refer to note 1.8.

Expenditure on research is recognised as an expense when it is incurred. Internally generated brands, mastheads, publishing titles, customer lists, and items similar in substance are not recognised as intangible assets.

The amortisation period, amortisation method and residual values for intangible assets are reviewed at each reporting date. Amortisation is provided to write down the intangible asset on a straightline basis, to its residual values as follows:

Item	Useful life
Computer software, other	3 to 25 years

Intangible assets are derecognised when the asset is disposed off or when there are no further economic benefit or service potential expected from the use of the asset. Gains and losses arising from the derecognition of intangible assets are determined by comparing the proceeds, if any, with the carrying amount and are recognised in surplus or deficit when the asset is derecognised.

### 1.4 Financial instruments

Financial instruments are classified in the following categories:

#### Financial assets at fair value

Investments are initially recognised and subsequently measured at fair value. Interest on government bonds is calculated using the coupon rate, which is recognised in the statement of financial performance as interest revenue from exchange transactions. Dividends received from non-current investments are recognised in the statement of financial performance as dividends revenue from exchange transactions when the right to receive payments is established. The fair value movements of quoted investments are recognised in the statement of financial performance. Transaction costs are expensed in the statement of financial performance.

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.

#### Receivables

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

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1.4 Financial instruments (continued)

the debtor will enter bankruptcy or financial reorganisation, and default or 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 effective interest rate. The carrying amount of the asset is reduced by the amount of the credit loss, which is recognised in the statement of financial performance. When the trade receivable is uncollectable, it is written off and subsequent recoveries of amounts previously written off are credited in the statement of financial performance.

#### Payables

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

#### 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.

### 1.5 Leases

#### Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

The finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

#### Operating leases – lessee

Operating lease payments are recognised as an expense on a straightline basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset or liability.

The operating lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The operating lease assets are derecognised when the entity no longer anticipates economic benefits or service potential to flow from the asset.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1.6 Related parties

Related parties transactions are disclosed in terms of IPSAS 20. All payments to executive management and non-executive members of the FSB are disclosed as related party transactions. Transactions and balances with national departments of government and state-controlled entities, which occur other than in accordance with the operating parameters established, are disclosed separately in the notes to the financial statements.

### 1.7 Prepayments

Prepayments are payments made in advance for services that have not been delivered for which the FSB expects the delivery in the next financial period. Prepayments are recognised as current assets and are not discounted as the discounting effect thereof is considered immaterial.

### 1.8 Impairment of non-cash generating assets

The FSB's non-financial assets consists only of non-cash generating assets. The FSB assesses at each reporting date whether there is an indication that an asset may be impaired.

If there is any indication that assets may be impaired, the recoverable service amount is estimated for the individual asset. The recoverable service amount of an asset is the higher of its fair value less cost to sell and its value in use. If the recoverable service amount of an asset is less than its accumulated depreciation or amortisation, the impairment loss is recognised immediately in surplus or deficit.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

The FSB assesses at each reporting date whether there is an indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any indication exists, the recoverable service amounts of those assets are estimated. The increased carrying amount of assets attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for assets in the prior years.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

### 1.9 Levies and fees received in advance

Levies and fees received in advance are stated at the amount received. The effect of discounting is immaterial.

### 1.10 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.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1.10 Employee benefits (continued)

#### Retirement benefits

The FSB contributes to a pension fund and to a defined benefit post-retirement medical aid liability. 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.

#### Pension fund

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of financial performance in the period in which they arise.

#### Post-retirement medical aid plan

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of financial performance in the period in which they arise.

### 1.11 Provisions

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate used to determine the present value is a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1.11 Provisions (continued)

Contingent assets and contingent liabilities are not recognised as provisions. Contingencies are disclosed in note 31.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

#### Performance bonus

Performance bonus is a short-term employee benefit that is expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. A liability for performance bonus is accrued on a proportionate basis as services are rendered. A liability for performance bonus is raised on the estimated amount payable in terms of the incentive scheme, which is based on the business and employee's performance in the applicable year. Performance bonuses are expected to be settled within 12 months of reporting date.

#### Long-service awards

Long-service awards are provided to employees who achieve certain predetermined milestones of service within the entity. The entity's obligation under this plan is valued by actuaries periodically and the corresponding liability is accordingly raised. Payments are set-off against the liability resulting from the valuation by the actuaries and are charged against the statement of financial performance. Long-service awards are settled as and when employees achieve certain predetermined milestones of service.

#### Legal fees

Legal fees are provided for legal matters where it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably measured.

### 1.12 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. Commitments are not recognised in the statement of financial position but disclosed in the notes to the annual financial statements.

### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1.13 Revenue from exchange transactions

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue is recognised when the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the FSB and specific criteria have been met as described below.

Revenue from exchange transactions comprises fees and service charges, interest and dividends as well as other recoveries.

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. Interest from government bonds is recognised based on the coupon rate. Interest income from short-term investment is recognised on a time-proportion basis using the effective interest method. Dividends are recognised when the right to receive payment is established, which is normally on the last day to register.

### 1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is recognised when the asset is recognised and if obligation arises from the receipt of the asset, the revenue is recognised to the extent that there is no further obligation. Revenue from non-exchange transactions comprises levies, penalties and other income.

All registered entities are required to pay annual levies to maintain their licences in terms of the Financial Services Board Act, 97 of 1990. Levies are raised in terms of the regulations published in the Government Gazette and are accounted for on an accrual basis.

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 a reduction in revenue.

Fines and penalties raised for late submission of returns are recognised on an accrual basis less any impairments. The income from fines and penalties is credited to the statement of financial performance, but as this income is not considered to form part of the normal operating activities of the FSB, it is transferred to the discretionary reserve.

Services in-kind are recognised as assets and revenue when they are significant to operations and/or service delivery objectives and it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets and revenue can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the nature and type of services in-kind received during the reporting period are disclosed in the notes to the annual financial statements.

### 1.15 Finance costs

Finance costs are charges incurred by the FSB in connection with finance lease liability.

Finance costs are recognised as an expense in the period in which they are incurred.



# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## for the year ended 31 March 2017

### 1.16 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 statement of financial performance.

### 1.17 Accumulated funds and reserves

#### Accumulated funds

Accumulated funds are used to fund working capital requirements, capital expenditure, budgeted deficits (if any), as well as other unforeseen events. Accumulated funds are maintained at approximately 2 to 4 months' operational expenditure. National Treasury approval is obtained at the end of every financial year in order to retain the accumulated funds. Accumulated funds include non-cash amounts such as invoiced income not recovered, hence the full balance at year-end is not always represented by actual cash.

#### Contingency reserve

The contingency reserve is maintained to fund the FSB's long-term capital requirements and to protect the FSB'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.

#### Discretionary reserve

The discretionary reserve is used primarily to fund consumer education and consumer protection-related expenses. Fines and penalties recognised as income in the statement of financial performance 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.

### 1.18 Irregular expenditure

Irregular expenditure, as defined in section 1 of the PFMA, is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- a. this Act; or
- b. the State Tender Board Act 86 of 1968 or any regulations made in terms of the Act; or
- c. any provincial legislation providing for procurement procedures in that provincial government.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and where recovered it is subsequently accounted for as revenue in the statement of financial performance.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 2. Financial risk management

### Financial risk factors

The FSB is exposed to a variety of financial risks as a consequence of its operations, namely market risk, credit risk and liquidity risk. The FSB'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 FSB 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.

### 2.1 Market risk

#### Foreign exchange risk

The FSB 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, foreign exchange denominated operating expenses as well as investments in off-shore portfolios. The risk relating to off-shore investment portfolios is managed by an investment manager in terms of his/her mandate. Accordingly, the FSB's exposure to foreign currency risk is minimised.

The following sensitivity analysis has been performed:

At 31 March 2017, if the currency had weakened or strengthened by 10% against the US dollar with all other variables held constant, the deficit for the year would have been R1 064 277 (2016: R1 009 611) higher or lower on foreign exchange gains or losses on translation of US dollar-denominated transactions.

The off-shore investment portfolios would have been R154 311 (2016: R2 042 377) higher or lower arising from unrealised foreign exchange gains or losses on translation of US dollar-denominated off-shore investment portfolios.

At 31 March 2017, if the currency had weakened or strengthened by 10% against the Euro with all other variables held constant, the deficit for the year would have been R130 241 (2016: R122 599) higher or lower on foreign exchange gains or losses upon translation of Euro-denominated transactions.

At 31 March 2017, if the currency had weakened or strengthened by 10% against the UK pound with all other variables held constant, the deficit for the year would have been R12 046 (2016: R6 164) higher or lower on foreign exchange gains or losses upon translation of UK pound-denominated transactions.

#### Asset price risk

The FSB is exposed to equity securities price risk because of investments held by the FSB, which are classified on the statement of financial position as financial assets at fair value. 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 FSB'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).

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## for the year ended 31 March 2017

### 2. Financial risk management (continued)

The table below summarises the impact of increases/decreases of the All Share Index on the FSB's surplus for the year and on reserves. The analysis is based on the assumption that the All Share Index had increased/decreased by 4% (2016: 4%) with all other variables held constant and that all the FSB's investments moved according to the historical correlation with the index:

#### Economic entity

	Impact on surplus for the year		Impact on investment portfolio	
	2017	2016	2017	2016
All Share Index	<b>1,527,074</b>	1,640,624	<b>1,527,074</b>	1,640,624

#### Cash flow and fair value interest rate risk

The FSB 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 FSB does not have any interest-bearing borrowings and, therefore, there is no adverse exposure relating to interest rate movements in borrowings. Should the balances held on short-term deposit remain constant, the FSB's interest income will fluctuate R3 417 803 for every 100 basis-point fluctuation in the prime interest rate.

### 2.2 Credit risk

Financial assets that potentially subject the FSB to concentrations of credit risk consist primarily of cash and cash equivalents as well as accounts receivable. The FSB's maximum exposure to credit risk relating to accounts receivables is the amount as shown in the statement of financial position. Cash and cash equivalents in excess of the FSB's immediate operational requirements are outsourced to a fund manager for investment in approved registered financial institutions.

The FSB invests funds in excess of the FSB's immediate requirements (ie short-term deposits excluding current account balances) with the Corporation for Public Deposits (CPD). The table below shows the total amount invested in CPD at reporting date:

	2017		2016	
	%	R	%	R
Corporation for Public Deposits	100.0 %	341,780,311	100.0 %	288,541,943

Management does not expect any losses from non-performance by CPD.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 2.3 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 FSB, liquid resources consist of mainly cash and cash equivalents. The FSB 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 2017 is as follows:

	2017 R	Period 2018 to 2021 R
Opening balance for the period	302,916,002	361,306,505
Operating proceeds	768,748,948	1,146,129,382
Operating cash outflows	(698,718,239)	(1,041,720,455)
Cash outflow for investments	(18,500,101)	(27,581,839)
Proceeds from sale of investments	6,859,895	10,227,432
	361,306,505	448,361,025

The table below analyses the FSB's financial liabilities at statement of financial position date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
<b>At 31 March 2017</b>			
Trade and other payables	24,005,350	-	-
Finance lease liability	617,459	625,787	508,914
<b>At 31 March 2016</b>			
Trade and other payables	44,077,669	-	-
Finance lease liability	61,529	65,624	6,059

## Capital risk management

The FSB's objectives when managing its funds and reserves are to safeguard the FSB's ability to continue as a going concern. The FSB maintains various funds and reserves, which serve different purposes - refer to note 1.17.

## Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices (level 1) at the statement of financial position date. The quoted market price used for financial assets held by the FSB is the current bid price.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## for the year ended 31 March 2017

2017  
R

2016  
R

### 3. Cash and cash equivalents

Short-term deposits	341,780,311	288,541,943
Cash at bank and on hand	19,526,194	14,374,059
	<b>361,306,505</b>	<b>302,916,002</b>

Included in cash at bank and on hand above is an amount of R6 797 551 (2016: R4 002 828), which is earmarked to fund the post-retirement medical aid plan. Also included in cash and cash equivalents is an amount of R28 708 380 (2016: R22 161 363) relating to the discretionary funds that are used to fund consumer education and consumer protection-related expenses. In addition, the FSB maintains a contingency fund that is included under short-term deposits of R101 185 294 (2016: R87 989 184) to fund long-term capital requirements and to protect operating capacity against the effects of inflation and unforeseen events.

### 4. Receivables from exchange transactions

Legal fees debtors	3,731,857	3,731,857
Less: Provision for credit losses	(3,597,907)	(3,597,907)
Net legal fees debtors	133,950	133,950
Staff debtors	4,532,634	3,886,604
Less: Provision for credit losses	(28,769)	-
Net staff debtors	4,503,865	3,886,604
Recoverable legal fees	3,348,085	3,000,265
Interest receivable	57,631	92,300
Other receivables	2,182,212	563,031
	<b>10,225,743</b>	<b>7,676,150</b>

#### Reconciliation of provision for credit loss of receivables from exchange transactions

Opening balance	3,597,907	3,597,907
Charged to the statement of financial performance	28,769	-
Closing balance	<b>3,626,676</b>	<b>3,597,907</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

2017 R	2016 R
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## 5. Receivables from non-exchange transactions

Levy debtors	11,867,654	11,548,122
Less: Provision for credit losses	(8,725,608)	(9,366,821)
Net levy debtors	3,142,045	2,181,301
Inspection cost debtors	10,305,178	12,607,226
Less: Provision for credit loss	(10,112,743)	(12,607,226)
Net inspection cost debtors	192,435	-
Penalty debtors	25,093,130	27,093,847
Less: Provision for credit losses	(13,749,434)	(20,221,478)
Net penalty debtors	11,343,696	6,872,369
<b>Net trade receivables</b>	<b>14,678,176</b>	<b>9,053,670</b>

## Reconciliation of provision for credit loss of receivables from non-exchange transactions

Opening balance	42,195,525	27,132,131
Provision utilised	(15,191,934)	(3,555,621)
Reversal of prior year provision	(1,065,392)	(1,277,885)
Charged to the statement of financial performance	6,649,586	19,896,900
	<b>32,587,785</b>	<b>42,195,525</b>

## 6. Prepayments

Prepayments comprise membership fees and software licences.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 7. Property, plant and equipment

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Leasehold improvements	2,403,837	(1,657,956)	745,881	2,387,286	(1,545,892)	841,394
Furniture, fittings, equipment and paintings	26,861,277	(14,960,496)	11,900,781	26,413,719	(13,142,435)	13,271,284
Motor vehicles	645,174	(345,600)	299,574	645,174	(301,301)	343,873
Computer equipment	70,461,247	(45,765,970)	24,695,277	64,755,600	(40,534,776)	24,220,824
Finance leased equipments	1,978,398	(261,707)	1,716,691	165,768	(50,651)	115,117
<b>Total</b>	<b>102,349,933</b>	<b>(62,991,729)</b>	<b>39,358,204</b>	<b>94,367,547</b>	<b>(55,575,055)</b>	<b>38,792,492</b>

### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold improvements	841,394	16,550	-	(112,064)	745,880
Furniture, fittings, equipment and paintings	13,271,284	527,684	(14,277)	(1,883,913)	11,900,778
Motor vehicles	343,873	-	-	(44,299)	299,574
Computer equipment	24,220,824	7,107,415	(34,935)	(6,598,023)	24,695,281
Finance leased assets	115,117	1,812,630	-	(211,056)	1,716,691
	<b>38,792,492</b>	<b>9,464,279</b>	<b>(49,212)</b>	<b>(8,849,355)</b>	<b>39,358,204</b>

### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold improvements	704,363	583,056	-	(446,025)	841,394
Furniture, fittings, equipment and paintings	14,241,871	881,845	(42,031)	(1,810,401)	13,271,284
Motor vehicles	388,173	-	-	(44,300)	343,873
Computer equipment	15,579,862	14,977,280	(20,463)	(6,315,855)	24,220,824
Finance leased assets	-	165,768	-	(50,651)	115,117
	<b>30,914,269</b>	<b>16,607,949</b>	<b>(62,494)</b>	<b>(8,667,232)</b>	<b>38,792,492</b>

### Expenditure incurred to repair and maintain property, plant and equipment included in statement of financial performance

	2017 R	2016 R
Contracted services	155,717	-
General expenses	77,079	-
	<b>232,796</b>	<b>-</b>

The useful lives and residual values of the various categories of property, plant and equipment were assessed during the current financial year and resulted in a change in accounting estimate. Refer to note 33.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 8. Intangible assets

	2017			2016		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and intangible assets under development	14,717,419	(5,355,269)	9,362,150	9,992,749	(3,465,991)	6,526,758

### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	6,526,758	819,060	-	(1,889,278)	5,456,540
Intangible assets under development	-	3,905,610	-	-	3,905,610
	<b>6,526,758</b>	<b>4,724,670</b>	<b>-</b>	<b>(1,889,278)</b>	<b>9,362,150</b>

### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Transfers received	Transfers	Amortisation	Total
Computer software, other	2,452,964	4,297,673	954,022	-	(1,177,901)	6,526,758
Intangible assets under development	879,945	74,077	-	(954,022)	-	-
	<b>3,332,909</b>	<b>4,371,750</b>	<b>954,022</b>	<b>(954,022)</b>	<b>(1,177,901)</b>	<b>6,526,758</b>

The useful lives of the various computer software were assessed during the current financial year and resulted in a change in accounting estimate. Refer to note 33.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 9. Financial assets at fair value

	2017 R	2016 R
Non-current investments	64,889,933	68,088,674
Current investments	875,778	227,771
	<b>65,765,711</b>	<b>68,316,445</b>

### Movement for the year ended 31 March 2017

	Shares R	Gilts and bonds R	Off-shore collective investment schemes R	Total R
Opening balance	41,015,590	6,877,085	20,423,770	68,316,445
Acquisitions	5,930,102	-	-	5,930,102
Disposals	(6,639,528)	(220,367)	-	(6,859,895)
Fair value adjustment	(2,129,312)	156,911	351,460	(1,620,941)
	<b>38,176,852</b>	<b>6,813,629</b>	<b>20,775,230</b>	<b>65,765,711</b>

### Movement for the year ended 31 March 2016

	Shares R	Gilts and bonds R	Off-shore collective investment schemes R	Total R
Opening balance	42,864,703	5,465,768	18,301,881	66,632,352
Acquisition	8,002,326	1,988,109	-	9,990,435
Disposals	(9,434,092)	(220,366)	-	(9,654,458)
Fair value adjustment	(417,347)	(356,426)	2,121,889	1,348,116
	<b>41,015,590</b>	<b>6,877,085</b>	<b>20,423,770</b>	<b>68,316,445</b>

### Hierarchy of financial assets at fair value

The fair value of financial instruments traded in active markets is based on quoted market prices (level1) at the statement of financial position date. The quoted market price used for financial assets held by the FSB is the current bid price.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

2017 R	2016 R
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## 10. Payables from exchange transactions

Accounts payable	10,827,813	19,884,097
Leave accrual	20,171,771	18,064,576
Accruals	12,159,842	22,469,141
Other payables	1,017,695	1,724,431
Operating lease accrual	4,805,995	4,376,936
	<b>48,983,116</b>	<b>66,519,181</b>

## 11. Payables from non-exchange transactions

Unknown deposits	-	9,349
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## 12. Levies and fees received in advance

Levies received in advance	1,249,867	1,078,556
Fees received in advance	31,674,681	32,237,150
	<b>32,924,548</b>	<b>33,315,706</b>

## 13. Provisions

### Reconciliation of provisions - 2017

	Opening balance	Additions	Utilised during the year	Total
Provision for bonus	6,157,245	6,609,901	(6,157,245)	6,609,901
Povision for long-service awards	4,683,886	1,514,628	(1,176,000)	5,022,514
	<b>10,841,131</b>	<b>8,124,529</b>	<b>(7,333,245)</b>	<b>11,632,415</b>

### Reconciliation of provisions - 2016

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonus	5,917,243	6,157,245	(5,917,243)	-	6,157,245
Provision for legal fees	284,049	-	(257,000)	(27,049)	-
Provision for long-service awards	3,858,507	1,569,379	(744,000)	-	4,683,886
	<b>10,059,799</b>	<b>7,726,624</b>	<b>(6,918,243)</b>	<b>(27,049)</b>	<b>10,841,131</b>

Current liabilities	7,665,901	7,305,045
Non-current liabilities	3,966,514	3,536,086
	<b>11,632,415</b>	<b>10,841,131</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

2017  
R

2016  
R

## 14. Finance lease obligation

<b>Minimum lease payments due</b>		
– within one year	794,431	86,727
– in second to fifth year inclusive	1,260,417	80,531
	2,054,848	167,258
Less: Future finance charges	(302,687)	(34,046)
<b>Present value of minimum lease payments</b>	<b>1,752,161</b>	<b>133,212</b>
 <b>Present value of minimum lease payments due</b>		
– within one year	617,459	61,529
– in second to fifth year inclusive	1,134,702	71,683
	<b>1,752,161</b>	<b>133,212</b>
 Current liabilities	617,459	61,529
Non-current liabilities	1,134,702	71,683
	<b>1,752,161</b>	<b>133,212</b>
 Finance costs charged for the year	74,549	27,659

The FSB leases 27 of its multifunctional machinery under finance lease. The period of the leases is 36 months. There are no escalations to the lease agreement as all the machines are leased at the fixed rate for the duration of the lease.

## 15. Post-retirement benefit obligations (medical aid fund)

The FSB 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, assuming 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 FSB prior to retirement for employees currently in service. The FSB is not liable for post-retirement medical aid benefits in respect of any employee employed after 1 January 1998. The fund is recognised as a defined benefit plan.

The actuary evaluates the liability on an annual basis, allowing for expected future medical cost inflation, investment returns, staff turnover and mortality. The FSB 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 March 2017. It is the policy of the FSB 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 R6 797 551 (2016: R4 002 828) representing cash on call, has been included with cash and cash equivalents. A certain portion of the post-retirement medical aid is payable within 12 months. However the value thereof is not readily determinable and thus the full liability has been disclosed as non-current. The main actuarial assumption is a long-term increase in health costs of 8.79% a year (2016: 8.73%).

Amounts recognised in the statement of financial position were determined as follows:

Present value of unfunded obligations	50,208,853	45,265,629
<b>Liability in the statement of financial position</b>	<b>50,208,853</b>	<b>45,265,629</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

2017  
R

2016  
R

## 15. Post-retirement benefit obligations (medical aid fund) (continued)

The movement in the present value of the unfunded obligation for the year is as follows:

Opening balance	45,265,629	43,326,962
Current service cost	832,388	793,415
Interest cost	4,381,713	3,552,811
Actuarial (gain)/loss	1,458,925	(791,516)
Benefits paid	(1,729,802)	(1,616,043)
<b>Closing balance</b>	<b>50,208,853</b>	<b>45,265,629</b>

The amounts recognised in the statement of financial performance are as follows:

Current service cost	832,388	793,415
Interest cost	4,381,713	3,552,811
Benefits paid	(1,729,802)	(1,616,043)
Net actuarial (gain)/loss recognised during the year	1,458,925	(791,516)
<b>Net expenses included in staff costs</b>	<b>4,943,224</b>	<b>1,938,667</b>

The principal actuarial assumptions used were as follows:

### Financial assumptions

Discount rate:	9.83% (2016: 9.68%) per annum compound.
Rate of medical aid contribution increases:	8.79% (2016: 8.73%) per annum compound.
Rate general price inflation:	7.29% (2016: 7.73%) per annum compound.

### Mortality assumptions

#### Mortality - active employees

Before retirement:	Nil
After retirement:	PA (90) mortality tables with an age reduction of two years.

#### Mortality - pensioners

PA (90) Mortality Tables with an age reduction of two years

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

	Decrease R	Increase R
Effect on the aggregate service cost and interest cost	(810,664)	996,388
Effect on the accumulated benefit obligation	(6,446,466)	7,863,868
	(7,257,130)	8,860,256



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 15. Post-retirement benefit obligations (medical aid fund) (continued)

Amount for the current year and previous four years:

	2017	2016	2015	2014	2013
Present value of unfunded obligation recognised in the statement of financial position	50,208,853	45,265,629	43,326,962	36,627,919	35,961,227

## 16. Post-retirement benefit obligations (pension fund)

The pension fund for permanent employees of the FSB is registered in terms of the Pension Fund Act 24 of 1956. Prior to April 2000, the fund was a defined benefit plan for the benefit of all employees. New employees who 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 FSB at 31 March 2000 are entitled to the higher of either the defined contribution accumulation to the date of exit or the value of the defined benefit applicable on exit in terms of the rules in force as at 31 March 2000. There are currently a total of 48 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 31 March 2017.

Amounts recognised in the statement of financial position are as follows:

	2017 R	2016 R
<b>Carrying value</b>		
Present value of the defined benefit obligation	86,559,000	79,606,000
Fair value of plan assets	(146,907,000)	(144,034,000)
Funded status	(60,348,000)	(64,428,000)
Asset not recognised (statement of financial position restriction)	60,348,000	64,428,000
	-	-

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 statement of financial position.

The major categories of plan assets as a percentage of total plan assets are as follows:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	79,606,000	76,947,000
Current service cost	1,165,000	2,091,000
Interest cost	8,270,000	7,135,000
Actuarial (gain)/loss	1,995,000	(10,461,000)
Benefits paid	(4,477,000)	(6,160,000)
New pensioners	-	10,054,000
	<b>86,559,000</b>	<b>79,606,000</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

2017 R	2016 R
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## 16. Post-retirement benefit obligations (pension fund) (continued)

Changes in the fair value of plan assets are as follows:

Opening balance	144,034,000	128,611,000
Expected return on assets	14,983,000	11,657,000
Actuarial gains/(losses)	(8,603,000)	(3,643,000)
Contributions by employer	970,000	3,515,000
New pensioners	-	10,054,000
Benefits paid	(4,477,000)	(6,160,000)
	<b>146,907,000</b>	<b>144,034,000</b>

Components of pension cost for the year are as follows:

Current service cost	1,165,000	2,091,000
Interest cost	8,270,000	7,135,000
Actuarial losses/(gains)	10,598,000	(6,818,000)
Change in asset restriction	(4,080,000)	12,764,000
Expected return on plan assets	(14,983,000)	(11,657,000)
	<b>970,000</b>	<b>3,515,000</b>

Calculation of actuarial gains and losses

Actuarial losses/(gains) – obligation	1,995,000	(10,461,000)
Actuarial losses – plan assets	8,603,000	3,643,000
	<b>10,598,000</b>	<b>(6,818,000)</b>

Assumptions used at the reporting date

Assumptions regarding the 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 of 63 at the statement of financial position date is as follows:

	Average life expectancy 2017	Average life expectancy 2016
Male	<b>17 years 4 months</b>	17 years 4 months
Female	<b>21 years 8 months</b>	21 years 8 months

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## for the year ended 31 March 2017

### 16. Post-retirement benefit obligations (pension fund) (continued)

Amounts for the current year and previous four years are as follows:

	2017	2016	2015	2014	2013
Defined benefit obligation	86,559,000	79,606,000	76,947,000	59,509,000	89,335,000
Fair value of plan assets	(146,907,000)	(144,034,000)	(128,611,000)	(107,298,000)	(101,534,000)
Statement of financial position restriction	60,348,000	64,428,000	51,664,000	47,789,000	12,199,000
	-	-	-	-	-

#### Other assumptions

##### Key financial assumptions

**Discount rate:** This is set having regard to the market yield on government bonds, using a weighted average discount rate that reflects the timing and amount of benefit payments – see discussion below. A rate of 10.34% per annum has been used (a rate of 10.53% was used at 31 March 2016.)

**Long-term price inflation rate:** We have assumed a long-term future inflation rate of 7.25% per annum. This was calculated to reflect the difference between the yields on nominal government bonds and index-linked government bonds (at the appropriate duration) after allowing for an inflation risk premium of 0.75% on the basis that nominal bond yields include an inflation risk premium (being the additional return an investor seeks in compensation for the inflation risk taken on) and, therefore, that the implied inflation rate is lower than that suggested by the differential between nominal and index-linked bond yields (7.59% used at 31 March 2016).

**Salary inflation:** It has been assumed that salary increases will take place at a rate of 1.00% per annum in excess of price inflation, ie 8.25% per annum (8.59% used at 31 March 2016).

**Pension increases:** It has been assumed that pension increases will take place at a rate of 5.44% per annum (5.69% used at 31 March 2016). This represents some 75% of the expected inflation rate above and is in line with Pension Increase Policy of the Fund.

**Expected return on plan assets:** It has been assumed that the long-term expected return on plan assets is equal to the discount rate of 10.34% per annum, following the approach adopted in the previous disclosure. This is consistent with the approach set out in the IAS 19. GRAP25 indicates that "the expected return on plan assets is based on the market expectations, at the beginning of the reporting period, for returns over the entire life of the related obligation". It could be argued that on a risk-adjusted basis, it is reasonable to set this rate equal to the discount rate, but the employer may wish to consider the implications of this assumption and its consistency with the requirements of the GRAP25 standard.

Experience adjustments	2017	2016	2015	2014	2013
Active liabilities at end of year	34,667,000	26,223,000	30,779,000	27,265,000	56,961,000
Pensioner liabilities at end year	51,892,000	53,383,000	46,168,000	32,244,000	32,374,000
Combined assets at end of year	(146,907,000)	(144,034,000)	(128,611,000)	(107,298,000)	(101,534,000)
<b>Funded status at year end</b>	<b>(60,348,000)</b>	<b>(64,428,000)</b>	<b>(51,664,000)</b>	<b>(47,789,000)</b>	<b>(12,199,000)</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 16. Post-retirement benefit obligations (pension fund) (continued)

Experience adjustments	2017	2016	2015	2014	2013
Gain/(loss) on liabilities through experience	(3,776,000)	(2,139,000)	5,847,000	12,469,000	13,490,000
Gain/(loss) on liabilities through assumptions	1,781,000	12,600,000	(9,270,000)	8,203,000	3,349,000
<b>Gain/(loss) on liabilities</b>	<b>(1,995,000)</b>	<b>10,461,000</b>	<b>(3,423,000)</b>	<b>20,672,000</b>	<b>16,839,000</b>
<b>Gain/(loss) on plan assets</b>	<b>(8,603,000)</b>	<b>(3,643,000)</b>	<b>(4,422,000)</b>	<b>(7,022,000)</b>	<b>(7,638,000)</b>

## 17. Reserves

	2017 R	2016 R
<b>Contingency reserve</b>		
Opening balance	65,630,031	59,439,000
Transfer from accumulated funds	6,917,456	6,191,031
	<b>72,547,487</b>	<b>65,630,031</b>

An amount of R6 917 456 (2016: R6 191 031) was transferred from accumulated funds to maintain the reserve at 10% of annual levy and fee income.

<b>Discretionary reserve</b>		
Opening balance	23,081,785	22,222,735
Net transfer from accumulated funds	8,607,798	859,050
	<b>31,689,583</b>	<b>23,081,785</b>

The transfer (to)/from accumulated funds for the year, as reflected in the statement of changes in net assets, is calculated as follows:

Income from fines and penalties	14,908,797	17,540,907
Other income	605,764	119,884
Provision	(5,339,893)	(16,034,435)
Interest allocated to this reserve	2,051,794	1,419,257
Expenses in respect of consumer education	(4,339,032)	(2,844,883)
Reversal provision	720,367	658,320
Transfer from/(to) accumulated funds	8,607,798	859,050
<b>Net transfer to discretionary reserve</b>	<b>8,607,798</b>	<b>859,050</b>
<b>Total reserves</b>	<b>104,237,070</b>	<b>88,711,816</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 18. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2017	Financial assets at amortised costs	Fair value through surplus or deficit	Total
Financial assets at fair value	-	65,765,711	65,765,711
Receivables	24,939,350	-	24,939,350
Cash and cash equivalents	361,306,505	-	361,306,505
	<b>386,245,855</b>	<b>65,765,711</b>	<b>452,011,566</b>

2016	Financial assets at amortised costs	Fair value through surplus or deficit	Total
Financial assets at fair value	-	68,316,445	68,316,445
Receivables	16,729,820	-	16,729,820
Cash and cash equivalents	302,916,002	-	302,916,002
	<b>319,645,822</b>	<b>68,316,445</b>	<b>387,962,267</b>

## 19. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2017	Other financial liabilities	Total
Payables	24,005,350	24,005,350
Finance lease liability	1,752,161	1,752,161
	<b>25,757,511</b>	<b>25,757,511</b>

2016	Other financial liabilities	Total
Payables	44,077,669	44,077,669
Finance lease liability	133,211	133,211
	<b>44,210,880</b>	<b>44,210,880</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 20. Credit quality of financial assets

	2017 R	2016 R
Trade receivables		
Group 1	13,742,434	21,325,866
Group 2	431,730	582,043
Group 3	46,944,216	40,615,343
<b>Total trade receivables</b>	<b>61,118,380</b>	<b>62,523,252</b>

Group 1 – debtors outstanding 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.

The total gross carrying amount of the impaired receivables as at reporting date is R51 034 394 (2016: R54 981 052) and the associated total impairment is R36 214 461 (2016: R45 793 432) – see notes 4 and 5. Of these debtors, the recovery of R28 443 020 (2016: R20 239 040) has been handed over for collection. Refer to the accounting policy note 1.4 for factors management considered in determining whether receivables are impaired.

Cash and short-term deposits are held with banking institutions and the CPD and are regarded as having insignificant credit risk. The FSB invests its surplus cash in the short-term deposits accounts with CPD. The interest rates on these accounts fluctuate in line with the movements in current money market rates.

## 21. Revenue from exchange transactions

	2017 R	2016 R
Fees and service charges	49,304,447	48,481,583
Legal fees and other cost recoveries	4,046,503	3,449,401
Interest received	26,576,702	20,306,674
Dividends received	1,207,400	1,295,168
Other income	4,388,669	3,242,338
Bad debts recovered	2,008,591	-
Compensation from insurance	285,273	8,064
	<b>87,817,585</b>	<b>76,783,228</b>

## 22. Revenue from non-exchange transactions

FSB Levies	586,502,854	527,357,198
PFA Levies	52,438,526	46,509,632
FAIS Ombud levies	37,229,040	33,951,900
Penalties	14,908,797	17,540,907
Other income	3,747,541	2,182,280
	<b>694,826,758</b>	<b>627,541,917</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

2017  
R

2016  
R

## 23. Related parties

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

Office of the Pension Funds Adjudicator	(3,515,055)	(1,166,077)
Office of the Ombud for Financial Services Providers	42,918	(8,186,099)
National Treasury	-	225,078
	<b>(3,472,137)</b>	<b>(9,127,098)</b>

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

Contribution towards funding of the office	52,315,934	47,136,955
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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.

Contribution towards funding of the office	39,127,718	43,422,676
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### Revenue received from related parties

Income received for IT services from PFA	3,717,120	3,000,000
Income received for IT services from Ombud for Financial Services Providers	236,376	-
Cost recoveries for legal fees from National Treasury	-	225,078
Cost recoveries for professional fees from SARB	607,435	741,734
	<b>4,560,931</b>	<b>3,966,812</b>

The Financial Services Board, National Treasury and the other listed entities as per above are state-controlled.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 24. Key management remuneration

### Executive management remuneration

#### 31 March 2017

	Salary	Incentive bonus	Leave commutation paid	Total
DP Tshidi, EO	5,299,318	886,773	300,164	6,486,255
JA Boyd, DEO: CIS	3,202,737	480,749	-	3,683,486
CK Chanetsa, DEO: Investment Institutions (contract ended 31 December 2016)	2,275,926	115,380	389,921	2,781,227
CD Da Silva, DEO: FAIS	2,896,623	346,139	-	3,242,762
J Dixon, DEO: Insurance	3,185,782	519,209	-	3,704,991
MM Du Toit, Chief Actuary	3,148,460	423,059	-	3,571,519
RT Hunter, DEO: Retirement Funds (contract ended 31 July 2016)	883,333	-	177,877	1,061,210
R Harichunder, CRO	2,402,749	-	-	2,402,749
TG Ramuthaga, CIO	2,839,716	499,978	-	3,339,694
LP Kekana, CFO	2,615,950	423,059	-	3,039,009
	<b>28,750,594</b>	<b>3,694,346</b>	<b>867,962</b>	<b>33,312,902</b>

Included in the current year's salary for TG Ramuthaga is a long-service award of R6 000.

#### 31 March 2016

DP Tshidi, EO	4,995,665	1,071,139	592,778	6,659,582
JA Boyd, DEO: CIS	3,037,219	420,000	-	3,457,219
CK Chanetsa, DEO: Investment Institutions	2,905,742	350,000	-	3,255,742
CD da Silva, DEO:FAIS	2,730,645	400,000	-	3,130,645
JI Dixon, DEO: Insurance	3,003,235	410,000	-	3,413,235
MM Du Toit, Chief Actuary	2,968,052	380,000	-	3,348,052
RT Hunter, DEO: Retirement Funds	2,537,500	-	143,836	2,681,336
TG Ramuthaga, CIO	2,671,343	450,000	-	3,121,343
R Harichunder, Acting CFO and CRO	2,189,688	-	-	2,189,688
LP Kekana, CFO (appointed 1 September 2015)	1,458,333	-	-	1,458,333
	<b>28,497,422</b>	<b>3,481,139</b>	<b>736,614</b>	<b>32,715,175</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 24. Key management remuneration (continued)

### Non-executive Board members fees

31 March 2017

	Board members' fees	Legislation Committee fees	Licensing Committee fees	Litigation Committee fees	Human Resources and Remuneration Committee fees	Audit Committee fees	Risk	Other	Total
AM Sithole (Chairperson)	89,489	35,336	-	-	10,878	-	-	18,446	154,149
HS Wilton (Deputy Chairperson)	71,581	-	-	-	18,783	11,216	13,682	2,635	117,897
ZBM Bassa	71,581	-	-	-	21,264	-	18,952	-	111,797
J Mogadime	71,581	-	172,796	-	-	37,904	15,658	2,635	300,574
D Msomi	71,581	-	146,446	61,619	-	32,296	-	32,938	344,880
MH Ratshefola	71,581	15,151	159,621	-	-	-	26,198	15,811	288,362
PJ Sutherland	71,581	28,090	-	61,619	-	37,904	-	2,635	201,829
DLD Turpin	71,581	35,336	-	61,619	-	-	26,198	15,811	210,545
	<b>590,556</b>	<b>113,913</b>	<b>478,863</b>	<b>184,857</b>	<b>50,925</b>	<b>119,320</b>	<b>100,688</b>	<b>90,911</b>	<b>1,730,033</b>

31 March 2016

AM Sithole (Chairperson)	121,114	19,849	-	-	47,909	-	-	42,639	231,511
HS Wilton (Deputy Chairperson)	67,369	-	-	-	40,466	24,810	50,544	58,757	241,946
ZBM Bassa	104,259	-	-	-	55,352	-	50,544	63,719	273,874
J Mogadime	104,259	-	148,227	-	-	98,145	70,392	63,719	484,742
D Msomi	67,369	-	125,436	53,025	-	98,145	-	50,852	394,827
MH Ratshefola	104,259	37,677	107,145	-	-	-	70,392	84,021	403,494
PJ Sutherland	67,369	35,196	-	53,025	-	74,430	-	58,757	288,777
DLD Turpin	67,369	37,677	-	53,025	-	-	70,392	63,719	292,182
	<b>703,367</b>	<b>130,399</b>	<b>380,808</b>	<b>159,075</b>	<b>143,727</b>	<b>295,530</b>	<b>312,264</b>	<b>486,183</b>	<b>2,611,353</b>

Makhubela O, Momoniat I and Groepe F are serving as Board members of the FSB and employed by National Treasury and SARB, respectively. In terms of PFMA, public servants serving as Board members in public entities should not be remunerated for their services. Therefore no remuneration was paid to these members.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

2017 R	2016 R
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## 25. Auditors' remuneration

Current year – interim fee	1,099,162	382,517
Prior year audit fees	2,484,565	2,323,231
	<b>3,583,727</b>	<b>2,705,748</b>

## 26. Other operating expenses

### Other operating expenses

Travelling costs	8,717,328	7,344,346
Telephone	5,089,221	5,057,306
Advertising and publications	10,807,603	10,155,217
Computer, support, maintenance and licensing costs	23,426,209	15,634,795
Insurance	1,694,918	2,023,736
Operational costs	12,417,579	10,770,184
	<b>62,152,858</b>	<b>50,985,584</b>

## 27. Provision for credit losses

Current year provision	6,678,355	19,896,900
Reversal of prior year provision	(1,065,392)	(1,277,886)
	<b>5,612,963</b>	<b>18,619,014</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

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R

## 28. Reconciliation of net surplus before interest and cash

Surplus for the year	78,106,419	46,000,928
<b>Adjustments for:</b>		
Depreciation and amortisation	10,738,633	9,845,132
Loss on sale of assets	49,216	62,495
Fair value adjustment	1,620,941	(1,348,116)
Provision for credit losses	5,612,963	18,619,014
Post-retirement medical expenses	4,943,224	1,938,667
Operating lease accrual	429,059	(4,466,982)
<b>Changes in working capital:</b>		
Increase in receivables	(13,787,062)	(11,547,264)
(Increase)/Decrease in prepayments	(108,332)	1,527,727
(Decrease)/Increase in payables	(17,974,478)	16,936,792
(Decrease)/Increase in levies and fees received in advance	(391,158)	8,020,928
Increase/(Decrease) in provisions	791,284	(284,049)
	<b>70,030,709</b>	<b>85,305,272</b>

## 29. Taxation

The FSB is exempt from income tax in terms of section 10(1) (cA)(i)(bb) of the Income Tax Act, 1962 (Act 58 of 1962)

## 30. Commitments

### Capital commitments

#### Already contracted for but not provided for

Capital expenditure	17,217,936	1,371,630
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The FSB Board has approved capital expenditure of R124 million for the 2018 financial year.

### Operating lease commitments

#### Building lease

The FSB leases its office accommodation in Riverwalk Office Park Block B with operating lease terms that started on 1 November 2009 and ended on 31 October 2016. This was renewed for an extra seven years. In addition, FSB is also leasing Block C in the same office park, which started on 1 November 2015 ending 31 October 2023. The operating lease rentals exclude charges for operational costs, electricity, rates and taxes. Escalations of 8% have been included in the lease agreements.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## for the year ended 31 March 2017

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### 30. Commitments (continued)

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

#### Minimum lease payments due for Block B

Due within one year	30,145,640	20,558,899
Due between one and five years	146,706,801	-
Later than five years	71,298,787	-
	<b>248,151,228</b>	<b>20,558,899</b>

#### Minimum lease payments due for Block C

Due within one year	3,776,151	3,518,994
Due between one and five years	18,377,020	17,125,539
Later than five years	8,931,142	13,654,246
	<b>31,084,313</b>	<b>34,298,779</b>

#### Machinery leases

The FSB leases some of its machinery from different suppliers. The period of the leases varies from 24 to 36 months. No escalations are attached to the lease agreement as all the machines are leased at a fixed rate for the duration of the lease.

#### Minimum lease payments due

Due within one year	57,031	366,888
Due between one and five years	-	139,724
	<b>57,031</b>	<b>506,612</b>

### 31. Contingent liabilities

The FSB has no contingent liabilities.

### 32. Assets administered on behalf of third parties

In terms of section 77(7) of the Security Services Act, 2004, amounts recovered by the FSB 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 FSB. The balance of the Directorate of Market Abuse Trust account at the end of the year was R2 174 912 (2016: R1 650 278 ).



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## for the year ended 31 March 2017

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2016  
R

### 33. Change in accounting estimates

#### Impact of changes in accounting estimates

Increase in net surplus	3,369,350	2,429,005
Decrease in depreciation on property, plant and equipment	(2,625,006)	(2,345,095)
Decrease in amortisation for intangible assets	(744,344)	(83,910)
	-	-

In the current year, management re-assessed the remaining useful lives and residual values of property, plant and equipment and intangible assets. The change in estimate is applied prospectively. The effect of this assessment has decreased the depreciation and amortisation charges in the current period and increased the depreciation and the amortisation charges for future periods by R2 625 006 (2016: R2 345 095) and R744 344 (2016: R83 910) respectively.

### 34. Prior-period adjustments

During the 2014/15 financial year, the FSB paid a deposit for the moneyman boxes and mould equipment for consumer education, which were delivered in the 2015/16 financial year. The FSB did not recognise the prepayment and the corresponding asset resulting in a prior-year adjustment.

The effect of the adjustments are as follows:

#### Impact on statement of financial position

Increase in accumulated funds – opening balance	-	194,861
Increase in property, plant and equipment	-	102,047
	-	<b>296,908</b>

#### Impact on statement of financial performance

Increase in depreciation	-	2,489
Increase in other operating expenses	-	90,325
	-	<b>92,814</b>

#### Surplus reconciliation – 2016

Surplus for the year as per previous AFS	-	46,093,742
Depreciation	-	(2,489)
Other operating expenses	-	(90,325)
Restated surplus for the year	-	<b>46,000,928</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

2017 R	2016 R
-----------	-----------

## 34. Prior-period adjustments (continued)

### Impact on statement of cash flows

Increase in cash received from industry	-	194,861
Increase in cash paid to suppliers	-	90,325
Increase in acquisition of property, plant and equipment	-	104,536

## 35. Reclassification of comparatives

### Disability benefit, vitality costs, registration and membership fees, and outsourcing

Management decided to reclassify the prior year's disability benefit, vitality costs, registration and membership fees, and outsourcing expenses to improve the quality of disclosure in the financial statements. The reclassification in the current year has resulted in a net increase in salaries, staff benefits, training and other staff expenses, increase in professional fees and a net decrease in other operating expenses. There is no impact on the net surplus and also no impact on the net cash flows.

### Impact on statement of financial performance

Increase in salaries, staff benefits, training and other staff expense	-	3,723,337
Increase in professional and consulting fees	-	381,276
Decrease in other operating expenses	-	(4,104,613)
Net impact on surplus	-	-

### Impact on cash flow statement

#### Cash flow from operating activities

Increase in cash paid to employees	-	(3,723,337)
Decrease in cash paid to suppliers	-	3,723,337
	-	-

## 36. Services received in kind

The FSB receives services in kind in the form of free training from various organisations that are not significant to operations.

## 37. Reconciliation between budget and cash flow statement

Reconciliation of budget deficit with the net cash generated from operating, investing and financing activities:

### Operating activities

Actual amount as presented in the budget statement	(15,035,862)	(43,901,733)
Timing differences	85,066,571	129,207,005
<b>Net cash flows from operating activities</b>	<b>70,030,709</b>	<b>85,305,272</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

2017  
R

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R

## 37. Reconciliation between budget and cash flow statement (continued)

<b>Investing activities</b>		
Actual amount as presented in the budget statement	(87,884,857)	(48,933,522)
Timing differences	76,244,651	27,751,056
<b>Net cash flows from investing activities</b>	<b>(11,640,206)</b>	<b>(21,182,466)</b>

## 38. Budget differences

### Material differences between budget and actual amounts

The budgetary basis and classification adopted in the budget are the same as those used in the preparation of the financial statements. The approved budget covers the period from 1 April 2016 to 31 March 2017. Included in this budget are contributions made towards the funding of the offices of the Ombud of the Financial Services Providers and PFA.

### Revenue from exchange transactions

The 75% favourable variance to budget was due to the following main contributors:

- Interest received from discretionary, post-retirement funds and other income that is not budgeted for.
- Fee income received is favourable to budget due to increased volume of applications.

### Advisory and other committee fees

The favourable variance of 30% is due to decreased number of enforcement hearings and appeal matters that were lodged earlier than anticipated.

### Depreciation and amortisation

The variance of 33% is due to the time delays in the procurement of budgeted assets and changes in useful life estimates.

### External audit fees

The unfavourable variance of 33% is mainly as a result of the 2015/16 interim-audit, which commenced later than planned and overlapped into the current financial year 2016/17.

### Fair value adjustment

The fair value adjustment relates to the portfolio earmarked for the post-retirement medical fund liability which is not budgeted due to unpredictable changes in the market.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2017

## 38. Budget differences (continued)

### Internal audit fees

The variance representing a saving of 59% is mainly due to the delayed start date of internal auditors.

### Legal fees

The overspending on the budget of 16% is due to increase in the number of court cases.

### Operating lease rentals – buildings

The favourable variance of 11% is as a result of the smoothing of the operating lease rental payments, which is not considered during budgeting, and negotiated lower rental amount as per the new agreement.

### Other operating expenses

The variance (15%) of actual to budgeted amount is mainly as a result of the following:

Advertising and recruitment, computer software licences and computer support and maintenance costs. The variance on these line items is mainly as a result of Twin Peaks-related expenditure being delayed pending the promulgation of the Twin Peaks legislation.

Underspending on the local travel budget is mainly as a result of less travelling for onsite visits to the FSB-regulated entities. The balance of the underspending is attributable to various cost saving initiatives implemented by the cost centre managers.

### Professional and consulting fees

The variance of 12% is mainly as a result of Twin Peaks-related expenditures which, have been delayed pending the promulgation of the Twin Peaks legislation.

### Provision for credit losses

Provision for credit losses is not budgeted due to the uncertainty surrounding the recoverability of receivables.

### Post-retirement medical aid fund expense

The post-retirement medical aid fund expense is not budgeted as it is dependent on the annual actuarial valuation.

### Non-executive Board members fees

The favourable variance of 11% is due to actual number of committee meetings being less than budgeted for.

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## NOTES





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