FSCA

Financial Sector
Conduct Authority

Annual Report 2019/2020

ABOUT THE FINANCIAL SECTOR CONDUCT AUTHORITY

WHO WE ARE

The Financial Sector Conduct Authority (FSCA) is a market conduct regulator that commenced operations on 1 April 2018 in terms of the Financial Sector Regulation (FSR) Act, 2017 (Act No. 9 of 2017).

In terms of the FSR Act, the FSCA is tasked with introducing a new approach to financial conduct regulation in South Africa to assist with ensuring consumer protection and creating a more resilient and stable financial system. The FSCA reports to the Minister of Finance and is accountable to parliament.

WHAT WE DO

The mandate of the FSCA is to:

- Promote fair customer treatment by financial institutions
- Enhance the efficiency and integrity of financial markets
- Provide financial education and promote financial literacy
- Assist in maintaining financial stability.

This is the annual report of the Financial Sector Conduct Authority (FSCA) that covers the second year of its operations, namely the period between 1 April 2019 to 31 March 2020.

CONTENTS

PART A
GENERAL INFORMATION

SCOPE OF REPORT

In this report, the Financial Sector Conduct Authority (FSCA) presents a view of its financial and non-financial performance for the year ended 31 March 2020.

The FSCA was established on 1 April 2018 as a dedicated market conduct regulator as envisaged by the Twin Peaks model which 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 sector.

As a public entity, its financial statements have been 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 has been guided by the King IV Report on Corporate Governance for South Africa 2016 and the framework of the International Integrated Reporting Council (IIRC).

As a public entity, the FSCA is monitored stringently.

The Auditor-General conducted a comprehensive audit of our financial and non-financial performance against targets and benchmarks, with the FSCA receiving a clean audit.

STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY OF THE ANNUAL REPORT

To the best of our knowledge and belief, we confirm the following:

- All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor-General.
- The annual report is complete, accurate and is free from any omissions.
- The annual report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.
- The Annual Financial Statements (Part E) have been prepared in accordance with the SA standards of GRAP applicable to the public entity.
- The Accounting Authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.
- The Accounting Authority is responsible for establishing and implementing a system of internal control designed to provide reasonable assurance on the integrity and reliability of the performance information, the human resources information and the annual financial statements.

In our opinion the annual report fairly reflects the operations, performance information, human resources information and financial affairs of the FSCA for the financial year ended 31 March 2020.

Adv Dube Tshidi

Executive Head

Abel Sithole

Commissioner

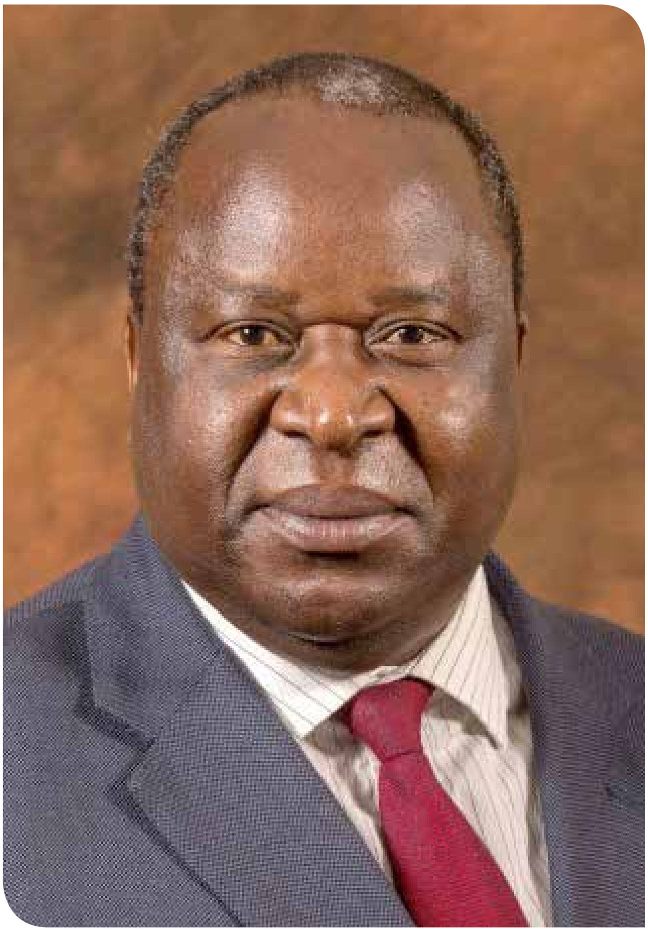
ACRONYMS AND ABBREVIATIONS

AFS	Annual Financial Statements
AFU	Asset Forfeiture Unit
AML	Anti-Money Laundering
ASISA	Association for Savings and Investments South Africa
BATSETA	Council of Retirement Funds for South Africa
BASA	Banking Association of South Africa
B-BBEE	Broad-Based Black Economic Empowerment
BBF	Black Broker's Forum
BIS	Bank for International Settlements
CBR	Conduct of Business Return
CCP	Central Counterparty
CED	Consumer Education Department
CFI	Co-operative Financial Institution
CFT	Counter Financing of Terrorists
CIPC	Companies and Intellectual Property Commission
CISA	Compliance Institute of South Africa
CISCA	Collective Investment Schemes Control Act
CISNA	Committee of Insurance, Securities and Non-banking Financial Authorities
CMS	Council for Medical Schemes
COB	Conduct of Business
CoFI	Conduct of Financial Institutions
Co-Operation	Organisation for Economic Co-operation and Development
CPD	Corporation for Public Deposits
CRA	Credit Rating Agency
CSD	Central Securities Depositories
DDD	Data Driven Digital
DPWI	Department of Public Works and Infrastructure
EPWP	Expanded Public Works Programme
ERP	Enterprise Resource Planning
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
EU	European Union
EXCO	Executive Committee
FAIS	Financial and Advisory Intermediary Services
FATF	Financial Action Task Force

FCP	Financial Consumer Protection
FIA	Financial Intermediaries Association
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FPI	Financial Planning Institute
FSAP	Financial Sector Assessment Programme
FSB	Financial Services Board
FSCA	Financial Sector Conduct Authority
FSP	Financial Service Provider
FSR	Financial Sector Regulation
FSTC	Financial Sector Transformation Council
GCR	Global Credit Ratings
GRAP	Generally Recognised Accounting Practice
HOD	Head of Department
IAIS	International Association of Insurance Supervisors
IBMSU	Inclusive Business Models Support Unit
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
IFWG	Intergovernmental Fintech Work Group
IISA	Insurance Institute of South Africa
IIRC	International Integrated Reporting Council
IMF	International Monetary Fund
IMN	Implementation Monitoring Network
INFE	International Network on Financial Education
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organisation of Securities Commissions
IRS	Integrated Regulatory Solution
IRBA	Independent Regulatory Board for Auditors
ISAs	International Standards on Auditing
IT	Information Technology
JSE	Johannesburg Stock Exchange
LBC	Licensing and Business Centre
LISP	Linked Investment Service Provider
LTIA	Long-term Insurance Act
MCIRD	Market, Customer and Inclusion Research Department
M&E	Monitoring and Evaluation
MoA	Memorandum of Agreement

MOC	Mobile Outreach Campaign
MoU	Memorandum of Understanding
NPSD	National Payments Systems Department
NRC	National Credit Regulator
NT	National Treasury
ODP	Over-the-Counter Derivative Provider
OGC	Office of the General Counsel
OHS	Occupational Health and Safety
OTC	Over-the-Counter
PA	Prudential Authority
PAA	Public Audit Act
PFA	Pension Funds Adjudicator
PFMA	Public Finance Management Act
PI	Professional Indemnity
PoPIA	Protection of Personal Information Act
PPR	Policyholder Protection Rules
RDR	Retail Distribution Review
RE	Regulatory Examinations
RiBS	Risk-Based Supervision
RMCP	Risk Management and Compliance Plans
SAFPA	South African Funeral Parlour Association
SAIA	South African Insurance Association
SAICA	South African Institute of Chartered Accountants
SADC	Southern African Development Community
SARB	South African Reserve Bank
SARS	South African Revenue Service
SASAS	South African Social Attitude Survey
SFT	Securities Financing Transaction
SLC	Service Level Commitment
SRO	Self-Regulatory Organisations
STIA	Short-term Insurance Act
TCF	Treating Customers Fairly
TTK	Trustee Training Toolkit
UTC	Universal Time Coordinated

FOREWORD BY THE MINISTER OF FINANCE



Two years of conduct regulation.

In the new regulatory architecture of the Twin Peaks model, the FSCA is the authority responsible for supervising the conduct of financial firms. It has been two years since the FSCA was established with this mandate, which is to ensure that all firms treat customers fairly, and support the efficiency and integrity of the markets. I am pleased to say that in this short time, the FSCA has displayed great diligence in executing this critical mandate.

South Africa was the first developing economy and the sixth economy in the world to implement the Twin Peaks regulatory model. Whilst much still needs to be done to build a more financially inclusive society which safeguards the financial well-being of all South Africans, the success seen by the FSCA in its regulatory and supervisory work to date is an important milestone for the African continent.

During the year under review, the FSCA once again met most of its targets. As evidenced in this annual report, the FSCA worked to improve the way financial customers are treated by firms, and made strides in ensuring that the industry played its part in helping to address the national imperative of reducing poverty, inequality and underdevelopment.

The FSCA worked relentlessly towards achieving the key objectives identified in its three-year strategy, including stepping up its efforts to ensure that those who jeopardise the financial well-being of customers are held accountable.

Inclusion is one of the main objectives of the FSCA aimed at removing barriers that prevent South Africans from fully participating in the financial sector and the economy. Through its work, the FSCA looks to improve customer access to financial products and services, ensure that the quality of products and services are suitable to customer needs, and that customers can make meaningful use of them. Key to achieving this goal is the improvement of financial literacy amongst customers. To this end, the FSCA is working to develop best practices for monitoring and evaluating the impact of consumer education initiatives in the sector that are aimed at facilitating higher levels of financial inclusion. There have also been strides made to bolster the FSCA's approach and efforts to transform the financial sector. Working with like-minded entities, the FSCA continued to engage the sector to find ways to support the country's broader transformation objectives. Although much still needs to be done in both respects, the progress made is commendable.

The COVID-19 pandemic has fundamentally changed the world, and has adversely affected different sectors of our economy, including financial markets which experienced significant sell-offs as investors retreated to safe-haven securities amid the uncertainty.

As our country navigates this period, it has become even more urgent that we preserve the integrity of financial markets and safeguard the interests of customers. Key to this, is for the Conduct of Financial Institutions (CoFI) Bill to be signed into law and implemented. The Bill provides the legislative framework by which the FSCA can identify and address conduct weaknesses within the sector. Its aim is to *"strengthen customer protection by putting in place a single comprehensive market conduct law, resulting in the consistent application of consumer protection principles across the sector."*

In terms of CoFI, the FSCA will have a strong market conduct legislative framework to operate within, allowing it to use its extensive powers to investigate and take far-reaching corrective and, where necessary, disciplinary actions across every facet of the lifecycle of a financial product and across every permutation of financial advice.

I would like to thank the leadership of the FSCA for the manner in which they have ensured that the Authority stays focussed on the implementation of its mandate. In particular, I would like to thank the outgoing Commissioner, Mr Abel Sithole, and the Executive Head Adv. Dube Tshidi for their guidance. To the Executive Committee and staff of the FSCA, thank you for your hard work, it is only through efforts like yours that South Africa can enjoy a more effective and equitable financial sector.

TT Mboweni, MP

Minister of Finance

FOREWORD BY THE COMMISSIONER

Our satisfaction in successfully steering the FSCA through its second year is balanced with an appreciation for the gravity of the task of protecting the financial well-being of South Africans.

I am honoured to present to you the second annual report of the Financial Sector Conduct Authority (FSCA).

YEAR TWO OF TWIN PEAKS

Launched in April 2018, the FSCA is one 'peak' of South Africa's Twin Peaks model of financial regulation, tasked with regulating the conduct of financial institutions.

The other peak is the Prudential Authority (PA) which focuses on promoting and enhancing the safety and soundness of financial institutions.

The Twin Peaks model underpinned by the two financial regulatory bodies is intended to strengthen the country's financial regulatory environment.

The model is favoured by countries such as Australia, the Netherlands, the United Kingdom and New Zealand as it is believed to offer a generally good level of protection to financial customers and to bring stability to financial sectors.

The FSCA's conduct supervision role became even more critical during the reporting period, as South Africa experienced socio-economic setbacks that put increased pressure on both firms and customers, a situation that is likely to roll over into the next financial year.

According to Stats SA, the economy contracted 3.2% in the first quarter of 2019. It grew 3.1% in the second quarter, and in the third quarter, it shrunk by 0.6%. Poverty and inequality continued to plague South Africa, with the unemployment rate reaching an all-time high of 30.10% in March 2020. Just before the financial year-end, President Ramaphosa declared a State of Disaster which saw the country go into lockdown on 27 March due to the COVID-19 pandemic.

Although we had some uplifting moments, the year under review was undoubtedly not an easy one for South Africa.

As for the FSCA, the 2019/20 financial year was one in which we made good progress in implementing our regulatory strategy.

STRATEGY AND PERFORMANCE

The FSCA's objectives as stipulated in the Financial Sector Regulations (FSR) Act, 2017 (Act No. 9 of 2017) are as follows:

- Enhance the efficiency and integrity of financial markets.
- Promote fair customer treatment by financial institutions.
- Provide financial education and promote financial literacy.
- Assist in maintaining financial stability.

During our second year, the FSCA team continued working towards achieving the three-year goals set out in our Regulatory Strategy, in accordance with said act. I'd like to briefly highlight progress made in the key strategic areas:

- Building a new organisation

The transition from being the Financial Services Board (FSB) to becoming the FSCA was completed with minimum disruption to regulatory oversight and service delivery. Embedding our functional business operational structure remained on track.

- An inclusive and transformed financial sector

The promotion of entry to the financial services sector by black and emerging entrepreneurs, as well as broadening access for previously excluded people to financial services and products, remain key priorities for the FSCA.

A significant action in support of this transformation in the 2019/20 year was the building of cooperative relationships with the Financial Sector Transformation Council (FSTC) and the Broad-Based Black Economic Empowerment (B-BBEE) Commission.

We participated in processes underway at the FSTC to revise the Financial Sector Code and the FSCA became a syndicate member of the FinScope Survey, providing key information and data on financial inclusion trends in South Africa. The FSCA also finalised an inclusion strategy and developed a transformation strategy for approval.

- A robust regulatory framework that promotes fair customer treatment

The FSCA continued to monitor and research financial sector trends, emerging risks and international developments to ensure that regulatory instruments are timeously developed to address emerging risks. Several conduct standards were developed but most notably the Conduct Standard for Banks which introduces, for the first time in South African regulatory history, conduct regulation for the banking sector. The FSCA also assisted in the development of the Conduct of Financial Institutions Act, the future comprehensive conduct act. The FSCA participated in the work of international financial sector standard setting bodies such as the International Association of Insurance Supervisors (IAIS), the International Organisation of Pension Supervisors (IOPS) and International Organisation of Securities Commissions (IOSCO).

- Informed financial customers

The FSCA promoted financial education for consumers of financial services and products throughout the 2019/20 period, by way of focused financial literacy interventions using the media, workshops and exhibitions.

While some engagements during the last stretch of the review period may have been impacted by the restraints created by the COVID-19 pandemic and its accompanying response, the FSCA experienced an uptick in media exposure, thanks to increased efforts by the authority to communicate more effectively with both the industry and customers.

- Strengthening the efficiency and integrity of our financial markets

As part of South Africa's commitment to adhere to global financial standards and the increasing need for the protection of investors and consumers of financial products, the formulation of a framework for the regulation of securities financing transactions (SFTs) in the South African capital markets has become a priority. The optimal utilisation of SFTs in a well-regulated environment can make a significant contribution to the efficiency, liquidity and the competitiveness of the South African capital markets and will further reduce systemic risks. The FSCA will publish draft Conduct Standard for SFTs in the new financial year, for public comment. The Market Integrity Division of the FSCA published a consultation paper on a possible short-sales disclosure regime and is currently assessing the public comments received.

- Understanding new ways of doing business and disruptive technologies

The FSCA established an internal financial technology (Fintech) department to stay abreast of developments and drive innovation. Throughout the year, the unit made significant contributions in this area as part of the Intergovernmental Fintech Working Group (IFWG), a collaboration of financial sector regulators and led the launch of the Fintech Innovation Hub for South Africa which encompasses a regulatory guidance unit, a Sandbox and an innovation accelerator. This working group is now well advanced in setting the appropriate regulatory parameters for Fintechs.

OVERSIGHT

The FSCA continues to faithfully comply with the Public Finance Management Act (PFMA) and Treasury Regulations and can proudly say that we have achieved a clean audit for the second year of our existence — with the full intention of keeping that record clean in time to come.

While all divisional executives and heads of department positions within the FSCA have been filled, the positions of Commissioner and Deputy Commissioner have yet to be filled.

FUTURE OUTLOOK

Our satisfaction in successfully steering the FSCA through its second year is balanced with an appreciation for the gravity of the task of protecting the financial well-being of South Africans going forward.

This task was already significant but has been catapulted into prominence by the COVID-19 pandemic. The FSCA will be pivotal in securing the country's well-being during the difficult time ahead as our economy recovers, and we intend to diligently perform our duties in that regard.

APPRECIATION

I extend my sincere thanks to the Transitional Management Committee, the Operational Executive Committee, the honourable Minister of Finance, and the National Treasury for providing sound guidance and policy direction during the year under review.

It is also my pleasure to express appreciation to the staff of the FSCA that has brought us this far. Thank you for your dedication.

Mr Abel Sithole

Commissioner of the Financial Sector Conduct Authority

31 July 2020

OVERVIEW BY THE EXECUTIVE HEAD

Throughout the year under review, the Financial Sector Conduct Authority worked tirelessly to ensure an efficient and stable financial sector where customers are informed and treated fairly.

I am pleased to report that 2019/20 was a good year for the Financial Sector Conduct Authority (FSCA). The young regulatory body advanced in its multi-year strategic priorities and achieved most of its annual performance targets.

THE YEAR AT A GLANCE

During 2019/20, the FSCA continued supervising the way financial institutions conduct their business and treat customers.

Like a typical two-year old toddler, the FSCA moved forward with enthusiasm and was at times required to go where it had not gone before.

I am of course alluding to the fact that the FSCA mandate is much broader than that of our predecessor, the Financial Services Board (FSB), and includes, among other new responsibilities, regulating the conduct of banks. Being a new area for us, bank conduct regulation required us to invest considerable effort in engaging the sector and recruiting the requisite skills to make us an effective regulator in this space.

With 2019/20 being the second of the three years outlined in our Regulatory Strategy, the FSCA team focused on the following strategic areas, namely:

- Building a new organisation.
- An inclusive and transformed financial sector.
- A robust regulatory framework that promotes fair customer treatment.
- Informed financial customers.
- Strengthening the efficiency and integrity of our financial markets.
- Understanding new ways of doing business and disruptive technologies, i.e. Fintech.

OPERATIONAL MATTERS

The FSCA is adequately equipped and capacitated to meet its mandate. The staff compliment stood at a headcount of 570 employees at 31 March 2020. Except for the Commissioner and Deputy Commissioner positions, other key positions within the FSCA have been filled.

The FSCA remained financially sound throughout 2019/20. The Chief Financial Officer's Review under Part B of this report elaborates on our revenue, operating costs, spending trends, capital investments and financial outlook.

As stated in the Commissioner's Report, the FSCA achieved a clean audit for the second year of operations and is committed to keeping that record clean in time to come.

The most significant challenge of 2019/20 was shifting culture from a compliance-based reactive approach to one that is founded on principles and on being proactive and pre-emptive, a journey which will continue for many years to come.

LEGISLATIVE MATTERS

The FSCA provided and will continue to provide substantial technical support to National Treasury in the development of the Conduct of Financial Institutions (CoFI) Bill. During the period under review, the FSCA actively participated in public engagement workshops to explain and provide clarity on some of the aspects of this Bill.

The CoFI Bill is a holistic, comprehensive and consistent legal framework for the market conduct regulation of financial institutions. It supports innovation and transformation of the sector and will empower the FSCA to improve financial sector conduct and fairer outcomes for consumers.

Once passed into law, the Bill will be the second piece of legislation in the Twin Peaks regulatory architecture, the first being the Financial Sector Regulation Act passed in 2017.

HIGHLIGHTS OF THE YEAR

Details of our achievements and activities during the period are provided in the divisional performance reports in Part B of this annual report. Highlights of the year include the following:

Investigations and enforcement: Several investigations were finalised in the 2019/20 year: 33 cases of contravention of the Financial Markets Act and 74 cases of contravention of other various financial sector laws.

FSCA's inaugural Perimeter Report in January 2020: The report provided a comprehensive overview of the areas of jurisdiction of the FSCA in the financial sector. It also highlighted issues and areas that are testing the FSCA's perimeter of jurisdiction and explained the regulator's response thereto. The report was distributed to stakeholders including industry, government and non-government players.

Direct support to emerging market participants in the financial sector: The Inclusive Business Models Support Unit exceeded targets for outreach programmes to small, emerging and previously disadvantaged financial service providers, intermediaries and representatives. A total of 20 workshops were held, reaching close to 600 individuals.

Regional capacity building: The FSCA continued to offer assistance to its regional counterparts in the period under review. In March 2020, the FSCA hosted the Familiarisation and Training Programme attended by participants from Angola, Botswana, Eswatini, Lesotho, Kenya, Namibia, Seychelles, Uganda and Zambia. The programme is designed to provide regulatory authorities in the Southern African Development Community (SADC) with an opportunity to share and learn from each other's best practices and challenges in regulating and supervising the financial services industry within the SADC region.

Financial Sector Assessment Programme: As a G20 country, South Africa is expected to undertake a Financial Sector Assessment Programme (FSAP) review every five years. The last review was conducted in 2014 and the country is currently subject to a review, in which the FSCA plays an important role. An international delegation was in South Africa for the review, but due to the COVID-19 outbreak certain components of the assessment did not take place and have been postponed to the second quarter of 2020.

Financial education: The FSCA promoted financial education for consumers of financial services and products throughout the 2019/20 period, by way of focused financial literacy interventions using the media, workshops and exhibitions. An impactful number (265) of activities were conducted and about 25 000 consumers were reached.

Conference hosting: The most significant stakeholder engagement for 2019/20 was the FSCA's hosting of the Organisation for Economic Development's International Network on Financial Education (OECD/INFE) conference.

Titled "Financial Education of the Future", the FSCA-OECD International Conference took place on 23 and 24 May 2019. It served as a standard-setting forum for assisting countries in developing high-level principles and implementation strategies for financial education as well as for sharing experiences and best practices. It was attended by 200 experts from 50 different countries. The feedback we received indicated a very high level of satisfaction with the content and organisation of the conference.

We also hosted our first ever Retirement Funds Conference on 12 September 2019 at the CSIR International Convention Centre in Pretoria, that hosted 450 delegates. The conference was video recorded and uploaded to YouTube for those who were unable to attend, due to the conference being fully booked, and we successfully hosted the 11th gathering of the OECD/INFE Technical Committee and its working groups on 21 and 22 May 2019. Sixty-seven representatives from 38 INFE member countries attended the various meetings.

Digitisation and 4IR: A key objective of the FSCA regulatory framework is to mitigate technological risks in financial services, while encouraging innovation that delivers efficiencies and promotes inclusion. To this end, the Fintech Department was established in the past financial year.

The year under review saw development of the missing essential Information and Communication Technology (ICT) capabilities required to actualise the Data Driven Digital (DDD) strategy, such as those for data/information management and analytics, vendor management, ICT demand management, and ICT innovation — the purpose of which is to transform the FSCA into a digitised regulator.

Mystery shopping: The Conduct of Business Division embarked on mystery shopping exercises during the 2019/20 period, which entailed visits to different branches of banking institutions to identify issues of unfair fees and customer treatment. Mystery shopping feedback was shared with the banks and correction plans are expected.

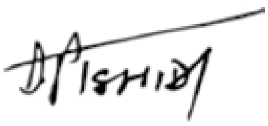
The Steinhoff saga: Possibly the biggest case of corporate fraud in South African business history, the Steinhoff saga has dominated the news since the company's share price collapsed on 5 December 2017.

The most significant of the enforcement actions taken by the FSCA was against Steinhoff International Holdings, where the FSCA determined that Steinhoff had published false and misleading statements in breach of the provisions of the Financial Market Act.

An administrative penalty of R1.5 billion was imposed on Steinhoff in terms of section 173 of the FSR Act, with the FSCA agreeing to remit a portion of the R1.5 billion penalty and ordered Steinhoff to pay R53 million as an administrative penalty — a decision made in order to avoid penalising innocent shareholders.

APPRECIATION

I would like to thank the Commissioner, the Transitional Management Committee, management and staff of the FSCA for their support and contribution during this financial year. Your continued diligence, passion and perseverance have made all the difference.



Adv Dube Tshidi

Executive Head of the Financial Services Conduct Authority

31 July 2020

STRATEGIC OVERVIEW

1. Vision

The FSCA's vision is to ensure an efficient financial sector where customers are informed and treated fairly.

2. Mission

The FSCA's mission is to ensure a fair and stable financial market, where consumers are informed and protected, and where those that jeopardise the financial well-being of consumers are held accountable.

3. Values

At the FSCA, we will always act professionally in all that we say and do. To this end, we undertake to focus on the following values:

- **Agility:** We perform our functions promptly and smartly.
- **Camaraderie:** Our culture encourages a spirit of friendship, loyalty and mutual trust.
- **Diligence:** We perform our functions with care, thoroughly and professionally.
- **Fairness:** We engage our stakeholders responsibly and embrace a culture of fairness and transparency.
- **Integrity:** We are honest and open in all our professional and business relationships.
- **Perseverance:** We do not give up and will put in the required effort to get a job done properly.

LEGISLATIVE AND OTHER MANDATES

The FSCA was created by the Financial Sector Regulation Act, Act 9 of 2017 (FSR Act) from which it derives its legislative mandate.

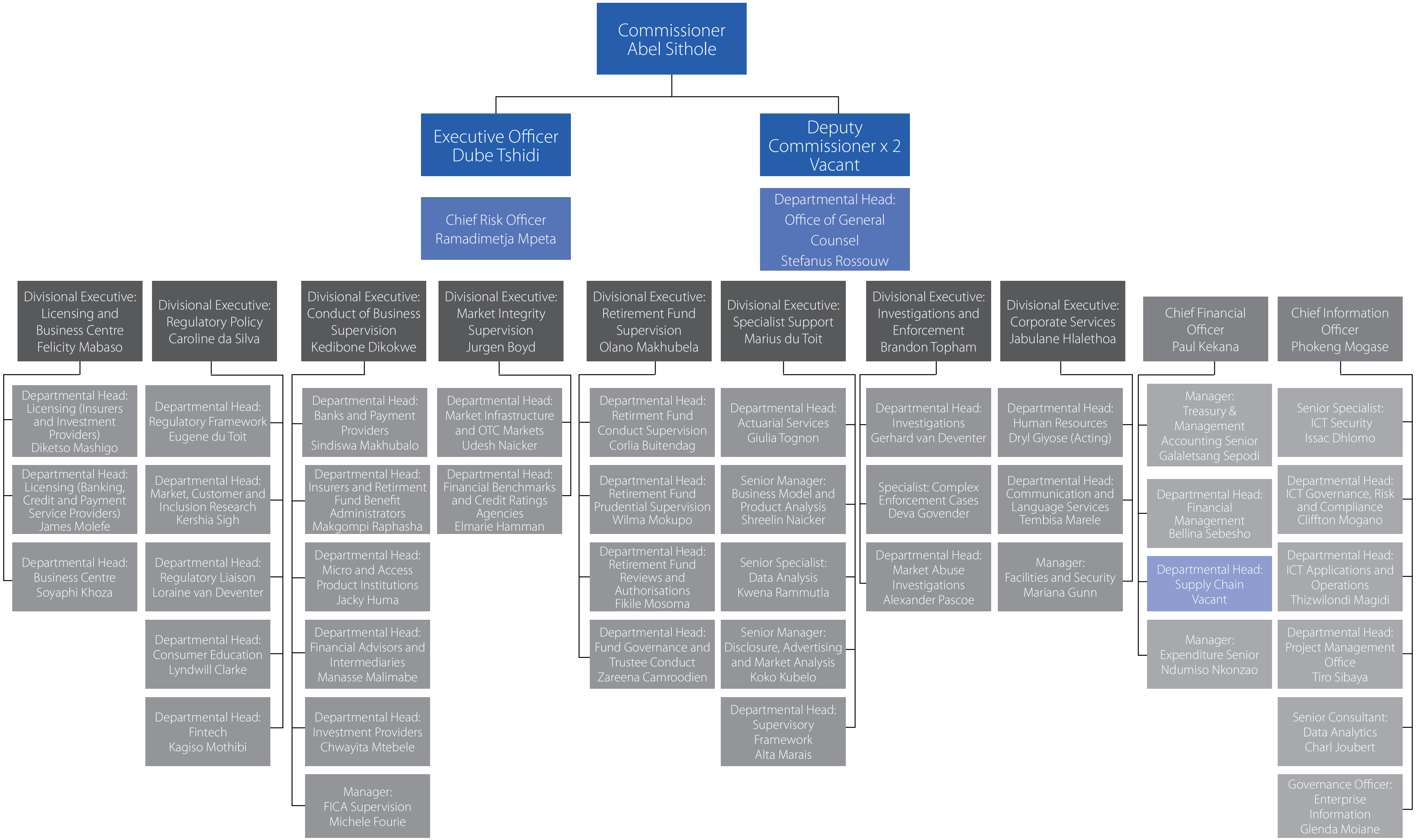
As a statutory body performing a public function in the field of market conduct regulation and supervision of the financial sector, the FSCA is independent and impartial, exercises its powers and performs its duties without fear, favour or prejudice. It is governed by the democratic values and principles enshrined in the Constitution and seeks to maintain high standards of professionalism and ethics. The FSCA reports to the Minister of Finance and is accountable to parliament.

In addition to its specific mandate under the FSR Act, the FSR Act also makes the FSCA responsible for administering the following sectoral financial legislation:

- Collective Investment Schemes Control Act 45 of 2002
- Credit Rating Services Act 24of 2012
- Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS Act)
- Financial Markets Act 19 of 2012
- Friendly Societies Act 25 of 1956
- Pension Funds Act 24 of 1956
- Long-term Insurance Act 52 of 1998 (for matters within the objectives of the FSCA)
- Short-term Insurance Act 53 of 1998 (for matters within the objectives of the FSCA).

ORGANISATIONAL STRUCTURE

The FSCA is organised into 10-line divisions. An executive head oversees the day-to-day operations of the entity and each division is headed by a divisional executive. The organogram of the FSCA is reproduced below.



PART B
PERFORMANCE INFORMATION

CHIEF FINANCIAL OFFICER REPORT

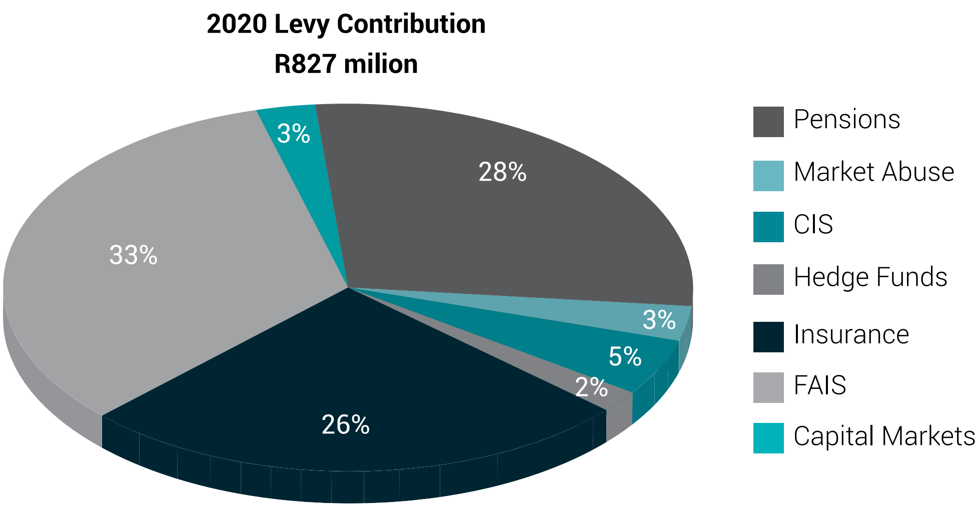
OVERVIEW

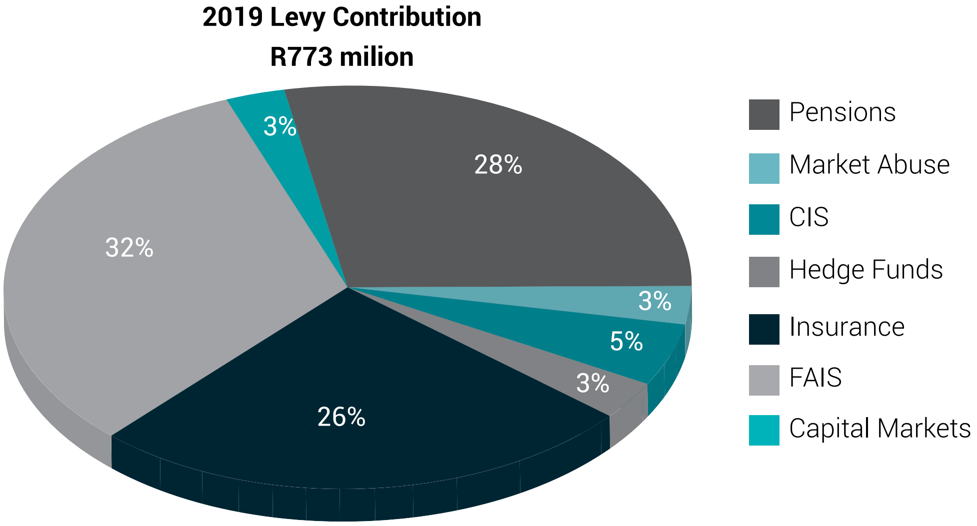
Our country faces unprecedented challenges from the credit rating downgrades and the COVID-19 pandemic. The world's economic growth contracted and continues to contract as the world seeks solutions to the COVID-19 pandemic.

The FSCA has accordingly implemented numerous measures to soften the blow, ensuring the health and safety of our stakeholders and preserving our resources to remain sustainable. With the COVID-19 pandemic and the contracting economy, efficiencies in our operations remain imperative in containing the cost of regulation for the financial services industry.

As at the financial year-end we remain financially sound with total net assets improving from R440 million to R465 million and cash and cash equivalents from R481 million to R542 million. The working capital ratio remains favourable at 2.2:1 (2019: 3.3:1) enabling us to meet our financial obligations when they fall due.

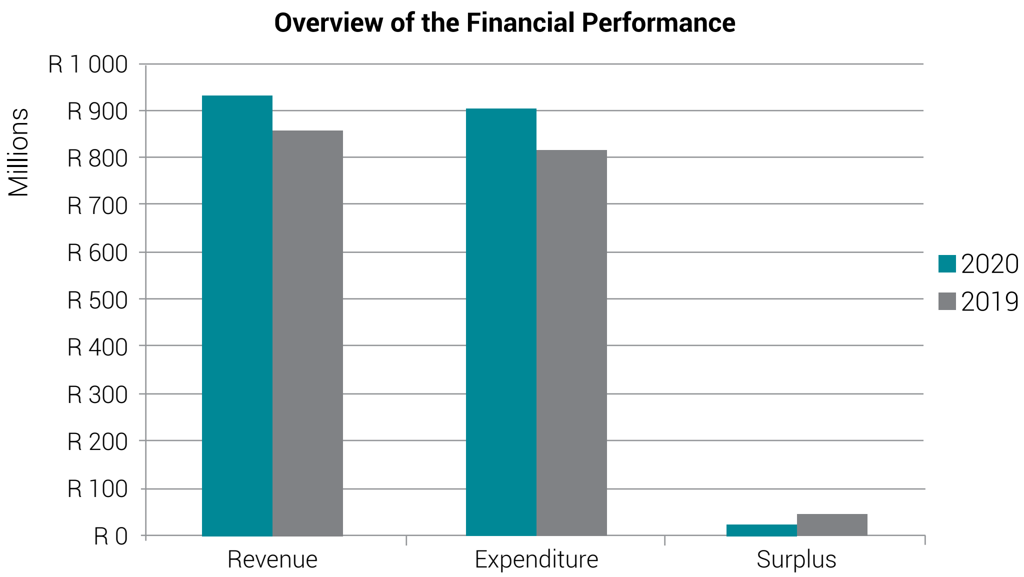
LEVIES BY INDUSTRY





The Financial Advisory and Intermediary Services (FAIS), Pensions and Insurance industries continued to be the major contributors to the levy income, accounting for 86% in both the 2020 and 2019 financial years.

FINANCIAL PERFORMANCE



Revenue

The FSCA recorded R926 million revenue for the year (2019: R856 million) against a budget of R916 million. The favourable variance is mainly due to higher investment income, penalty income which by its nature cannot be budgeted for, fee income, with the balance made up of other income and recoveries.

Operating costs

The FSCA recorded R891 million operating costs (2019: R815 million) against a budget of R1.064 million. The favourable variance is as a result of continuous cost management measures to remain efficient and sustainable.

The FSCA contributes to the funding of the FAIS Ombud for Financial Services Providers, the Pension Fund Adjudicator and the Tribunal offices which are included in the operating costs.

Surplus

The FSCA recorded a surplus of R25 million for the year (2019: R45 million) against a budgeted deficit of R148 million. Accumulated surplus increased to R348 million (2019: R323 million) and contingency and discretionary reserves remained constant at R116 million in both the 2020 and 2019 financial years. In terms of section 53(3) of the Public Finance Management Act (PFMA), the FSCA will be requesting approval from National Treasury to retain the surplus for infrastructure projects.

The FSCA maintains two reserve accounts: the contingency and discretionary reserves, currently at R86 million (2019: R81 million) and R31 million (2019: R36 million) respectively. The contingency reserve is maintained at a maximum of 10% of levy and fee income which is held to protect the FSCA against the risk of unforeseen events. The discretionary reserve is a depository for fines and penalty income for funding consumer education related expenses. The FSCA made a request to National Treasury to retain the fines and penalty income for Consumer Education transitional funding pending the implementation of the Levies Bill.

CAPITAL INVESTMENTS

Capital investments comprise of property, plant and equipment (PPE) and intangible assets amounting to R73 million (2019: R82 million). These investments are managed through an asset management policy that is applied uniformly throughout the FSCA as prescribed by the PFMA and treasury regulations.

WORKING CAPITAL MANAGEMENT

The FSCA effectively manages working capital to ensure cash availability 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 (SARB). The net current assets maintained for the financial year remained favourable at R408 million (2019: R364 million).

Trade and Other Payables

The FSCA targets to settle trade payables within thirty (30) days of receiving suppliers' invoices in line with National Treasury regulations. In this regard we have achieved an average of twenty-nine (29) days for the year (2019: 23 days) which is well within the thirty (30) days as prescribed by National Treasury. At the financial year end, trade payables amounted to R14 million in both the 2020 and 2019 financial years.

Trade receivables

At the financial year end, the levy trade receivables amounted to R17 million (2019: R14 million), representing 2.06% of the levies income (2019: 1.66%). Levy trade receivables collection declined as a result of delayed payments as at year-end.

The penalty and inspection receivables increased to R217 million (2019: R19 million) as a result of an increase in enforcement penalties. Penalty and inspection receivables 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

The COVID-19 pandemic has brought new challenges and opportunities reshaping the world economies and organisations. As we build the new organisation, accelerating digital transformation and adapting to the new environment remains our key strategic focus.

The digital technology transformation brings in opportunities for a more agile strategically capable workforce. Investment in our personnel to address the digital skills gap and planned capital expenditure is targeted to bring in efficiencies, agility and resilience to our organisation going forward.

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

Paul Kekana

Chief Financial Officer

SITUATIONAL ANALYSIS

The FSCA has entered the second year of its existence and is well on its way to meeting its legislative mandate. Its new activity-based functional operational structure is largely operational and most leadership positions have been filled, albeit the positions of the Commissioner and Deputy Commissioners are still vacant. In the interim, governance oversight is provided by the Transitional Management Committee, headed by an interim Commissioner.

On 19 March 2019, the Minister approved management's recommendation for the implementation of the Integrated Regulatory System (IRS) which was more suited to the FSCA's new mandate. The FSCA is required to report quarterly on the implementation of the IRS.

For the first three years it will be necessary for the FSCA to have a level of internal focus while it builds a new organisation that is appropriately structured and adequately resourced and skilled to achieve its expanded mandate.

The new activity-based functional organisational structure was implemented on 1 October 2018 and the Divisional Executives and Heads of Department for the new divisions and departments assumed their respective responsibilities in the new structure – under the leadership of the Transitional Management Committee, headed by an interim Commissioner.

All Divisional Executive positions have been filled and good progress has been made towards filling other vacant positions. The FSCA has continued with its regulatory and supervisory mandate ensuring that service delivery and bedding down its new functional business operational structure remains on track.

Through the strategic management of relationships between the FSCA and its internal and external stakeholders, we continued to keep the lines of communication open between the Authority, industry, and financial customers, ensuring that they are kept abreast of developments in our work as a dedicated market conduct authority.

The FSCA, through the Communication and Language Service department's overall Integrated Communications and Language Strategy, deployed various communication channels and platforms to disseminate key messages about the work of the Authority. This included hosting consultative engagements with customers, media and the financial sector industry; establishing a social media presence; and producing publications such as the FSCA e-Newsletter and Our Voice. These efforts were intended to keep stakeholders informed; build confidence; strengthen the new organisation; and ensure stakeholder buy-in of regulatory reforms.

The FSCA has an established presence on social media (Twitter, Facebook, LinkedIn and YouTube), with over 1000 followers on Facebook and Twitter, and 10 000 followers on LinkedIn. These numbers continue to grow month on month. The social media pages have also started very specific channel-segmentation with LinkedIn targeting the industry and providing a platform for thought-leadership and comment, while Twitter has become the primary means for the public to get FSCA updates, warnings and quick queries. Facebook has become a platform for financial customers to get financial literacy awareness messages.

The FSCA's three-year regulatory strategy, in line with one of its functions in the FSR Act, requires it to promote financial inclusion in the financial sector. Further, a priority area for transformation in terms of government policy is transformation of the financial sector. In this regard, the FSCA will promote government initiatives for transforming the financial sector by supporting the national B-BBEE policies and objectives for the financial sector and will continue with its initiatives to promote financial inclusion. The FSR Act defines financial inclusion to mean that all persons have timely and fair access to appropriate, fair and affordable financial products and services. These provisions drive the financial inclusion strategy to promote the previously excluded portion of our population, participating in the economic activities in the financial sector. The initiatives in this regard are supported by our regulatory and supervisory activities.

The FSCA has developed a transformation driven policy/strategy for granting exemptions to small and emerging financial service providers to assist them to enter and do business in the financial sector. The FSCA has continued to hold workshops with emerging financial service providers to inform and assist them with regulatory compliance.

The FSCA continues to focus on achieving strategic targets in line with the risk-based supervisory plans, compliance with legislative requirements and relevant principles of regulation as recommended by the international standard setting bodies.

PROGRESS AGAINST STRATEGIC GOALS

The table below sets out the strategic objectives, performance indicators and planned targets as specified in the FSCA's Annual Performance Plan (APP) for 2019/20, and actual performance for the year. The FSCA comprises seven core divisions that are directly responsible for implementing its legislative mandate, namely, the supervision of market conduct in the financial sector. In addition, the FSCA's mandate includes ensuring that its regulatory and supervision standards are in line with international standards.

The achievements for 2019/20, as reported, should be read in the context of the FSCA establishing itself as a new regulator of market conduct of the financial sector, while managing the smooth transition from the existing business of the FSB to the expanded mandate of the FSCA.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
STRATEGIC PRIORITY 1 – Building a new organisation						
To build an effective and efficient organisation fully capacitated to deliver on its mandate	Percentage implementation of Integrated Regulatory System (IRS) software	N/A	25% implementation of IRS	**Not achieved** – 0% implementation	25%	This target has not been met due to the procurement process not being concluded yet.
	Number of stakeholder interventions implemented	12 interviews on TV/radio stations	8 media interviews	**Achieved** – 14 media interviews	6 media interviews	The target was exceeded due to increased media activity resulting in the FSCA having more media exposure than anticipated, especially in the last quarter, relating to COVID-19 media statements from the FSCA.
		4 media round table discussions	4 media roundtables	**Not achieved** – 3 media round table	1 media round table	Target could not be achieved due to the COVID-19 pandemic outbreak and the subsequent social distancing protocols which resulted in a cancellation of the last media roundtable.
		1 media survey 16 one-on-one media engagements	1 media survey 4 one-on-one media engagements	**Achieved** – 1 media survey **Achieved** – 16 one-on-one media engagements	12 one-on-one media engagements	The target was exceeded due to increased media activity resulting in the FSCA having more media exposure than anticipated, especially in the last quarter, relating to COVID-19 media statements from the FSCA.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
		4 reports on news relating to FSCA	3 media monitoring reports	**Achieved** – 3 media monitoring reports	–	–
		2 FSCA bulletins	3 FSCA newsletters	**Achieved** – 3 FSCA newsletters	–	–
		3 FSCA "Our Voice"	4 FSCA "Our Voice"	**Achieved** – 4 FSCA "Our Voice"	–	–
		N/A	Host 2 FSCA regulatory engagement workshops	**Not achieved** – Host 1 FSCA regulatory engagement workshop	1 FSCA regulatory engagement workshop	Target could not be achieved due to the COVID-19 pandemic outbreak and the subsequent social distancing protocols.
		N/A	Host 2 regulatory workshops with industry	**Not achieved** – 0 regulatory workshop with industry	2 regulatory workshops with industry	The workshop scheduled for Q3 could not be held as we did not get enough numbers from industry participants. A decision was taken to move the workshop to Q4 and run it concurrently with the workshop scheduled for this quarter. Unfortunately, the workshops were then not achieved due to developments relating to COVID-19 and the subsequent social distancing protocols.
	Quarterly confirmation of no irregular, wasteful or fruitless expenditure incurred	N/A	4 confirmations of no irregular, wasteful or fruitless expenditure incurred	**Achieved** – 3 confirmation of no irregular, wasteful or fruitless expenditure incurred	1 confirmation of irregular expenditure	Due to exceptional circumstance, irregular expenditure was incurred on a twelve month contract extension for ICT services. National Treasury approval was subsequently obtained for the remainder of the four month contract extension.
	Percentage invoicing of levies	N/A	Invoice 100% of levies	**Not achieved** – Invoiced 99% of levies	1%	Target not achieved due to section 45 invoices not being issued as well as lapses under FAIS.
	Percentage collection of levies	Collected 95% of levies	Collect 98% of levies	**Not achieved** – Collected 96% of levies	2%	Target not met due to clients settling invoices after the financial year-end.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
	Percentage achievement of EE targets	N/A	51% female and 49% male; 2% employees with disabilities; 91% staff complement black group and 9% white	Not achieved – 56% female, 44% male, 0.5% employees with disabilities, 87% complement black group and 13% white group	5% female, 5% male,1.5% employees with disabilities, 4% complement black group and 4% white group	It should be noted that in terms of the FSCA EE Plan, the target for blacks is 90%. The black staff complement lags the Treasury target by 4%. This is largely due to the underrepresentation of the African population. Whilst concerted efforts were made to increase the representation of employees with disabilities, this target still lags largely due to lack of skills available in the labour market. The over-representation of female employees is not a cause for concern as female employees are underrepresented in the overall labour market. The FSCA is therefore doing well in the representation of females compared to market.
	Percentage invoices paid within 30 days	N/A	100% of valid invoices to be paid within 30 days	Not achieved – 88%	12%	The target was not achieved due to queries on invoices and the impact of the national lockdown.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
STRATEGIC PRIORITY 2 – An inclusive and transformed financial sector						
To support government policy to achieve a transformed and inclusive financial sector	Date of Ops Exco approval of the transformation framework, including strategy and plan	N/A	Develop a transformation strategy framework for implementation in the financial sector by 31/12/2020	Not achieved – Transformation strategy was drafted in Q4	Approval and implementation of strategy not yet done	The target was partially achieved. The transformation strategy was split into an inclusion strategy and a transformation strategy. Both strategies were completed, but the transformation strategy was not submitted to Exco in time.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
	Date of submission of transformation framework, strategy and plan to National Treasury for Ministerial input	N/A	Submission of trans-formation framework, strategy and plan to National Treasury by 28 February 2020	**Not achieved** – Transformation strategy is still being drafted	Submission of trans-formation strategy to National Treasury	Transformation strategy is still in the process of being developed and as a result, it has not been submitted to National Treasury.
	Number of workshops to provide training for small FSPs	14 workshops	10 workshops to provide training for small FSPs	**Achieved** – 20 workshops to provide training for small FSPs	10 workshops	The target was exceeded due to the following: Ad hoc requests for workshops are received and responded to where possible. There was a higher than anticipated number of requests in the first half of the year. The service provider appointed to host RE training workshops agreed to supplement workshops with low attendance, by hosting additional workshops in areas where high interest had been expressed. This resulted in more workshops being hosted than planned.
	Number of reports on the promotion of the Trustee Tool Kit	4 reports on promotion of the Trustee Tool Kit	4 reports on the promotion of the Trustee Tool Kit	**Achieved** – 4 reports on the promotion of the Trustee Tool Kit	–	–
	Number of unemployed graduates from the black group taken up as interns and learner trainees	25 unemployed graduates employed as interns and learner trainees	10 unemployed graduates from the black group taken up as interns and learner trainees	**Achieved** – 14 unemployed graduates from the black group taken up as interns and learner trainees	4	The target was exceeded due to an increased business need from the departments to recruit additional trainees.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
STRATEGIC PRIORITY 3 – A robust regulatory framework that promotes fair customer treatment						
To establish robust regulation and supervision that promotes fair outcomes for financial customers	Date when conduct standard for banks is published	N/A	Publish conduct standard for banks by 31/03/2020	**Not achieved** – Conduct standard for banks has been submitted to NT	Conduct standards for banks not yet published	Conduct standards for banks were submitted to NT and reflected on parliament's 18 February 2020 approval to construct. They were to lay with parliament for 30 days and thereafter be deemed as effective which was going to be before the 31st of March, however due to the COVID-19 pandemic, parliament has since gone on recess and conduct standards can only be reviewed for approval when parliament resumes its duties.
	Number of progress reports on implementation of findings and recommendations of peer review considered by FSCA Exco	4 reports	Submit 4 reports to Exco on FSCA's implementation progress on recommendations of international standard setting bodies	**Not achieved** – 2 reports and one ICP, IOPS and IOSCO self-assessment questionnaire were submitted to Exco	2 reports	Two formal reports were submitted to Exco in Q2 and Q4. During Q3 an ICP, IOPS and IOSCO self-assessment questionnaire was completed and shared with Exco, therefore, there was no need for another formal review.
	Percentage implementation of regulatory and research plan	93.1%	80% of plan implemented	**Achieved** – 90%	10%	The overachievement is attributable to a combination of factors, including allocation of resources to dedicated focus areas/targets and driving important regulatory instruments.
	Percentage implementation of risk-based supervisory plan	93.1%	Implement 80% of planned supervision interventions	**Achieved** – 90% achievement of targets set out in the risk-based supervisory plan	10%	The target was exceeded due to greater efficiencies.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
	Percentage compliance with timelines set out in the Licensing Service Level Commitment	54%	90% achievement on turnaround times	**Not achieved** – 54% achievement in turnaround times relating to new licence applications (where all information necessary for processing have been provided)	36%	All new licence applications were processed during the reporting period. Pended applications are due to outstanding information from applicants. The necessary engagements are taking place with respective applicants to ensure finalisation of the applications.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
STRATEGIC PRIORITY 4 – Informed financial customers						
To empower customers and potential customers of financial products and services	Number of consumer education interventions implemented	11 Research and Monitoring and Evaluation reports	5 Research and Monitoring and Evaluation reports/case study	**Achieved** – 9 Research and Monitoring and Evaluation reports/case study	4 Research and Monitoring and Evaluation reports/case study	Additional reports received from service provider e.g. fieldwork reports, final reports as well as case studies.
		5 resources developed	8 resources developed	**Achieved** – 8 resources developed	-	-
		174 workshops	114 workshops, presentations and edutainment	**Achieved** – 143 workshops, presentations and edutainment	29 workshops, presentations and edutainment	The target was exceeded due to an increased demand for additional EPWP workshops that were conducted in Q3.
		19 exhibitions	Participate in and initiate 16 exhibitions	**Achieved** – participated in and initiated 19 exhibitions	3 exhibitions	The target was exceeded due to hosting additional exhibitions throughout the year.
		1 Money Smart Week	1 Money Smart Week	**Not achieved** – 0 Money Smart Week implemented	1 Money Smart Week	The Money Smart Week planned for 23-28 March and was postponed due to COVID-19.
		59 inter-provincial speech contest events	83 inter-provincial speech competition events	**Achieved** – 87 inter-provincial speech competition events	4 inter-provincial speech competition events	The target was exceeded due to additional district finals held in Eastern Cape (1) and North West (2) and an additional planning meeting which was held with provincial coordinators.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
	Date of approval of framework on consumer education standards	N/A	Develop framework and process for developing consumer education standards by 31/03/2020	Not achieved – Development of Consumer Education Discussion Paper process initiated. Inputs received through that process will assist in developing a framework on conduct standards for consumer education.	Development of the consumer education framework and process for the consumer education standards not yet executed. The FSCA is in the process and a Discussion Paper has been drafted which will inform the framework on the consumer standard.	Although the FSCA has initiated the process by means of compiling a draft Discussion Paper on the consumer standards, the process could not be finalised due to the involvement of multiple parties over and above that which were originally anticipated. This initiative will continue in the new financial year.

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
STRATEGIC PRIORITY 5 – Strengthening the efficiency and integrity of our financial markets						
To strengthen the efficiency and integrity of our financial markets	Number of reports produced following supervision of Credit Rating Agencies (CRAs) and Market Infrastructures (MIs)	N/A	12 reports covering supervision of: (one report for each supervision intervention) 3 CRAs 5 Exchanges 2 CSDs 2 Associated Clearing Houses	Achieved – 12 reports covering supervision of: (one report for each supervision intervention) 3 CRAs 5 Exchanges 2 CSDs 2 Associated Clearing Houses	–	–

Strategic objective	Performance indicator	Achievement 2018/19	Target for 2019/20	Achievement 2019/20	Variance	Comment/reason for variance
STRATEGIC PRIORITY 6 – Understanding new ways of doing business and disruptive technologies						
To establish a regulatory environment that enables innovation in the interest of financial customers	Number of reports to Exco on Fintech	N/A	3 reports on establishing a dedicated and resourced Fintech Department by 31/03/2020, including research capability	Achieved – 3 reports submitted to Exco	–	–

PERFOMANCE INFORMATION BY DIVISIONS

The Financial Sector Conduct Authority (FSCA) comprises of the following divisions, namely:

- Licensing and Business Centre Division
- Regulatory Policy Division
- Conduct of Business Division
- Market Integrity Supervision Division
- Retirement Funds Supervision Division
- Enforcement Division
- Specialist Support Division
- Corporate Services Division
- Information and Communication Technology Division
- Office of the Chief Financial Officer

The performance for each of the division follow, except for the Office of the Chief Financial Officer (this report will be found on pages 20-22).

LICENSING AND BUSINESS CENTRE DIVISION

PURPOSE

The Licensing and Business Centre (LBC) Division houses the FSCA's licensing, information management hub, business process improvement and quality assurance function. The LBC division has three departments namely, Licensing, Business Centre and Business Process Improvement. The Licensing Department is responsible for the processing of all FSCA licence applications in terms of the various financial sector laws. The Business Centre is the FSCA's information management hub. The Business Process Improvement Unit is responsible for the development, implementation and maintenance of appropriate procedures and processes and quality assurance across the organisation. Business process improvement and quality assurance is critical in ensuring operational efficiency across the FSCA.

STRATEGIC OBJECTIVES

- Building a new organisation.
- An inclusive and transformed financial sector.
- A robust regulatory framework that promotes fair customer treatment.

DEPARTMENTS

Licensing and Business Centre Division consist of three departments with distinct functions.

Business Centre	The Business Centre is the FSCA's information management hub.
Licensing	The Licensing Department is responsible for the processing of all FSCA licence applications in terms of the various financial sector laws.
Business Process Improvement	The Business Process Improvement Unit is responsible for the development, implementation and maintenance of appropriate procedures and processes and quality assurance across the organisation. Business process improvement and quality assurance is critical in ensuring operational efficiency across the FSCA.

PERFORMANCE

LICENSING DEPARTMENT

During the reporting period, the following financial institutions were licensed by the FSCA in terms of the various financial sector laws as indicated below:

Financial Services Providers (Financial Advisory and Intermediary Services Act)					
Category I	**Category II**	**Category IIA**	**Category III**	**Category IV**	**Total**
9 971	706	123	28	99	10 029

Collective Investment Schemes Managers (Collective Investment Schemes Act)			
CIS Securities	**CIS Property**	**CIS Participation Bonds**	**Foreign CIS**
52	1	2	119

Benefit Administrators (Pension Funds Act)		
Employer Administrators	**Professional Administrators**	**Benefits and Investment Administrators**
16	99	8

Over-the-Counter Derivative Providers (Financial Markets Act)				
No.	**Type**	**Received**	**Authorised**	**Rejected**
1	Bank	24	2	0
2	Non-Bank	30	0	1

Nominee Companies	
Approved	75
CIS Trustees	
Approved	5

The FAIS Act authorises five different categories of financial services providers (FSPs). As at the reporting date, the number of authorised FSPs stood at 10 029 FSPs. A total of 534 FSPs were authorised during the period under review. The total number of authorised FSPs decreased year-on-year from 12 028 in 2019 to 10 029 in 2020. This was due to the suspension, withdrawal and voluntary lapsing of licences.

The number of CIS managers in securities schemes remained unchanged at 52 and CIS managers in property remained unchanged at one. The CIS managers in participation bonds also remained unchanged at two. The Foreign CIS managers increased by two from the previous reporting period and three Benefit Administrators were authorised during the reporting period.

The coming into effect of the Over-the-Counter Derivative Provider (ODP) regulations and the criteria for Authorisation for ODPs resulted in licence applications being received from both the banking and non-banking sectors.

The ODPs were given until 14 June 2019 to submit licence applications. A total of 54 new licence applications were received, two were authorised and one was declined during the reporting period.

The number of approved Nominee Companies remained unchanged at 75. A total of 73 Nominee Companies were approved in terms of Board Notice 63 of 2007 and two under the Collective Investment Schemes Control Act (CISCA) (in respect of the collective investment schemes in participation bond schemes).

Concurrence on various licensing matters

Section 126 of the FSR Act provides that neither the financial sector authority may issue, revoke, suspend or amend a licence without the concurrence of the other. In September 2018, the FSCA and PA concluded a memorandum of understanding to, amongst others, give effect to the concurrence process.

The PA is the prudential regulator and supervisor for insurers, banks, mutual banks, co-operative banks and co-operative financial institutions (CFIs) whilst the FSCA is responsible for the regulation and supervision of the market conduct of these financial institutions.

The FSCA is required to provide concurrence to the PA on all licensing matters relating to these financial institutions.

Concurrence matters considered during the reporting period:

Financial Institutions	New Applications	Variations	Voluntarily Revocations	Concurrence Granted	In Progress
Commercial Banks	1	1		1	1
Mutual Banks					1
Co-operative Banks	1				1
Branches of Foreign Banks				2	
Representative Offices of Foreign Banks	1		1	2	
CFIs	20			5	17
Traditional Insurers	2	1			3
Micro Insurance	9				9
Foreign Reinsurance	2			1	1

Co-operative financial institutions

The FSCA concurred with the PA's decision to license five CFIs.

Banks

The FSCA concurred with the PA's decision in the approval of one application for variation of a licence relating to a registered bank, two applications relating to representative offices of foreign banks and two applications relating to branches of foreign banks.

Insurers

The FSCA concurred with the PA in the approval of one foreign reinsurance application.

Business Centre

The operationalisation of the Business Centre commenced on 1 February 2019. This followed a phased-in approach wherein certain processes were prioritised during the reporting period. These processes included inter alia, the recruitment of the management team to capacitate the department and skills assessment. A substantial amount of time was also allocated to the review and assessment of functions that were performed by the various FSCA divisions and had to be migrated to the Business Centre. This enabled the department (with the support of the Business Processes Improvement Business Unit) to develop business processes that underpin a centralised Licensing and Conduct of Business Supervision support including the FSCA complaints and enquiries function. All the business processes were mapped and various functions migrated to the Business Centre.

During the reporting period, the following categories of complaints and queries were received by the Business Centre:

(i) Complaints against authorised financial institutions.

(ii) Complaints against unauthorised financial institutions conducting business activities regulated by the FSCA.

(iii) Complaints that fall outside the FSCA's jurisdiction.

All complaints relating to activities that fall within the ambit of the FSCA were referred to the relevant divisions (Conduct of Business Supervision and Enforcement divisions) for further investigation. Complaints that fall outside of the scope of the FSCA were duly referred to the relevant authorities, including the various ombud offices.

In addition to the above, the Business Centre received and handled a total of 7 282 unclaimed benefit enquiries. A total of 6 121 enquiries were finalised.

Business Process Improvement

Centralisation and harmonisation of processes are core and fundamental to achieving operational efficiencies and building a culture of customer centricity across all functions performed by the FSCA. The Business Process Improvement Business Unit continued to support the various FSCA divisions with the mapping of business processes underpinning their respective functions.

Regulatory developments

Foreign Exchange/Currency and Over-the Counter Derivatives online trading platforms:

The evolution of the FOREX/currency market, both in terms of size (propelled by the explosive growth in and access to this market by the retail clients) and market practice (improved mobile and other application technology platforms, and the retail-geared and cost-effective derivative products) over the years has resulted in exponential growth in this market.

This growth has resulted in a divergence between market practice, and appropriate and relevant regulatory requirements and framework for this sector, thus prompting the review of the current Code of Conduct for authorised financial services providers and their representatives involved in FOREX Investment Business for relevance and appropriateness as well as possible reform consideration, including licensing requirements.

The Licensing Department also observed a significant influx of foreign entities in the South African market space, offering online foreign exchange/derivative trading platform capability aimed at the local clients.

Copy trading on the online trading platforms particularly relating to foreign exchange/derivatives market is also on the rise as an emerging trend in South Africa. The division continued to receive enquiries from the industry on the treatment of these activities and the necessary licences to apply for.

Technology-driven business models:

The Licensing Department noted a steady increase in enquiries and engagements relating to technology-driven (i.e. Fintech) business models during the reporting period. These business models and licence applications continue to be on the rise and the technology innovations cut across the investment, savings and insurance areas.

REGULATORY POLICY DIVISION

PURPOSE

The Regulatory Policy Division is responsible for the development of regulatory frameworks for which the FSCA has regulatory and supervisory responsibility. The division is also responsible for the FSCA's financial inclusion and consumer education mandates, as set out in the Financial Sector Regulation Act. The division also conducts research into broader domestic and international developments and emerging conduct risks, including technological innovations (Fintech) necessary to inform such frameworks, and as such, has dedicated research and Fintech departments to inform the regulatory framework departments as well as support all FSCA divisions. The division is also tasked with co-ordinating the FSCA's interaction with other regulatory and supervisory authorities and standard setting bodies, as well as ensuring that adequate internal and external stakeholder consultation takes place in relation to the development of regulatory frameworks.

STRATEGIC PRIORITIES AND OUTCOMES/ OBJECTIVES

Business performance focused on the following strategic priorities as set out in the Annual Performance Plan:

- Building a new organisation: To build an effective and efficient organisation fully capacitated to deliver on its mandate

- An inclusive and transformed financial sector: To achieve a transformed and inclusive financial sector
- A robust regulatory framework that promotes fair customer treatment: To establish a robust regulatory framework that promotes fair customer treatment
- Informed financial customers: To ensure informed financial customers
- Strengthening the efficiency and integrity of our financial markets: Ensure market infrastructures that inter-operate and cooperate efficiently
- Understanding new ways of doing business and disruptive technologies: To understand new ways of doing business and disruptive technologies.

DEPARTMENTS

The division consists of five departments, with the following primary responsibilities:

Department	Responsibilities
Regulatory Framework	The department carries out ongoing legislative reviews and development of the conduct regulatory framework to ensure that it continues to effectively support both our customer protection and market integrity, and efficiency objectives. The department also provides support in the interpretation and application of regulatory instruments, including the drafting of interpretation rulings and guidance notices and exemptions.
Market, Customer and Inclusion Research	The department carries out proactive research into and monitoring of financial sector trends, emerging conduct risks and inclusion and transformation trends.
Regulatory Liaison	The department deals with domestic and international inter-regulatory liaison.
Consumer Education	The department is responsible for the delivery of the FSCA's consumer education mandate.
Financial Technology	The department is responsible for ongoing monitoring, research and assessment of technological trends and innovations to understand their external impact on financial sector business models, product and solution design, and customer outcomes, and inform appropriate regulatory and supervisory responses.

PERFORMANCE

REGULATORY FRAMEWORK DEPARTMENT

Regulatory Frameworks

The FSCA oversees conduct related aspects of existing sector specific legislation which in time will be replaced by the overarching Conduct of Financial Institutions (CoFI) Act. This is to ensure the regulatory and supervisory framework is in line with international standards and best practices.

The Regulatory Framework Department (RFD) comprises two units dealing with regulatory frameworks applicable to Conduct of Business and Financial Market matters, respectively. The department carries out ongoing legislative review and development of the conduct regulatory framework to ensure that it continues to effectively support both our customer protection and market integrity and efficiency objectives. The department also provides support in the interpretation and application of regulatory instruments, including the drafting of interpretation rulings and guidance notices as well as exemptions.

The following strategic goals are relevant to the department. Progress towards achieving these goals are summarised below:

Strategic goal	Achievement to date towards 3-year targets
Develop and maintain a pre-emptive and proactive regulatory framework that is aligned with the FSR Act and relevant international standards.	Provided support in the development of primary legislation. Developed, drafted and published regulatory instruments and related documents assisting in the implementation of the regulatory framework. Provided support on the interpretation and application of the regulatory and legislative provisions, including the drafting of guidance notices and interpretation rulings and provided training on the conduct legislative frameworks.
Proactive stakeholder management by implementing an effective communication, brand, reputation and stakeholder management strategy.	Participated in numerous working group and committee meetings of the international associations of which the FSCA is a member and of other international and regional bodies and forums. Responded through the Regulatory Liaison Department to questionnaires and surveys, and exchange of information under the domestic and international inter-regulatory multilateral memoranda of understanding as well as memoranda of understanding. Participated in external stakeholder platforms, presentations, conferences and media. Participated in and hosted numerous working group and committee meetings with industry stakeholders and associations.

Implementing national policies affecting the financial sector

The FSCA and the other relevant regulatory authorities, making up the regulatory framework must deliver and support government policy objectives for the financial sector. The FSCA takes its policy direction from the National Treasury (NT) whose objectives are, in turn, informed by broader government strategic and development plans. The FSCA plays a supportive role in assisting the NT to formulate policy positions which are ultimately translated into primary legislation.

Two of these critical pieces of primary legislation currently under development include the:

- *Conduct of Financial Institutions Bill* (CoFI Bill): As per the NT's "Explanatory Policy Paper accompanying the Conduct of Financial Institutions Bill," the CoFI Bill "***aims to significantly streamline the legal landscape for conduct regulation in the financial sector, and to give legislative effect to the market conduct policy approach. It will strengthen customer protection by putting in place a single comprehensive market conduct law in the financial sector, resulting in the consistent application of consumer protection principles across the sector***." The draft CoFI Bill was first published for public consultation by the NT on 11 December 2018. During the course of 2019, the NT facilitated various public consultation processes which resulted in further refinements to the Bill. The FSCA provided and will continue to provide substantial technical support to the NT in developing the CoFI Bill.
- *Financial Markets Act Review*: Following the work of the Financial Markets Review Committee which comprised the National Treasury, the South African Reserve Bank (SARB), the Prudential Authority and the FSCA, in February 2020, National Treasury published a Discussion Paper for consultation, entitled ***"Building Competitive Financial Markets for Innovation and Growth – A Work Programme for Structural Reforms to South Africa's Financial Markets"*** (Discussion Paper). The Discussion Paper makes a number of proposals to reform the regulatory and legislative framework for the domestic financial markets, to create an enabling framework that is supportive of competitive financial markets and responsive to the many

developments in those markets. The FSCA played a significant role in contributing and providing inputs to the Discussion Paper and will continue to provide substantial support to the National Treasury in refining the financial markets regulatory framework.

Development and maintenance of regulatory frameworks

The department continued to work on developing and maintaining the regulatory frameworks supervised by the FSCA. This entailed, amongst other things, developing, drafting and publishing regulatory instruments, amendments to other subordinate legislation, Interpretation Rulings, Guidance Notices, other Legal Notices, Communications and the like.

Regular review of the regulatory frameworks supervised by the FSCA is critical to ensure that such regulatory frameworks are robust, effective, aligned with international standards and supports and enables the FSCA to fulfil its legislated objectives and functions. The review process deals with analysis and surveillance of the financial sector environment from a regulatory perspective in order to identify any legislative gaps, regulatory arbitrage, emerging risks, inconsistencies with international standards and the like, and the closing of these gaps, risks or inconsistencies in the form of new or amended regulatory instruments.

Gaps in the regulatory framework or emerging risks can be identified in a variety of ways, including identification of gaps or emerging risks through the supervisory approach of the FSCA, through internal research, undesirable practices or recurring poor outcomes identified directly or through external stakeholders (such as ombud schemes or industry associations) and new and topical developments on an international or local front, posing emerging risks such as binary options, crypto-assets and crowdfunding.

The department will continue to refine its approach in developing and maintaining the FSCA's regulatory frameworks to ensure the regulatory frameworks enable the FSCA to achieve its legislative objectives in an optimal manner. The specific regulatory framework developments that occurred during the reporting year are discussed below in more detail.

SUBORDINATE LEGISLATION

Banking industry

Over the past decade, a number of conduct weaknesses were identified through various forums in the South African banking sector, a few examples include the 2008 Banking Enquiry of the Competition Commission (Jali Commission), the World Banks Retail Banking Diagnostic Report (Retail Banking Diagnostic) that was issued in 2018 and the 2018 draft Financial Markets Review which highlighted market conduct issues in the foreign exchange market, the money market and the bond market.

Up until the beginning of 2018, the FSCA did not have any jurisdiction over the regulation and supervision of banking activities, which meant that banking activities were to a large extent not subject to any regulatory oversight from a conduct of business perspective. With the advent of the Financial Sector Regulation Act in 2018, the FSCA has been given the explicit mandate of regulating and supervising the conduct of banks in relation to the provision of financial products and services. To effectively supervise the conduct of banks, a regulatory framework governing the conduct of banks must first be established.

As a first step towards rolling out a comprehensive market conduct regulatory framework for the banking sector, the FSCA published a Conduct Standard for Banks for public comment on 29 April 2019. During the course of 2019, the FSCA processed the comments received on the Conduct Standard for Banks and further refined the Conduct Standard. In December 2019, the draft Conduct Standard for Banks was submitted to the NT to facilitate the submission of the draft Conduct Standard for Banks to parliament.[1] Delays occurred in submitting the draft Conduct Standard for Banks to parliament as a result of the nationwide lockdown caused by COVID-19, but the FSCA believes that a formal regulatory framework governing the conduct of banks will be promulgated during the course of 2020.

The objective of the Conduct Standard for Banks is to introduce requirements that promote the fair treatment of financial customers of banks. The Conduct Standard

1 As required in terms of section 103 of the Financial Sector Regulation Act.

is aimed at various types of banking activities although the application of certain sections is limited to retail financial customers. The Conduct Standard is strongly geared towards principles-based requirements to ensure that banks deliver fair customer outcomes in a disciplined, transparent and consistent manner. Work continues on the recommendations from the Retail Banking Diagnostic and supervisory engagements are also taking place. It is envisaged that in due course, amendments will be proposed to the Conduct Standard for Banks that are informed by the work performed under the Retail Banking Diagnostic and supervisory engagements. If the CoFI Bill overtakes this process, the amendments will be incorporated into the CoFI Bill framework.

Collective Investment Schemes industry

A few regulatory framework developments in the Collective Investment Schemes (CIS) environment drew to a conclusion during the reporting period. After extensive public consultation, the following conduct standards were submitted to parliament and served the required 30-day period while parliament was in session:

- *Conduct Standard - Net Asset Valuation Calculation and Pricing for Collective Investment Scheme Portfolios* (NAV Conduct Standard): Fairness to investors requires that there is a proper and transparent basis for asset valuation and the pricing and the redemption of participatory interests in a CIS. According to an International Organisation of Securities Commission's (IOSCO) report2 on the principles for the valuation of CIS, "The valuation of the assets employed or held by a CIS is critical to investors because it affects, amongst others, the CIS's NAV, financial reporting, performance reporting and presentation, and fees paid to CIS service providers. Therefore, it is crucial to understand all the valuation drivers in order to reach a correct valuation of the assets in the portfolio or, before purchasing/selling an asset, in order to assess the correct value of such an asset." The regulatory framework for CIS in South Africa only provided for certain high-level provisions in the Collective Investment Schemes Control Act and the Deed establishing a CIS and did not provide for the determination of NAV within CIS portfolios in sufficient detail to enable proper regulations. In this context, the FSCA developed the NAV Conduct Standard. Work also continued, in conjunction with the Association for Savings and Investments South Africa (ASISA), in developing an extensive Valuations Guideline supporting the operation of the NAV Conduct Standard.
- *Conduct Standard - Requirements for Delegation of Administration by a Manager of a Collective Investment Scheme*: It is standard practice in the CIS industry that some of a manager's core functions, and in some instances all administration functions, are delegated (outsourced) by the manager to an investment manager.[3] Proper administration of portfolio assets form the cornerstone of a manager delivering on its mandate to investors who hold participatory interests in the portfolio. The FSCA developed this Conduct Standard to ensure that delegation occurs in a controlled and responsible manner in the interest of investors. It is envisaged that this will translate into market and investor confidence and transparency regarding the value chain of end-to-end customer servicing and optimising investor protection by ensuring that the manager's risk will not be materially increased.

Final publication of the above conduct standards was, however, temporarily suspended because of the nationwide lockdown brought about by the COVID-19 pandemic so as to provide industry time to focus on operational matters in dealing with the lockdown as opposed to preparing for the implementation of the conduct standards.

Apart from the above-mentioned, extensive work continued on a variety of projects culminating in conduct standards, other instruments or Papers that will be published for public comment during the course of 2020 or early 2021. These include:

2 Principles for the Valuation of Collective Investment Schemes, Final Report, IOSCO, May 2013, p.4.
3 Also known as an asset manager.

- ***Draft Conduct Standard for Advertising, Marketing and Information Disclosure Requirements for Collective Investment Schemes***: An initial reviewed draft of Board Notice 92, i.e. a new Conduct Standard for Advertising, Marketing and Information Disclosure Requirements for Collective Investment Schemes was consulted on and workshopped extensively with industry during the 2019/20 reporting period. Resulting therefrom, as well as the need to include requirements for a prospectus and other new matters to align with international best practice, a revised Conduct Standard was developed during this reporting period which will be published for another round of public consultation during 2020/21.
- ***Review of Board Notices 910 (Fit and Proper Requirements and Conditions for CIS managers) and 911 (Application form for registration as a CIS manager):*** Extensive internal work was conducted in reviewing the aforementioned Notices during the reporting period. It is likely that the Board Notices will be converted to a Conduct Standard relating to registration and fit and proper requirements for CIS managers and a Conduct Standard setting operational requirements for CIS managers, which will be published for public comment during the course of 2020/21.
- ***Conduct Standard - Securities that may be included in a CIS in Securities and the manner of such inclusion:*** The Collective Investment Schemes Control Act provides that the FSCA may determine the manner in which and the limits and conditions subject to which securities or classes of securities may be included in a portfolio of a collective investment scheme in securities. To date, these matters are prescribed in Board Notice 90 of 2014. The proposed Conduct Standard will aim to update and modernise the existing Board Notice, inclusive of international best practice where relevant. The work hereon has commenced by means of inputs from industry, development of a structure, discussions on specific topics with industry, etc., but the development of the Conduct Standard itself has been earmarked as a focus area for 2020/21.
- ***Development of an accounting framework for CIS managers and their portfolios:*** After a number of unsuccessful attempts in the previous reporting period to obtain a specialist(s) via the required tender process to draft an accounting standard for Collective Investment Schemes in South Africa, the FSCA took the approach that such a standard should mainly consist of the International Financial Reporting Standards (IFRS), but excluding a number of requirements that are not applicable to Collective Investment Schemes. To achieve this, a draft exemption from the current outdated accounting requirements in the Collective Investment Schemes Control Act (CISCA) was published for public comment. The draft exemption led to an industry workshop including a number of relevant stakeholders. It was concluded that the intention of applying IFRS but excluding a number of requirements that are not applicable to Collective Investment Schemes, could not optimally be achieved through an exemption. It was agreed that the relevant stakeholders will assist the FSCA in developing an appropriate accounting framework for CIS managers and their portfolios, and then consideration will be given on how this framework can be embedded within the Collective Investment Schemes Control Act framework. Work relating to the development of the accounting framework will continue during the course of 2020 and 2021.

Financial Advisory and Intermediary Services industry

In December 2019, proposed amendments to the General Code of Conduct under the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002) (FAIS Act), the Specific Code of Conduct for Authorised Financial Services Providers and Representatives conducting short-term Deposit Business, 2004 and the Determination of Fit and Proper Requirements, 2017 (the draft amendments) was submitted to the National Treasury to facilitate the submission of the draft Conduct Standard for Banks to parliament.[4] As a result of the nationwide lockdown caused by COVID-19, delays occurred in submitting the draft amendments to parliament, but as soon as these delays have been resolved, the final amendments will be promulgated.

The amendments, amongst others, seeks to allow for enterprise development contributions to promote transformation and inclusion and to give effect to a number of proposals published in the Retail Distribution Review – in which reforms to the regulatory framework for financial advice and distribution of financial products were proposed. It further seeks the alignment of advertising, marketing and complaints handling requirements with similar requirements in the Long-term and Short-term Insurance Policyholder Protection Rules, as well as the prohibition of the use of a person's authorisation status to market other services.

- *Foreign Exchange/Currency and Over-the Counter Derivatives online trading platforms:*
  - The evolution of the FOREX/currency market, both in terms of size (propelled by the explosive growth in and access to this market by the retail clients) and market practice (improved mobile and other application technology platforms, and the retail-geared and cost-effective derivative products) over the years has resulted in exponential growth in this market.
  - Some of the noted factors responsible for this massive move and growth over the last couple of years in the FOREX/currency trading environment/sector with huge retail (client) participation is mostly attributed to, among others, the easy access and entry into this market through advanced technology, the proliferation of the trading platforms, the quick and easy availability of financial derivative instruments, specifically geared towards the retail market (e.g. Contract for Difference) as well as the ease with which these instruments can be traded. The increase in the number of the trading platforms has also further spurred the increase in the trading of the over-the-counter derivative products such as Contracts for Difference (CFDs) by the retail clients.
  - This growth has resulted in a divergence between market practice, and appropriate and relevant regulatory requirements for this sector. Although some of these activities are captured within the ambit of the FAIS Act, some are not. Broader discussions regarding the regulation of these activities are, however, currently underway and will inform the formulation of the CoFI Bill which will include these activities within its ambit.
  - As an interim measure pending the finalisation of the CoFI Bill, the FSCA is currently considering, to the extent that the FAIS Act allows, an appropriate policy response to these developments.

Financial markets

In addition to the Financial Markets Act Review, several financial market related developments took place during the course of the reporting period:

- *Joint Standard - Margin requirements for non-centrally cleared OTC derivative transactions:* The Basel Committee on Banking Supervision and International Organisation of Securities Commissions published an initial regulatory framework for margin requirements[5] in 2015 and provided new regulatory guidelines to be adopted into the domestic laws of the G20 member states. To ensure that South Africa's legal framework for regulation and supervision of the financial sector adheres to the internationally agreed standards and the G20, the NT published a Discussion Document[6] in March 2015 relating to reducing the risks of over-the-counter derivatives. The Discussion Document outlined South Africa's proposed policy approach to regulating the over-the-counter (OTC) derivative markets. Against this backdrop, the FSCA and Prudential Authority started developing a draft Joint Standard aimed at implementing margin requirements for non-centrally cleared OTC derivative transactions and to reduce systemic risk

4 As required in terms of section 103 of the Financial Sector Regulation Act.
5 BCBS-IOSCO Framework for Non-Centrally Cleared Derivatives.
6 Reducing the risks of over-the-counter derivatives in SA.

and advance broader macro-prudential benefits by reducing financial system vulnerability caused by the build-up of uncollateralised exposures within the financial system. The draft Joint Standard underwent extensive public consultation during 2018 and 2019 and was submitted to parliament in December 2019. The effective date of the Joint Standard has been revised considering the impact of COVID-19, and a final decision on implementation will be communicated during the course of 2020.

- *Central Counterparty (CCP), external CCP and trade repository (TR) licence applications, and Equivalence Framework:* The Financial Markets Act defines a central counterparty as a clearing house that interposes itself between counterparties to transactions in securities, becoming a buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts. A CCP becomes a counterparty to trades with market participants through novation, an open offer system or through a legally binding agreement. There is a need for the authorities to prescribe, through a Joint Standard, a licensing framework for CCPs as CCPs have become systemically important since measures to mandate central clearing of OTC derivatives have been introduced.[7] The Financial Markets Act sets out a high-level licensing framework for CCPs and enables the authorities to prescribe the licensing process in more detail.

The Financial Markets Act also enables external (foreign) CCPs and TRs to be licensed to operate within the South African jurisdiction, without being subject to the South African regulatory framework regulating CCPs, if such an external CCP or TR is situated in a jurisdiction that has a regulatory framework that is equivalent to the South African regulatory framework. The Financial Markets Act enables the FSCA to[8] determine: (a) that the regulatory framework of a specified foreign country is equivalent to the regulatory framework established in terms of the Financial Markets Act;[9] and (b) the licensing process for external CCPs and TRs.

In December 2019, the FSCA and Prudential Authority published various draft documents for public comment that were aimed at facilitating the licensing of CCPs, external CCPs and TRs as explained above. These documents included the following:

- Draft Joint Standard on Requirements relating to a central counterparty licence application
- Draft Equivalence Framework for external CCPs, TRs and central security depositories
- Determination – Requirements for external central counterparty or external trade repository licence applications.

The FSCA and Prudential Authority envisage that the abovementioned frameworks will be finalised during the course of 2020.

- *Designation of Benchmarks (with draft Conduct Standard):* Benchmarks play a key role in the financial system's core functions of pricing and allocating capital and risk. The pricing of many financial instruments and financial contracts depend on the accuracy and integrity of benchmarks which can be subject to conflicts of interest, the use of discretion and weak governance regimes. Past cases of manipulation of interest rate benchmarks[10] combined with allegations of manipulation of commodity and foreign exchange benchmarks highlighted the shortcomings in the benchmark regulatory framework and how benchmarks are open to manipulation and abuse. Concerns about the integrity and reliability of financial benchmarks have also prompted a number of regulatory reform initiatives internationally. The activity of providing a benchmark is, however, currently not directly regulated in terms of any financial sector law. In December 2019, the FSCA submitted a proposal to the Minister of Finance requesting the designation of providing a benchmark or index as a financial service in terms of section 3(3)(a)(iii) of the Financial Sector Regulation Act. Following such designation by the Minister of Finance, the FSCA will publish a draft Conduct Standard relating to

7 Discussed under item 1 above.
8 On application by an interested party and with the concurrence of the South African Reserve Bank and the Prudential Authority.
9 If the legislative and regulatory framework established in that foreign country meets the objectives of the Financial Markets Act.
10 Cases surrounding the London Interbank Offered Rate (LIBOR) and the Euro Interbank Offered Rate (EURIBOR) bears reference.

Benchmarks, which has already been developed for public consultation.

- *Conduct Standard for Exchanges:* The granting of additional exchange licences during the course 2016 created a multiple exchange environment in South Africa, resulting in market fragmentation due to competition between exchanges, and complexities and challenges arising from an environment with the same authorised users as well as the listing and the trading of the same securities across multiple South African exchanges. The current legislation also does not contain any provisions relating to interoperability and the need for exchanges to cooperate with each other and to harmonise exchange rules in respect of certain market operations. To mitigate the risks created by the multiple exchange environment, the FSCA developed a Conduct Standard for Exchanges and a draft Directive for Exchanges during the course of 2019. These documents will undergo public consultation during the course of 2020.
- *Joint Standard - Minimum requirements for the recovery plans of market infrastructures:* Market infrastructures play an essential role in the financial system and a severe disruption to a market infrastructure system could compromise the proper operation of markets and adversely impact the critical function of allocating savings efficiently between economic agents. International principles[11] advocate that financial market infrastructures should have comprehensive and effective recovery plans because the disorderly failure of such a market infrastructure could lead to severe systemic disruptions. The recovery of a market infrastructure concerns the ability of the market infrastructure to recover from a threat to its viability and financial strength so that it can continue to provide its critical functions as a going concern. In this context, the FSCA and PA developed a draft Joint Standard on Recovery Plans for Market Infrastructures during the course of 2019. The draft Joint Standard will undergo a public consultation process during 2020.
- *Designation of Securities Financing Transactions (with draft Conduct Standard):* As part of South Africa's commitment to adhere to global financial standards and the increasing need for the protection of investors and consumers of financial products, the formulation of a framework for the regulation of Securities Financing Transactions (SFTs) in the South African markets has become a priority. It is commonly accepted that the optimal utilisation of SFTs in a well-regulated environment can make a significant contribution to the efficiency, liquidity and the competitiveness of the South African capital markets and will further reduce systemic risk. During the reporting period, the FSCA conducted research and performed technical work on SFTs. It is close to finalising a proposal to be submitted to the Minister of Finance requesting to have SFTs designated as a financial service in terms of section 3(3)(a)(iii) of the Financial Sector Regulation Act. Following such designation, the FSCA will publish the draft Conduct Standard relating to SFTs, which is already in development for public consultation.
- *Reporting framework for short sales:* During the 2008 global financial crisis, several countries implemented emergency measures on short sales because of concerns that this activity was aggravating the downward spiral in share prices, thereby posing a threat to individual financial institutions and wider financial stability. Various measures were taken, ranging from restricting short sales to temporarily banning short sales in certain sectors. Other measures included introducing a requirement to flag every short sale on the exchange trading system and the reporting and disclosure of net short positions at certain thresholds. Currently, South Africa does not have a reporting framework in place for short sales, which is contrary to prevailing international standards. In the above context, the FSCA previously published a Discussion Paper on the "implementation of a short sales reporting and disclosure framework" and during the reporting period, prepared a Position Paper outlining the FSCA's position on the proposed

11 E.g. the Principles for Financial Market Infrastructures issued by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organisation of Securities Commissions in April 2012.

reporting and disclosure framework for short sales transactions. This Position Paper will be published during the course of 2020.

Insurance industry

Following two major conduct reforms in the insurance regulatory framework during the course of 2017 and 2018, regulatory framework developments in the insurance industry for this reporting year focussed on a few select themes that are nearing finalisation:

- *Conduct related requirements for cell captive insurance business in relation to third party risks:* On 11 December 2019, the FSCA published a Position Paper setting out the conduct policy proposals applicable to third party cell captive insurance business. This Position Paper follows various Discussion Documents relating to cell captive business and the draft Conduct Standard for third party cell captive insurance business that was published for public comment on 20 July 2018. The proposals are far reaching and intends, amongst other things, to introduce stringent limitations around cell ownership by intermediaries to mitigate conflicts of interest inherent in these arrangements. The content of the Position Paper is in the process of being translated into legislative proposals which will be publicly consulted on during 2020.
- *The future regulatory framework for the collection of insurance premiums:* Over the past few years, the FSCA has been working on addressing a number of risks and concerns related to the collection of insurance premiums. This topic was set out as one of the proposals under the Retail Distribution Review and informed amendments to the Regulations under the Short- and Long-term Insurance Acts.[12] Unfortunately, despite these interventions, a number of the identified risks materialised towards the latter half or 2018 when Insure Group Managers Limited (IGM) were placed under curatorship. This was an urgent and necessary intervention to address the risk of IGM failing to meet its obligations to insurers, thereby potentially threatening the stability of the entire insurance sector. As part of the ongoing legislative enhancements to the regulatory framework but also to address the risks around third-party collection of premium and the undesirable industry practices in this regard, the FSCA on 9 April 2019, published a Position Paper setting out proposals on the future regulatory framework for the collection of insurance premiums (the Position Paper). The Position Paper confirmed the FSCA's view that the collection of premiums directly from the policyholder's bank account into the bank account of an insurer should become the default rather than the exception in order to significantly reduce the potential liquidity, credit and customer risks that have materialised in the past. The Position Paper put forward several regulatory proposals focusing on a number of aspects. As part of the public consultation process on the proposals in the Position Paper, the FSCA extensively engaged with various role-players in the insurance industry, including intermediaries, insurers, Third Party Payment Providers (TPPP) and industry representative bodies. The FSCA is in the process of finalising its final policy proposals to be implemented to further reduce the risks identified in the premium collection industry. These policy proposals will be translated into draft legislation that will be published for public comment during 2020.
- *Joint Standard on outsourcing by insurers:* The FSCA and PA are in the process of developing a Joint Standard relating to outsourcing by insurers. The Standard is largely based on the current prudential outsourcing standard but will be amended to incorporate various conduct of business specific requirements.
- *Replacement of risk policies:* New requirements intended to address churning risks in the life risk space took effect on 1 September 2019 (through amendments to the Policyholder Protection Rules under the Long-term Insurance Act, 1998[13]. The

12 Published in Government Notices 1015 and 1018 of Government Gazettes 41942 and 41946 on 28 September 2018. These amendments were aimed at enhancing the existing short-term insurance premium collection regulatory framework and, for the first time, introduced equivalent regulatory requirements for the collection of long-term insurance premiums.

13 Rule 19 of the Policyholder Protection Rules (Long-Term Insurance), 2017 published under Government Notice 1407 in Government Gazette 41321 of 15 December 2017 as amended.

requirements place more accountability and responsibility on insurers to verify that replacement of risk policies is appropriate and in the best interest of policyholders. The requirements contain a standardised replacement advice record that intermediaries must complete when recommending a replacement to a policyholder. The FSCA determined the format of the replacement advice record on 27 May 2019, with an effective date of 1 September 2019.

- *Equivalence of reward:* The FSCA published an Equivalence of Reward Position Paper on 13 December 2019, following technical work performed on this topic as part of the Retail Distribution Review. As part of the initial proposals under the Retail Distribution Review, it was recommended that specific requirements be adopted to clarify and strengthen the principle of equivalence of reward (EoR) as the basis on which long-term insurers may remunerate their tied advisers. EoR is the principle that, while tied agents of long-term insurers are not subject to the regulatory commission ceilings that apply to independent intermediaries, their total compensation should be broadly no more than the equivalent compensation that they would have received for the same set of sales, were they paid on the basis of the regulated commission scales that apply to independent intermediaries. The Position Paper proposed a number of regulatory interventions that will be incorporated into the regulatory framework during the course of 2020.

Retirement Fund industry

- *Conduct Standard – Conditions for amalgamations and transfers in terms of section 14 of the Pension Funds Act:* This Conduct Standard replaced the previous Directive 6 which was issued as Board Notice 208 of 2011, and which set out the conditions imposed by the Registrar of Pension Funds in respect of the different types of transfers in terms of section 14 of the Pension Funds Act, as well as providing the forms required for such an application. The Conduct Standard, which enhanced the conditions and certifications and realigned the forms in order to clarify and improve the previous requirements, was made final in August 2019.
- *Conduct Standard - Minimum Skills and Training for Board Members:* This draft Conduct Standard is aimed at prescribing the minimum skills and training requirements for board members of funds as provided for in section 7A(3)(a) of the Pension Funds Act. The Conduct Standard was published for public comment in the second quarter of 2019 and after the public consultation process. In December 2019, the Conduct Standard was submitted to the NT to facilitate the submission of the Conduct Standard to parliament. The Conduct Standard will be made final once it has been submitted to parliament and the requisite time in front of parliament has elapsed.
- *Proposed Conduct Standard - Section 13A Payment of Contributions of Pension Funds:* In December 2019, the FSCA submitted a proposal to the Minister of Finance requesting that the Minister agrees to the repeal of Regulation 33 to enable the FSCA to improve and replace Regulation 33 with a Conduct Standard. The proposed Conduct Standard was included in the submission. Once the Minister agrees to the proposal, the public consultation process on the draft Conduct Standard will commence.
- *Conduct Standard - Conditions for smoothed bonus policies to form part of default investment portfolios:* The purpose of this Conduct Standard is to prescribe the conditions with which a smoothed bonus policy must comply in order to be considered for inclusion as a default investment portfolio. In general, the Conduct Standard aims to provide additional protection to members who are defaulted into a smoothed bonus policy, to ensure that they fully understand the default being provided. The Conduct Standard already went through two rounds of public consultation and will be submitted to parliament during the course of 2020.

In addition to the above, a significant amount of technical work took place in relation to a number of retirement fund regulatory framework developments. These developments are at varying stages of completion and will be published for public comment during the course of 2020 or early 2021. Some of these developments include the following:

- *Conduct Standard – Conditions for Living Annuities to form part of Annuity Strategy:* Where a pensioner elects a living annuity on retirement, there is a risk that this could result in poor retirement outcomes for the individual, such as unsustainable income streams and a reduction in affordable annuity payments over time. The definition of "annuity strategy" in the Regulations under the Pension Funds Act provides that conditions may be prescribed for purposes of an "annuity strategy" and Regulation 39(3)(a) states that drawdown levels of living annuities that form part of the annuity strategy of a fund must comply with a prescribed standard. The purpose of this draft Conduct Standard is to address the risk of poor retirement outcomes, and to give effect to a prescribed standard as contemplated in Regulation 39(3)(a) by prescribing the conditions for a living annuity to be chosen as part of a fund's annuity strategy, including the drawdown levels for such a living annuity.
- *Conduct Standard - Communication of Pension Benefit Projections:* A pension benefit projection is an important tool in monitoring whether a pension fund member is saving enough for retirement. Projections assist in managing the expectations of members of a pension fund and influencing their behaviour by providing members with information regarding realistic expectations of their future retirement benefits and the potential effect of retirement decisions. The purpose of this Conduct Standard is to prescribe requirements relating to the communication of benefit projections to pension fund members, the methodology to be applied in the calculation of the benefit projections and how assumptions relating to benefit projection calculations are to be determined and/or used.
- *Conditions for Securities Lending:* Regulation 28(6) under the Pension Funds Act provides that pension funds may engage in securities lending and enables the FSCA to prescribe conditions in respect thereof. Securities lending enables a pension fund to earn additional income to the benefit of the fund and its members. Fund assets represent a significant portion of investable assets of financial institutions and such assets form a large base of the securities lending in the financial industry. In order to balance the benefit with the possible risks associated with securities lending, the FSCA is intending to make a Standard dealing with securities lending which prescribes conditions in the form of general principles and requirements pertaining to service providers, agents, counterparties, lending limits, collateral, etc.
- *Conditions for Derivatives:* Regulation 28(7) of the Regulations under the Pension Funds Act provides that funds may invest in derivative instruments and enables the FSCA to prescribe conditions in respect thereof. This standard intends to prescribe the conditions for pension funds relating to investing in derivative instruments as part of its investment strategy. In order to balance the benefit with the possible risks associated with investing in derivative instruments, the FSCA deems it appropriate to prescribe conditions by providing for general principles and requirements pertaining to, amongst others, counterparties, exposure limits, netting of exposures and collateral.
- *Hedge Funds:* Regulation 28 of the Regulations under the Pension Funds Act provides that a fund may invest in hedge funds subject to such limits as determined in Table 1 to Regulation 28. To ensure that funds only invest in appropriately regulated hedge funds, this standard intends to prescribe that funds may only invest in hedge funds administered by a manager registered as prescribed in paragraph 2(2) of the Determination on the Requirements for Hedge Funds[14].
- *Financial Statements and Regulatory Reporting Requirements:* The FSCA is in the process of converting Board Notice 77 of 2014 into

14 Published under Board Notice 52 in Government Gazette No. 38540 of 6 March 2015, made in terms of the Collective Investment Schemes Control Act, 2002.

a Standard. The new standard will include enhanced regulatory reporting requirements.

- *Dissolution of Pension Funds:* This standard proposes to prescribe various requirements relating to the dissolution and cancellation of registration of pension funds, and matters related thereto, and will supplement the existing Chapter V of the Regulations under the Pension Funds Act.

Cross-cutting developments

- *Joint Standard - Fitness, propriety and other matters related to significant owners:* One of the key elements of the governance framework of financial institutions is the role of significant owners as they have the ability to control and materially influence the business and strategy of a financial institution. To avoid disruptions to the financial system from poor management of a financial institution as well as poor treatment of customers, it is critical that significant owners and those running financial institutions are fit and proper. Accordingly, this Joint Standard proposes to introduce fit and proper requirements for significant owners of financial institutions and parameters of what constitutes 'an increase or a decrease in the extent of the ability of the person, alone or together with a related or inter-related person, to control or influence materially the business or strategy of the financial institution' (as referred to in sections 157(1) and 158(4) of the Financial Sector Regulation Act). After two rounds of public consultation, the Joint Standard was submitted to parliament on 27 November 2019. Publication of the final Joint Standard was purposefully delayed in order to not place additional implementation burdens on the financial industry amidst the COVID-19 pandemic and the national lockdown. The Joint Standard will, however, be made final during the course of 2020.
- *Joint Standard on Governance***:** The FSCA and Prudential Authority are in the process of developing a Joint Standard on Governance applicable to all financial institutions. A Joint Governance Working Group consisting of various representatives from the FSCA and PA was established during the reporting period with the aim of developing a joint governance framework, and the terms of reference of the working group requires the representatives to consider various governance focus areas, international best practice and the South African context.

RETAIL DISTRIBUTION REVIEW

Although the Retail Distribution Review **(**RDR) cuts across various functional areas within the FSCA, the Policy Division is responsible for coordinating the implementation of the RDR. The department played a critical role in supporting the Policy Division to further the RDR work during the reporting period.

Following the incorporation of various RDR proposals into the relevant legislative frameworks overseen by the FSCA over the course of a number of years, technical work on various RDR proposals continued during the reporting period, culminating in the publication of various RDR related documents in December 2019. These publications included the following:

- General Status Update
- Intermediary Activity Segmentation and Related Matters
- Equivalence of Reward Position Paper
- Adviser Categorisation Discussion Document
- Second Investment Matters Discussion Document
- Discussion Document on a remuneration dispensation for savings and investment products for the low-income market (Proposal TT).

OTHER DOCUMENTS, INSTRUMENTS OR PROJECTS ASSISTING IN THE IMPLEMENTATION OF REGULATORY FRAMEWORKS

- **Notices**

  Legal Notices may be published under the Financial Sector Regulation Act or as stipulated under sectoral laws. These Notices typically reflect actions exercised by the FSCA under financial sector laws such as the granting of exemptions or extensions, making of determinations, declaration and general directives, and the like. These Notices are legally enforceable. During the reporting period, the department facilitated the publication of a significant number of Notices across all industries supervised by the FSCA.

- **Interpretation Rulings**

  The FSCA is empowered to publish interpretation rulings where necessary to promote clarity, consistency and certainty in the interpretation or application of financial sector laws for which we are responsible. Interpretation rulings are binding on the FSCA. They oblige the FSCA to interpret and apply the applicable law in line with the interpretation ruling, unless or until a legislative change or a court judgment effectively overrides the interpretation ruling. During the reporting period, the Department facilitated the publication of the following interpretational ruling: *FSCA Interpretation Ruling 1 of 2020 (RF) – Interpretation and application of section 37C of the Pension Funds Act.* A draft of the interpretation ruling was published for public comment in November 2019 followed by further consultation in the form of a consultative workshop held in February 2020. The final Interpretation Ruling was published on 25 March 2020. The Interpretation Ruling clarifies the circumstances under which section 37C (in respect of the death distribution process) would be applicable to the payment of pension fund members' benefits.

- **Guidance Notices:** The FSCA may issue guidance notices on the application of financial sector laws for which it is responsible. This tool is used if there is uncertainty or material inconsistency in the way in which financial institutions implement regulatory requirements. Guidance notices are not legally binding but provide useful information to promote consistent application of principle-based requirements, without having to resort to less flexible rules-based interventions. Guidance notices may give examples of what the FSCA would see as good or poor practice in relation to specific principles or required outcomes. During the reporting period, the Department facilitated the publication of two guidance notices, i.e.:

  - *Guidance Notice on the debarment process in terms of section 14 of the Financial Advisory and Intermediary Services Act:* This Guidance Notice was published on 6 June 2019. The purpose of the guidance notice is to provide guidance on the rationale to be applied and process to be followed by authorised FSPs when effecting debarments, to highlight the salient factors that require consideration when FSPs effect debarments, and to clarify the function of the FSCA upon receipt of a notification of debarment.

  - *Guidance Notice on Sustainability of Investments and Assets in the Context of a Retirement Fund's Investment Policy Statement:* This Guidance Notice was published on 14 June 2019. The primary purpose of the Guidance Notice was to provide guidance to Boards of funds on how it must comply with Regulation 28(2)(b) read with Regulation 28(2)(c)(ix) of the Regulations under the Pension Funds Act, in particular, how its investment philosophy and objectives, as reflected in its investment policy statement, seeks to ensure the sustainability of its investments and assets. The Guidance Notice also set out the FSCA's expectations regarding certain disclosures and reporting requirements relating to sustainability.

- **Industry Communications**

The department facilitated the publication of numerous industry communications. These communications related to regulatory instruments published for consultation or published as final instruments, general legislative matters, supervisory matters or any other matter the FSCA wished to communicate to industry stakeholders. The FSCA and the Prudential Authority opted to also publish a number of joint communications during the reporting period.

Regulatory Support

The department provided regulatory support to the public, industry stakeholders and other FSCA divisions. Regulatory support entails assisting in the interpretation and application of regulatory and legislative provisions, guidance notices and interpretation rulings and the like, as well as regulatory developments. The department also provided training on legislative developments to the other divisions of the FSCA.

STAKEHOLDER MANAGEMENT

Stakeholder engagement and international cooperation continues to serve as a critical forum for learning, dialogue and the exchange of ideas on best practice.

International

Members of the department participated in numerous working group and committee meetings of the international associations of which the FSCA is a member and of other international and regional bodies and forums, during the year under review.

Domestic

During the year under review, the department liaised regularly with domestic counterparts, industry ombuds, representative bodies of regulated entities, intermediary associations, and the auditing and actuarial professions. The department is also responsible for coordinating the activities of the Market Conduct Regulatory Framework Steering Committee and consultation processes in relation to regulatory framework developments. The Market Conduct Regulatory Framework Steering Committee is made up of cross-functional representatives from financial sector industry associations, ombud schemes and professional bodies. The committee is chaired by the FSCA and meets quarterly. It acts as an informal consultation forum and technical advisory panel for key conduct of business regulatory reforms proposed by the FSCA.

Information sharing

The department responded through the Regulatory Liaison Department to questionnaires and surveys and exchange of information under domestic and international inter-regulatory multilateral memoranda of understanding as well as memoranda of understanding.

MARKET, CUSTOMER AND INCLUSION RESEARCH DEPARTMENT

The Market, Customer and Inclusion Research Department (MCIRD) is responsible for carrying out ongoing proactive research into and monitoring of financial sector trends and emerging market conduct risks. It also carries out specific research projects in its areas of expertise as requested by other FSCA divisions. The department is also responsible for ensuring that regulatory framework developments appropriately support financial inclusion and transformation of the financial sector.

The department included a dedicated unit providing direct support to small businesses within the financial sector, aimed at assisting with compliance with the regulatory framework and promoting business sustainability. In the year under review, a decision was taken to shift this function to the Conduct of Business Supervision division in the next financial year.

In executing its responsibility, the department worked closely with the other divisions and departments, including the Regulatory Framework Department, the Specialist Support Division and the Conduct of Business Supervision Division.

Strategic goal

Strategic goal	Achievement to date towards 3-year targets
Promote entry to the financial services sector by black and emerging entrepreneurs and broadening access to financial services and products by the previously excluded.	MCIRD has continued supporting SMMEs and emerging market participants with workshops aimed at regulatory compliance and regulatory examination training. The department developed and consulted on a financial inclusion strategy for the FSCA and a draft transformation strategy. It has also participated in processes underway at the Financial Sector Transformation Council to revise the Financial Sector Code. Through the department, the FSCA has become a syndicate member of the Finscope Survey, providing key information and data on financial inclusion trends in South Africa.

Key Departmental Performance

The table below presents all the key departmental performance for 2019/20.

Strategic objective	Performance indicator	Achievement 2018/19	Target 2019/20	Achievement 2019/20
To support government policy to achieve a transformed and inclusive financial sector	Date of Ops Exco approval of the transformation framework, including strategy and plan	New initiative	31 December 2019	FSCA financial inclusion strategy approved on 23 January 2020. FSCA transformation strategy submitted for inputs in Q4, but approval delayed due to disruptions related to the COVID-19 pandemic.
	Date of submission of transformation framework, strategy and plan	New initiative	28 February 2020	FSCA financial inclusion strategy approved on 23 January 2020. FSCA transformation strategy submitted for inputs in Q4, but approval delayed due to disruptions related to the COVID-19 pandemic.
	Number of workshops to provide training for small FSPs	14 workshops	10	20 workshops held.

A financial inclusion strategy for the FSCA

In order for the FSCA to achieve its objectives, it is required in terms of the FSR Act to promote financial inclusion. To ensure that this mandate is executed in a coordinated manner, on 23 January 2020, the operational Executive Committee of the FSCA approved the FSCA's financial inclusion strategy. This strategy focuses on initiatives that the FSCA will undertake to address demand side, supply side and regulatory environment issues that impact on dimensions of financial inclusion. There are three dimensions that the FSCA seeks to influence – access to financial products and services, the quality of financial products and services, and usage of financial products and services. The strategy also acknowledges the importance of a multi-stakeholder approach to promoting financial inclusion in the country, and to this end, the FSCA will continue to engage with other relevant stakeholders in forums on financial inclusion matters.

A transformed financial sector

Transformation of the financial sector is one of the key priorities for the FSCA. Our focus on supporting transformation of the financial sector in the year under review has been on the development of the FSCA's transformation strategy and building strong cooperative relationships with the Financial Sector Transformation Council (FSTC) and the Broad-Based Black Economic Empowerment (B-BBEE) Commission to enable improved coordination and harmonisation of efforts to promote and monitor progress in the transformation of the financial sector. To this end, the FSCA has been participating in structures of the FSTC, in particular, on the structures established to review the Financial Sector Code. Engagements to formalise the relationship between the FSCA and FSTC through a Memorandum of Understanding (MoU) has taken place and the process of drafting the MoU is underway. The FSCA's transformation strategy has been developed and is being consulted on internally. In the next financial year, increased attention will be given to formalising a relationship with the B-BBEE Commission and finalising the FSCA's transformation strategy.

Research projects and initiatives

The department published the FSCA's inaugural Perimeter Report in January 2020. The report provided a comprehensive overview of the areas of jurisdiction of the FSCA in the financial sector. It also highlighted issues and areas that are testing the FSCA's perimeter of jurisdiction and explained the Regulator's response thereto. The report was distributed to a variety of stakeholders including industry, government and non-government players.

Other research initiatives participated in during the year under review, included:

- Developing an industry questionnaire relating to the sale of value-added products at point of sale through motor dealerships

- A research project commissioned by the National Treasury through the World Bank examining the financial sector ombuds system in South Africa
- A project in partnership with the Consultative Group to Assist the Poor (CGAP) in developing a framework for testing customer outcomes.

The results of these projects are anticipated to be finalised in the next financial year.

Direct support to emerging market participants in the financial sector

The Inclusive Business Models Support Unit (IBMSU) exceeded targets for outreach programmes to small, emerging FSPs and to intermediaries and representatives, including the previously disadvantaged. A total of 20 workshops were held in the financial year under review, reaching close to 600 individuals. The unit partnered with the Small Enterprise Development Agency (SEDA) for workshops aimed at SMMEs, enabling support to be provided from both a regulatory and business sustainability perspective. The unit also developed a partnership with the Insurance Sector Education and Training Authority (INSETA) to accompany them on outreach initiatives and further raise awareness of the work of the unit and its offerings. To further improve the outcomes of this unit, a decision was taken to shift the IBSMU function to the Conduct of Business Supervision Division to align more closely with supervisory initiatives underway.

REGULATORY LIAISON DEPARTMENT

The Regulatory Liaison Department supports the FSCA's strategic priorities of promoting fair customer treatment and the building of a new organisation by advancing international and domestic regulatory and enforcement cooperation and collaboration.

Progress towards achieving these goals are summarised below:

Strategic outcome	Achievement to date towards 3-year targets
Effective transition to the FSCA with minimal disruption to regulatory oversight and service delivery.	The Regulatory Liaison Department hosted the Familiarisation and Training Programme for Authorities within the Southern African Development Community (SADC) region and four study visits from specific authorities within the SADC region. The department further facilitated the conclusion of bi-lateral MoUs with the Department of Home Affairs and the Companies and Intellectual Property Commission.
Ensure the regulatory and supervisory framework is in line with international standards and best practices.	The department issued 13 Monitors on Local and Regulatory Developments and participated in surveys/questionnaires from international standard setting bodies. It coordinated and attended the CISNA biannual and subcommittee meetings and reported on the progress of implementing the FSAP recommendations. It further responded to 254 requests for information from domestic and foreign regulators.

INTERNATIONAL FORUMS

The FSCA recognises that financial markets and the provision of financial services are global in nature and that international cooperation and collaboration are critical in helping to ensure the protection of South African customers and the integrity of South Africa's financial markets. The FSCA therefore works closely with its international counterparts and policy forums to ensure it remains abreast of regulatory developments and has the opportunity to influence international and regional regulatory policy.

During the past year, the FSCA's participation in the following international and regional forums has remained a core part of its work:

- International Organisation of Securities Commission
- International Association of Insurance Supervisors
- International Financial Consumer Protection Organisation
- International Network on Financial Education
- International Actuarial Association

- International Organisation of Pension Supervisors
- Committee of Insurance, Securities and Non-Banking Financial Authorities
- Financial Action Task Force
- Organisation for Economic Cooperation and Development.

COOPERATION AND COLLABORATION

International

The FSCA continues to cooperate and collaborate internationally with regulators to prevent financial crime and customer abuse. The cooperation and collaboration are enabled through 98 bi-lateral and multi-lateral memoranda of understanding (MoUs). During the reporting period, the FSCA shared information in terms of the MoUs in respect of 254 requests from its counterparts in foreign jurisdictions.

Domestic

On the domestic front, the FSCA is an integral part of South Africa's broader regulatory framework. A significant part of the FSCA's work therefore involves close collaboration and liaison with domestic counterparts to ensure consistent regulatory strategies, effective supervision and enforcement, and minimisation of the duplication of effort and expense. The FSCA regularly engages through standing arrangements with domestic counterparts at executive and operational level on matters of mutual interest.

The FSCA further participates in and provides the administrative support for the Financial System Council of Regulators that was established under the Financial Sector Regulation Act to facilitate cooperation and collaboration, and, where appropriate, consistency of action, between the institutions represented on the Council by providing a forum for senior representatives of those institutions to discuss, and inform themselves about matters of common interest.

During the reporting period, the FSCA entered into MoUs with the Department of Home Affairs and the Companies and Intellectual Property Commission. The main purpose of the MoUs is to facilitate the automated sharing of information between the parties.

The FSCA further collaborates with the Independent Regulatory Board for Auditors who submitted eight reports of reportable irregularities to the FSCA during the reporting period.

Capacity Building

The FSCA continues to offer assistance to its regional counterparts. In March 2020, the FSCA hosted the Familiarisation and Training Programme. The training was attended by participants from Angola, Botswana, Eswatini, Lesotho, Kenya, Namibia, Seychelles, Uganda and Zambia. The programme is designed to provide regulatory authorities operating in the SADC region with an opportunity to share and learn from each other's best practices and challenges in regulating and supervising the financial services industry.

The FSCA further facilitated requests for study visits from the Democratic Republic of Congo's Autorité de Régulation et de Contrôle des Assurances, Central Bank of Nigeria, Central Bank of Eswatini and the Ministry of Finance and Economic Development in Botswana. The FSCA also facilitated visits from foreign industry participants with domestic industry associations.

Committee of Insurance, Securities and Non-Banking Financial Authorities Secretariat

The Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA) was established in June 1998 by SADC as a Committee of Authorities responsible for the supervision of insurance, securities and non-banking financial sector industries in SADC Member States. CISNA is part of the Trade, Industry, Finance and Investment Directorate of the SADC and reports to the SADC Committee of Ministers of Finance and Investment.

The FSCA is a member of CISNA and participates in its various subcommittees. The FSCA continues to provide secretariat support to CISNA and manages the CISNA website until the Office of the Permanent Secretariat is able to take over the secretariat functions. During the reporting period, the FSCA assisted with the bi-annual meeting that was held in Mauritius during April 2019 and it hosted the October 2019 bi-annual meeting in Cape Town, South Africa.

INTERNATIONAL ASSESSMENTS/SURVEYS

Financial Sector Assessment Programme

The Financial Sector Assessment Programme (FSAP) is a comprehensive and in-depth analysis of a country's financial sector and is the joint responsibility of the International Monetary Fund (IMF) and the World Bank (WB) in developing economies and emerging markets. South Africa, as a G20 country, is expected to undertake an FSAP review every five years. South Africa last underwent an FSAP review in 2014, with the final reports published during December 2014 and March 2015. South Africa is currently subject to an assessment in which the FSCA plays an important role. The first on-site mission took place from 24 February 2020 until 16 March 2020. However, due to the COVID-19 outbreak, certain components of the assessment did not take place and has been postponed to the second mission scheduled for the second quarter in 2020.

During the first on-site mission, the FSAP assessors conducted approximately 200 meetings with regulators, national government departments and participants from the industry.

Surveys

During the reporting period, the FSCA coordinated and or participated in the following surveys and questionnaires:

Institute of International Banker Global Survey	The World Bank-CCAF Global Alternative Finance Regulation Survey
Inputs on G20 Data Gaps Initiative Phase 2	FinCoNet SupTech Tools for Market Conduct Supervisors Survey
IOSCO Retail Investor Complaint Handling and Redress Practices and Procedures Survey; Inputs to FSB OTC Derivatives Market Reforms	2019 Implementation Monitoring Network (IMN) Survey of National/Regional Progress in the Implementation of G20/ FSB Recommendations
OECD Corporate Governance Thematic Peer Review on Company Groups	Inputs to IOSCO Crypto Assets Trading Platforms Report
IOSCO Thematic Review on Business Continuity Plans Survey	FinCoNet Stocktaking exercise on regulatory approaches to creditworthiness assessment
Inputs to OECD Consolidated and updated Effective Approaches for Financial Consumer Protection (FCP) Principles	FinCoNet Suptech Tools Survey
Inputs to IOSCO proposed recommendation on synchronising clocks used for timestamping with Universal Time Coordinated (UTC) Survey	IOSCO Survey on providing investor education on crypto assets
IMF/World Bank South Africa FSAP 2020 Questionnaire	IMF/World Bank Progress with 2014 FSAP Recommendations Questionnaire
National Consumer Commission Tripartite Protocol on Competition Policy Survey	SARS Exchange of Information on Request (EIOR) Survey
IMF/World Bank Questionnaires on IOSCO Self-Assessment, International Association of Insurance Supervisors (IAIS) Self-Assessment, IOPS Self-Assessment, FSAP Questionnaire	Banks for International Settlements (BIS) Questionnaire on the Emerging Markets Deputy Governors 2020 Meeting
OECD NFIs Benchmarking Project	IOSCO Enforcement of Monetary Sanctions Abroad Survey
OECD/INFE Stocktaking on financial inclusion for Youth Survey	BIS Questionnaire on London Interbank Offered Rate (LIBOR) transition
FSB Survey on supervisory challenges associated with third-party dependencies/outsourcing	Capital Market Authority (CMA) Saudi Arabia Study on Development of Capital Market Sector
IMF/World Bank interconnectedness Data Input	

CONSUMER EDUCATION DEPARTMENT

The activities of the Consumer Education Department (CED) of the FSCA is mandated through section 57 of the Financial Sector Regulation Act of 2017, which directs the FSCA *"to protect financial customers by providing financial customers and potential financial customers with financial education programmes, and otherwise promoting financial literacy and the ability of financial customers and potential financial customers to make sound financial decisions."* This mandate is implemented through one of the FSCA's strategic priorities for the next three years to ensure that we have informed financial customers. The intended outcomes of this priority are to have broader consumer protection, integrate financial education with regulatory functions, coordinated industry financial education activities, have improved data on consumer behaviour and attempt to positively change consumer behaviour when it comes to personal financial management.

Strategic goal

Strategic goal	Achievement to date towards 3-year targets
Promote financial education to consumers of financial services and products by way of focused financial literacy interventions using the media, workshops, exhibitions, etc.	The department implemented a total of 265 activities reaching about 25 039 consumers through face-to-face interactions and engaged with 59 stakeholders towards achieving our targets.

Service delivery objectives, indicators and outputs

The Consumer Education Department uses a variety of innovative methodologies to engage with consumers. From research and resource development to the implementation of workshops, exhibitions, media activities, youth campaigns and projects. All these activities are supported by online resources through our new website at https://www.fscamymoney.co.za and various social media platforms. Most of the activities are also monitored and evaluated by an external independent company.

Research, Monitoring and Evaluation

The South African Social Attitudes Survey (SASAS) continues to be highly successful in identifying key financial literacy indicators. This is utilised to measure the various socio-economic factors which have a major impact on the financial behaviour of consumers. In 2019, the CED commissioned a follow-up to the 2012 financial literacy baseline study, which will be an expansion of the SASAS. This is part of the on-going effort to understand, monitor and promote financial literacy in the country. Due to the COVID-19 lockdown, the Human Sciences Research Council, who was commissioned to conduct the survey, has issued a directive suspending all SASAS fieldwork activities until further notice.

As stated, the CED regularly monitors and evaluates its campaigns and projects. The monitoring and evaluation processes are essential because it provides insights into the strengths, weaknesses and lessons learnt for each respective initiative. During this period, the following initiatives were monitored and evaluated by an external company:

- National Financial Literacy Speech Competition 2019
- Youth Finance Campaign 2019.

The final reports on these projects as well as various other research reports are available at www.fscamymoney.co.za.

Resource development

In order to design and plan its activities, the department uses the data and analytics from the trends provided by the Financial Literacy section of the SASAS. This data is also used to identify gaps in the content that is included in the design and development of the resources that are distributed during our activities and published on our website. In 2018, the department started a process to review, revise and redesign 16 resource materials. Whilst this review and development is continuing, existing resources are still available on the consumer education website.

The CED also developed the *"FSCA MyMoney Learning Series."* The series, which is to be used in all CED activities in the future, is a picture-based, conversational, facilitated learning resource that can be tailored by the facilitator for different target audiences. The learning series is centered on the life experiences of individuals and consists of five themes, namely, Financially Smart, Financial Safeguard, Financial Protection, Financial Knowledge and Business Finance. The series has 75 elements, covering 31 sub-topics and is supported by an e-learning component. The learning series also has extensive Facilitator and Learner Guides to facilitate learning. The development of the series also includes a stand-alone Facilitator Guide for the blind and people who are partially sighted.

Activities

Activities are contained within our community outreach, formal education and youth programmes. During the year under review, the department reached about 25 039 consumers through face-to-face activities and approximately 2 786 616 listeners through media activities. These media numbers are as provided by the radio stations.

Unfortunately, due to the measures instituted by the declaration of the National State of Disaster and the lockdown due to the COVID-19 pandemic, some activities had to be postponed or cancelled. This included the Money Smart Week which was scheduled for 23 to 28 March 2020. However, the following activities, campaigns and projects were implemented during the 2019/20 financial year.

Expanded Public Works Programme Workshops

In 2016, the FSCA (then FSB) entered into an agreement with the Department of Public Works and Infrastructure (DPWI) to conduct financial literacy workshops for participants of the Expanded Public Works Programme (EPWP). This Intergovernmental partnership proved to be most successful as the 2016 to 2017 campaigns reached 22 483 EPWP participants.

The partnership was based on a Memorandum of Agreement (MoA) and in 2018, the FSCA and DPWI entered into a further agreement to train DPWI national and provincial officials to conduct the workshops to the EPWP participants. Although this train-the-trainer approach initially had logistical challenges, 4 000 participants were reached in 2018. In addition to the train-the-trainer courses, the MoA also made provision for the CED to support the DPWI officials by providing resource materials, and monitoring and evaluation for the workshops, while the DWPI was responsible for the implementation of all logistics and facilitation of the workshops and for providing the FSCA with a report of registered participants.

The 2019/20 report shows that the DPWI officials conducted over 56 workshops reaching over 1 284 EPWP participants. Based on the success of this intergovernmental project, the FSCA and DPWI have entered into a further agreement to deliver workshops for approximately 30 000 EPWP participants over the next three years with effect from 2020.

National Financial Literacy Speech Competition

The National Financial Literacy Speech Competition is open to Grade 11 learners following the commercial curriculum streams in public schools in South Africa. During 2019, schools from quantiles 1, 2 and 3 in all nine provincial departments of education participated in the competition. The competition entails learners delivering a five-minute speech at school, district and provincial level. The speech topics were on financial planning, entrepreneurship and the management of money.

After intense competitive district and provincial finals, nine learners representing the nine provinces, assembled at the Emperor's Palace Conference Centre for the national final. The keynote speaker was Gauteng MEC for Education, Mr Panyaza Lesufi who urged the audience to think entrepreneurially and become creators of jobs and ideas in order to enhance our economy. The winner was Kuhle Tshambula from Little Flower Secondary School in KwaZulu-Natal, who received an investment prize of R60 000 (R30 000 plus her provincial prize of R30 000), the first runner-up was Elona Manzingana from St Teresa Secondary School in Eastern Cape, who received R45 000 (R30 000 as provincial winner plus R15 000) and Unathi Baloyi from EPP Mhinga High School in Limpopo, who received R37 500 (R30 000 as provincial winner plus R7 500). In addition to the investment prizes, all nine provincial winners received a full bursary, covering tuition, accommodation, study resources, academic and psychosocial support.

Youth Financial Awareness Campaign

Building on the success of the 2018 Youth Financial Awareness Campaign in Gauteng, which reached 2 717 in and out of school youth, the CED expanded the 2019 campaign by adding the Eastern Cape and Mpumalanga provinces. The primary purpose of the project is to connect the youth with industry bodies and key stakeholders that will provide them with valuable information, guidance and opportunities to empower themselves. It was envisaged that during the interactions, attendees would obtain:

- Information to increase financial literacy through greater financial awareness and understanding the pitfalls that lead to bad financial decisions.
- Guidance on starting a business, how to register a business, required documentation and information to apply for start-up capital.
- Opportunities to engage with companies offering learnerships and internships.

The objective of the campaign was achieved through the inclusion of several key stakeholders such as the Department of Trade and Industry (DTI), Companies and Intellectual Property Commission (CIPC), Small Enterprises Development Agency (SEDA), National Youth Development Agency (NYDA), Department of Labour (DOL), Fundi, South African Revenue Service (SARS), National Credit Regulator (NCR), Harambee, Technical and Vocational Education and Training (TVET) colleges and universities.

The campaign entailed four roadshows over three months, starting in Sebokeng, Vosloorus (Gauteng), Kameelrivier (Mpumalanga) and Mthatha (Eastern Cape), ultimately reaching 4 143 youth.

The final monitoring and evaluation report revealed, amongst others, that the CIPC registered 26 businesses for the youth that attended in Gauteng, 97.1% of the respondents affirmed that they had gained more insight on financial literacy from the sessions and Harambee indicated that they processed a total of 632 job applications in Sebokeng and Vosloorus.

Mobile Outreach Campaign

In 2018, the FSCA initiated a Mobile Outreach Campaign (MOC). This involved the purchase and customisation of a vehicle that would serve as a mobile unit to reach mostly rural areas. The main aim of the MOC is to enhance the brand awareness levels of the FSCA with respect to financial education and the role of the regulator. Topics covered during the 2019/20 campaign included the role of the FSCA, savings, budgeting, consumer rights and responsibilities when buying financial products and the importance of dealing with authorised financial services providers, as well as recourse options. The MOC participated in 19 exhibitions, reaching 4 240 consumers, across all provinces in South Africa. Of the 4 240 consumers reached, 12% were from rural areas and 88% from urban areas.

On-line activities

During 2019/20, the FSCA consumer education website was redeveloped and designed to make the website more efficient and user friendly and to bring it in line with the FSCA's MyMoney learning series. The new website, www.fscamymoney.co.za, was launched internally on 6 March 2020 and provided an opportunity for the CED to create awareness and showcase its activities amongst the rest of the FSCA staff.

The website will also enable the FSCA to collect detailed analysis data from consumers using Google Analytics. The use of social media has also increased the FSCA's footprint and enabled the brand to take advantage of the leaps in technology. Our social media pages, Facebook, Instagram, LinkedIn and YouTube continues to gain traction. The FSCA's online Trustee Training Toolkit (TTK) for trustees of retirement funds continues to grow in popularity. To date, 8 630 trustees have registered on the e-learning system and 1 793 have passed the summative assessment test for 2018/19. The online e-learning programme can be accessed via www.trusteetoolkit.co.za and registration is free.

Stakeholders

The Consumer Education Department maintains successful relationships with all stakeholders interested in and participating in financial education activities. The most significant stakeholder engagement for 2019/20 was the FSCA's hosting of the Organisation for Economic Development's International Network on Financial Education (OECD/INFE) meetings and conference. The OECD/INFE is a standard setting forum that assist countries by developing high-level principles and implementation strategies for financial education and share experiences and best practice. The 11th meeting of the OECD/INFE Technical Committee and its working groups were held on 21 and 22 May 2019. Sixty-seven representatives from 38 INFE member countries attended the meetings.

The FSCA-OECD International Conference "Financial Education of the Future" took place on 23 and 24 May 2019. Both events were held at The Westin, Cape Town, South Africa. "The participation of 200 international experts from over 50 countries, including many high-level officials from government, central banks, financial institutions and not-for-profit organisations, contributed to the success of the event and to the relevance of the discussions held" (OECD, 2019). The feedback we have received locally and internationally, indicated a very high level of satisfaction, both for the content and the organisation of the conference.

Other important engagements were with the stakeholders and the Steering Committee of the Money Smart Week. The Head of Department is also regularly invited to speak at financial education conferences and presented at the following conferences:

- 23 May 2019, Cape Town, South Africa FSCA-OECD Conference "Financial Education of the Future" – Moderator: 'Trial and error': Lessons learnt from programme implementation and how these lessons have improved future projects.
- 11 October 2019, Rio de Janeiro, Brazil, OECD-CVM Global Symposium "Aiming high: financial education for short-term needs and long-term goals" - Moderator: 'Don't be an easy target': teaching young people to limit impulsive spending, manage credit and look beyond immediate needs.

The Consumer Education Department also participated in the CISNA familiarisation programme hosted by the FSCA from 2 to 6 March 2020.

Strategic Priority 4: Informed financial customers					
Strategic Outcome/Objective: To ensure informed financial customers					
Strategic goal	**Performance indicators (Number of interventions)**	**Achievement 2018/19**	**Target for 2019/20**	**Achievement 2019/20**	**Reason for deviation**
Provide financial customers and potential financial customers with financial education programmes to promote financial literacy and capability	Research/ monitoring and evaluation	10	5	9	Additional reports received from service providers e.g. fieldwork reports, final reports as well as case studies.
	Resource development	5	8	11	Additional resources received from the service provider for the MyMoney learning series.
	Workshops, presentations and edutainment	190 (22 449 consumers)	114	143 (16 850 consumers)	Target exceeded due to additional EPWP workshops.
	On-line activities, FSCA consumer education website, Trustee Toolkit, social media	1	1	1	
	Exhibitions	19 (7 267 consumers)	16	19 (4 189 consumers)	Additional exhibitions were held with the National Empowerment Fund using the mobile unit.
	Media activities	20 (399 000 listeners and viewers) *	15	16 (2 786 616 listeners)*	Additional interview on UNISA radio.
		* Statistics as received from radio and television stations.			

Strategic Priority 4: Informed financial customers					
Strategic Outcome/Objective: To ensure informed financial customers					
Strategic goal	**Performance indicators (Number of interventions)**	**Achievement 2018/19**	**Target for 2019/20**	**Achievement 2019/20**	**Reason for deviation**
	Money Smart Week	1	1	0	Money Smart Week postponed due to COVID-19 pandemic.
	Interprovincial speech competition events	59 (1 795 learners)	83	87 (3 000 learners and approximately 1 000 audience in attendance)	Target exceeded due to additional provincial workshops as the project now included all 9 provinces.

FINANCIAL TECHNOLOGY

A key objective of the FSCA regulatory framework is to mitigate the risks associated with technology in financial services, while encouraging innovation that may deliver efficiencies and promote inclusion. To this end, the Fintech Department was established in the past financial year, with recruitment and onboarding of the Head of Department and senior specialists, as well as the development of the strategic roadmap. The key strategic focus areas for the Fintech Department include:

1) Providing regulatory guidance to Fintechs.
2) Testing new Fintech innovations in a Sandbox.
3) Conducting research on latest Fintech developments in order to influence policy change.
4) Providing subject matter expertise within FSCA and to external stakeholders.
5) Engaging with the Fintech ecosystems (incubators, venture capitals, academics, incumbents).

In delivering on the Fintech strategic roadmap, several key milestones were achieved over the past financial year:

- In July 2019, the FSCA Fintech Department was part of the Intergovernmental Fintech Working Group (IFWG) core founding team responsible for designing and building out the Fintech Innovation Hub focus areas and processes from the ground up. This was done through a series of design workshops that commenced on 4 July 2019 and concluded in October 2019. The key outcome was to establish the multi-regulator Fintech Innovation Hub with the mission of "facilitating innovation in South Africa in a manner that is coordinated, collaborative and controlled." There are four key components underpinning the innovation hub, including:

1) ***Regulatory Guidance Unit*** which will be the first entry point for Fintech firms to obtain support in navigating the regulatory landscape.
2) ***Regulatory Sandbox*** which provides a live testing environment that balances the risks and benefits of introducing innovative solutions to the market that cannot be addressed within the current regulatory framework.
3) ***Innovation Accelerator*** which conducts research to inform new policies and hosts events that drive collaboration across the Fintech ecosystem.
4) ***Internal Innovation Function*** which is owned by each regulator and will interface with the innovation hub, where disruptive technologies and leading practices identified in the innovation hub will be recommended for consideration by individual regulators.

- In September 2019, the Fintech Department successfully co-hosted the IFWG Fintech workshop with SARB, focused on six workstreams, including; 1) Harnessing artificial intelligence (AI) for economic growth, 2) Innovation, 3) Digital Identity, 4) Open Banking, 5) Cybersecurity, and 6) Digital Currencies. The workshops gave regulators, Fintech firms and banking incumbents an opportunity to interact on key Fintech regulations, policies and trends.

- In October 2019, the FSCA Fintech Department successfully co-hosted the South African Fintech Hackathon with SARB, where Fintech's were tasked with responding to a number of problem statements with novel and demonstrable solutions. These solutions were showcased to a judging panel made up of industry executives and regulators. This led to the selection of two top Fintechs (from 100 entries), that went on to participate in the Global Fintech Hackathon in Singapore.
- In January 2020, the Fintech Department together with the IFWG published the South African Fintech Landscape Research, which identified 222 active and operational Fintech firms in South Africa. The top three segments included payments which made up 30% of the Fintech landscape, B2B technology players at 20% and lending at 12%.
- In January 2020, MoUs where approved and signed between all participating IFWG regulators responsible for executing the Fintech Innovation Hub (FSCA, SARB, National Treasury, FIC, SARS, FinSurv, NPSD, NCR). This cleared the way for the innovation hub to be formally launched to the public.
- In March 2020, the Fintech Innovation Hub was officially launched to the public. Owing to COVID-19, the launch was done digitally, through press releases and live video streams, addressing various public questions on the how the hub will work. The launch was met with a positive response and cited as "much needed" and "timely" by the Fintech ecosystem. Since the launch of the innovation hub, it has already engaged over 50 Fintech firms, and is in the process of accepting and reviewing applications from Fintechs to participate in the Regulatory Sandbox, showing signs of a healthy demand from the marketplace.
- In April 2020, the Fintech Department together with the IFWG published the Crypto Assets Working Paper for public comment, which outlines the approach to regulating Crypto Assets in South Africa.

In the coming financial year, the Fintech Department will be focused on guiding even more Fintechs on regulatory matters, conducting Sandbox tests, and carrying out research focused on digital platforms, non-traditional data, Regtech and Suptech, open banking and artificial intelligence in order to develop new policies. The department will also host a number of industry workshops as a means to drive collaboration between regulators and the Fintech ecosystem.

CONDUCT OF BUSINESS SUPERVISION DIVISION

PURPOSE

The Conduct of Business Supervision Division is responsible for the ongoing supervision of the business conduct of all supervised entities, with an emphasis on promoting fair treatment of financial customers, other than retirement funds (supervised by the Retirement Funds Supervision Division) and market infrastructures and certain other participants in the financial markets (supervised by the Market Integrity Supervision Division). The focus of the division is supervision throughout the relevant product lifecycle, including product design and customer targeting, and all stages of pre- and post-sale services.

The structure of the division is intended to strike a pragmatic balance between the activity-based CoFI licensing and regulatory framework, and the need to ensure adequate sector-based expertise for specific processes.

STRATEGIC OBJECTIVES

The division's priorities are aligned with the following overall objectives of the FSCA:

1. Building a new organisation.
2. An inclusive and transformed financial sector.
3. A robust supervisory framework that promotes fair outcomes for financial customers.

DEPARTMENTS

The Conduct of Supervision Division consists of six departments and indicated in the table below.

Department	Function Description
Supervision: Banks and Payment Providers	The unit is accountable for supervising the business conduct of entities authorised to issue banking products and entities authorised to provide payment services. The unit supervises the provision of credit by banks (other than co-operative banks, which is overseen by the Supervision: Micro and Access Product Institutions Department), with the scope of this supervision to be finalised through a MoU with the NCR under the FSR Act. The department will also supervise the advice and intermediary services offered by banks.
Supervision: Insurers and Retirement Fund Benefit Administrators	The department is accountable for supervising the business conduct of entities authorised for issuing insurance products and entities authorised for retirement fund benefit administration. The two areas of focus are combined in the same department to ensure consistency, as many large Retirement Fund Benefit Administrators are also insurers. The department will also supervise the advice and intermediary services offered by insurers and their tied agents.
Supervision: Micro and Access Product Institutions	This department is accountable for supervising the business conduct of micro-insurers and other financial services entities operating in the "micro" or "access product" space. For these purposes, access products include micro-insurance policies, funeral policies (including funeral policies sold by traditional insurers), and products offered by friendly societies, co-operative banks and co-operative financial institutions. The scope and unit structure of this department will need to adapt in response to evolving financial inclusion policy developments and structures. In cases where such institutions form part of larger groups or offer both micro and other traditional products or services, coordination with other relevant Conduct of Business (COB) supervision units will be required.
Supervision: Financial Advisers and Intermediaries	The department is accountable for supervising the business conduct of entities licensed to render financial advisory and intermediary services, and entities who are authorised for the activity of product sales and execution on a non-advise basis, where the entity is not also authorised for the actual issue of the products concerned. During the year, the Enforcement Assessment Department moved from the Enforcement Division to the Financial Advisors and Intermediaries Department. The two departments are mainly involved with the activities of the category I and IV FSPs, and as such, it was a natural move to join the two into one department.

Department	Function Description
Supervision: Investment Providers	Accountable for supervising the business conduct of a range of financial institutions authorised for various activities in relation to investments. Activities concerned (as contemplated in the current draft of the CoFI licensing framework), include: • Providing a pooled investment (CIS managers and schemes, as well as alternative investment funds). • Discretionary investment management (currently FAIS Category II and IIA intermediaries). • Investment platform administration (LISPs with bulking – currently FAIS Category III intermediaries). • Investment Administrators.
FICA Supervision – The FICA department was going to be created in 2019/20, but due to various factors, the establishment was moved to 2020/21. The FSCA is still exercising the obligation to act as a Supervisor in terms of the FIC Act, as the established supervision departments are fulfilling the role and obligations.	This department will be accountable for carrying out the FSCA's supervisory functions under the Financial Intelligence Centre Act. The department will also ensure that any referrals relating to Anti-Money Laundering/Counter Financing of Terrorists (AML/CFT) matters received from the Financial Intelligence Centre are appropriately dealt with within the FSCA. As per the MoU with the PA, the FSCA's FICA responsibilities in respect of insurers have been delegated to the PA.

PERFORMANCE

Strategic outcomes-oriented goals

Strategic outcome	Achievement to date towards 3-year targets
Building a new organisation • Effective transition to the FSCA with minimal disruption to regulatory oversight and service delivery.	The division created and staffed five of the six departments. The five departments are already functioning, with no disruption to the oversight of licensed entities. This includes financial advisers and intermediaries, investment providers, micro and access product institutions, Insurers and Retirement Benefit Administrators, Banks and Payment Providers. FICA Supervision is being staffed, however, it must be noted that FICA Supervision continues to be conducted by the other departments within the COB Division with assistance from the FIC Unit in the Office of the General Counsel.
An inclusive and transformed financial sector • Promote entry to the financial services sector by black and emerging entrepreneurs and broadening access to financial services and products by the previously excluded.	Many of the FSPs do not have compliance officers. Their access to credible information regarding their compliance responsibilities in terms of the legislation is limited. The COB Division hosted 10 workshops aimed at small FSPs to guide them through the requirements of the legislation. The COB Division also conducted 4 workshops aimed at FSPs who are considering becoming Micro Insurance Institutions.
A robust regulatory framework that promotes fair customer treatment • Ensure the regulatory and supervisory framework is in line with international standards and best practices. • Ensure effective and efficient conduct supervision processes.	The supervision plan of the division is aimed at developing and implementing a robust regulatory framework. Fair customer outcomes are part of the approach and underpins the activities of the division. The work that is being done to develop a Conduct of Business Return (CBR) is a case in point. The CBR uses market conduct indicators to assist the division in doing intrusive off-site monitoring of the various individual entities and the industry as a whole. By using analytical tools, trends can be identified and addressed before it necessarily becomes a concern. This will also influence the development of the regulatory landscape. We have already started identifying possible market practices and products that will form part of thematic reviews that the division will further investigate. Further to this, the division has embarked on a project to develop an Omni-CBR for the entire division. This will enable all financial institutions to customise the return for their particular business/license and complete only the relevant parts. The aim is also to be more intrusive and intensive in our approach of supervision for the other financial entities.

Strategic outcome	Achievement to date towards 3-year targets
	It is expected that the first draft of the return will be published for comments at the end of 2020. The COB Division uses different supervisory tools. The supervisory tools include information gathering from diverse sources, such as, complaints and queries from consumers and other stakeholders, consumer bodies and industry associations, alternative dispute resolution structures, consumer and other media, research conducted on general or specific industry trends and targeted mystery shopping. The COB Division conducts supervisory off-site monitoring, which will enable the formulation of pre-emptive responses to emerging conduct risks. The COB Division will also be able to build a picture over time, of an institution's culture and behaviour, which will influence the risk profile. Supervisory on-site inspections will enable the division to confirm the insights gained into an institution. The risk-based approach to supervision will also inform the need for thematic on-site inspections. The findings from thematic on-site inspections may form the basis for future supervisory and regulatory reforms.
Informed financial customers • Promote financial education to consumers of financial services and products by way of focused financial literacy interventions using the media, workshops, exhibitions, etc.	The COB Division has engaged with the Consumer Education Department on a variety of initiatives, providing technical support when required.
Pro-active stakeholder management • Pro-active stakeholder management by implementing an effective communication, brand, reputation and stakeholder management strategy.	The COB Division has an interactive approach to stakeholder management. There are regular engagements with specific industry associations and professional bodies, including Banking Association of South Africa (BASA), Association for Savings and Investments South Africa (ASISA), South African Insurance Association (SAIA), Independent Regulatory Board for Auditors (IRBA), South African Institute of Chartered Accountants (SAICA), Compliance Institute of South Africa (CISA), South African Funeral Parlour Association(SAFPA), Financial Planning Institute (FPI), Insurance Institute of South Africa (IISA), Financial Intermediaries Association (FIA) and Black Broker's Forum (BBF). The engagements include regular meetings to discuss industry concerns and cooperation between the FSCA and the industry. This includes cooperation and participation in industry projects and workstreams. The COB Division is also actively involved in engagements with other regulatory bodies, including the Prudential Authority, the FIC and the Council for Medical Schemes. The COB Division regularly accepts invitations to speak at industry events, as this also affords an opportunity to engage the industry regarding regulatory concerns and developments. Where requested, the COB Division also meets with regulated entities and the compliance fraternity to share information relating to supervisory trends.

Service delivery objectives, indicators and outputs

Banks and Payment Providers

Banks and Payments Providers is a relatively new department within the Conduct of Business Supervision Division (CoB). The specific objective for the department is to give effect to the FSCA's extended mandate of supervising and regulating the conduct of retail banks and payment providers in order to ensure that customers are treated fairly and are always protected.

Achievement of strategic objectives

Strategic objective	Performance indicator	Achievement 2019/20
To build an effective and efficient organisation, fully capacitated to deliver on its mandate.	Date of establishment of the new Banks and Payment Providers Supervision Department.	Successfully established the new Banks and Payment Providers Supervision Department in June 2019 and sourced in relevant resources with capability and capacity in order to ensure that the department efficiently and effectively gives effect to the new mandate. The department was fully functional from November 2019.
Improved brand awareness, financial literacy, customer awareness and understanding of their rights and responsibilities when making financial decisions.	Reports on training on support programmes for communities utilising banking services.	Banks and Payment Providers Supervision Department held a basic banking awareness programme in the Marble Hall for 54 farmworkers.

Number of supervised entities:

Banks

Number of Banks as per confirmation of Banks licensed and supervised by the FSCA: 36

- Locally Controlled Banks 17
- Foreign Controlled/Branches of Foreign Banks 16
- Mutual Banks 3

Desk based activities:

Banks

- Targeted information on the findings of the Retail Banking Diagnostic Report (June 2018):
  - 15 Banks submitted targeted information to analyse the current gap in implementing recommendations on the report.
  - 87 Complaints were received and resolved.

Complex complaints mediated by the Banks and Payment Providers Department resulted in R374 926.23 being refunded to customers by the Banks:

- Absa internet banking fraud complaint/Mr Pickering R34 197
- Nedbank branch fraud complaint/ Hands on Club Stokvel R284 000
- Standard Bank branch negligence ML Mahlobogwane R56 729.23

- Mystery Shopping:

  The department embarked on mystery shopping exercise which included visits to different branches and focused on issues of unfair fees and fair customer treatment. Mystery shopping feedback was shared with the banks with expected correction plans expected.

- Interim Financial Results:

  The department commenced analysis of the interim financial results of different banks to clearly gauge the key focus areas for each bank in relation to Market Conduct.

On-site Inspection conducted:

Type of Inspection	Bank Name
Market conduct supervisory inspection	First Rand Bank Holdings Ltd

Stakeholder engagements:

- Banks: Stakeholder engagements held:

Stakeholders	Level of Engagement	Number of Meetings Held
Prudential Authority	Share information and identify areas of mutual concern	5 Meetings held
Banking Association South Africa (BASA)	Share information and identify areas of mutual concern	6 Meetings held
Payments Association South Africa (PASA)	Share information and identify areas of mutual concern	4 Meetings held
BankServ	Share information and identify areas of mutual concern	1 Meeting held
National Payments Systems Department (NPSD)	Share information and identify areas of mutual concern	7 Meetings held
Ombudsman for Banking Services (OBS)	Share information and identify areas of mutual concern	2 Meetings held

- Banks: Engagements with banks executive personnel:
  - FSCA participation in 10 board meetings with banks
  - 36 Meetings held with banks group chief executive officers (CEOs)
- 42 Meetings held with banks market conduct executives – These meetings were to understand the banks business model, strategic objectives and the market conduct journey of each bank.

Insurers and Retirement Fund Benefit Administrators

Number of supervised entities:

Insurers:

	2018/19	2019/20
Number of insurers – as per a list from the Prudential Authority	170	175
Number of operational insurers	162	158
Life: excluding re-insurers	74	68
Non-life: excluding reinsurers	91	75
Composite (all re-insurers)	5	5
Re-insurers (including the composite insurers)	9	10

Section 13B Administrators

2018/19	2019/20
156	159

Desk-based activities:

Insurers:

- Conduct of Business Returns (CBRs):

2018/19	2019/20
112	114

Third party cell captive insurers all submit separate CBR returns even though they fall under one insurer.

- Types of interactions and volumes:
  - Registered Complaints: 386
  - Binder Cancellations: 129
  - New Binder Agreements: 78
  - New Cell Agreements: 11
  - Exemption and Extension Notices: 24

- Notices in terms of Outsourcing: 132
- Group Scheme Termination Notices: 27
- Section 8(2)(d) Approvals: 367
  - This refers to approvals in terms of section 8(2)(d) of the Short-term Insurance Act for insurance business placed with insurers outside the jurisdiction of South Africa and consequently the FSCA, and where an intermediary rendered service in respect of the placement of the insurance business offshore.
- Section 5(9) name approvals: 66
  - This refers to approvals in terms of section 5(9) of the Insurance Act, and is a function delegated by the PA.

Section 13B Administrators:

- Types of interaction and volumes:
  - There were 118 Annexure C and Ds analysed (as required in terms of condition 11 of Board Notice 24 of 2002), as compared to 141 during 2018/19.
  - There was one protected disclosure received – the matter was referred to Investigation and Enforcements.
  - There were 12 complaints received.

On-site inspections conducted

Type of inspection	Insurer
Insurance Compliance (general)	Absa Life Limited
Insurance Compliance (general)	Legal Expenses Insurance Southern Africa Limited
Insurance Compliance (general)	Momentum Short-term Insurance Company Limited
Insurance Compliance (general)	OUTsurance Insurance Company Limited
Insurance Compliance (general)	Lion of Africa Life Assurance Company Limited (Joint on-site inspection with Micro Department)
Insurance Compliance (general)	FirstRand Short-term Insurance Limited
Insurance Compliance (general)	360 Life Insurance Company Limited (Joint on-site inspection with Micro Department)

Type of inspection	13B Administrator
Retirement Fund Benefit Administrators Compliance (general)	Monitoring Wealth Managers (Pty) Ltd
Retirement Fund Benefit Administrators Compliance (general)	WSM Employee Benefit Administrators (Pty) Ltd

Stakeholder engagements

13B Stakeholder Engagements and Administrator Liaisons:

- Participated in 3 meetings with the Pension Funds Adjudicator.
- There were 9 engagement meetings with Benefit Administrators. These were to understand the business of the administrator and review and assess if they are complying with section 13B of the Act and if there are any conduct risks from the detailed discussions.

Insurers: Quarterly and Bi-annual Meetings

There were 121 meetings, resulting in engagements with 90 licences (including life and non-life insurers).

Insurers: Other stakeholder engagements:

Name of stakeholder	Brief summary of engagement
SAIA/National Treasury/FSCA/South African Reserve Bank Quarterly Meetings	The objective is to foster stronger relationships and create strategic alignment between the different regulators
IRBAS and Short-term Ombudsman Bi-annual Meeting	The objectives are to foster stronger relationships, create strategic alignment between the offices and to identify systemic and conduct risks
IRBAS and Long-term Ombudsman Bi-annual Meeting	The objectives are to foster stronger relationships, create strategic alignment between the offices and to identify systemic and conduct risks
CISA Insurance Group Bi-annual Meeting	The objectives are to foster stronger relationships, create strategic alignment between the offices and to identify systemic and conduct risks
FICA Quarterly Meetings	The objectives are to foster stronger relationships, create strategic alignment between the offices and to identify systemic and conduct risks

Achievement of strategic objectives (This includes Insurers and Retirement Fund Benefit Administrators and Micro and Access Product Institutions)

Strategic objective	Performance indicator	Achievement 2018/19	Target 2019/20
An effective communication, brand, reputation and stakeholder management strategy during the transition to the FSCA	Date of approval of the stakeholder outreach plans for 2019/20	Division's Stakeholder Management Plan approved on 30 April 2018	Agreed on division's Stakeholder Management Plan by 30 April 2019
	Percentage achievement of targets in the Conduct of Business Division's Stakeholder Management Plan (2019/20)	96.25%	Achieve 90% of the targets as set out in the Conduct of Business Division's Stakeholder Management Plan (2019/20)
Conduct risk-based supervision to monitor and improve the financial investment environment	Percentage achievement of targets set out in on-site risk-based supervision plans 2019/20	90.9%	80%
	Percentage implementation of supervisory plan	100% implementation of quarterly targets of the supervisory plan	90% implementation of quarterly targets of the supervisory plan
Effective enforcement of compliance with legislation	Percentage compliance with timelines set out in each division's SLCs	Not achieved: 88.55%	Achieve the turnaround times set in each division's SLCs with regard to licensing, registrations, complaints and other applications/submissions, for at least 90% of the cases received. (Where all information necessary for the processing has been provided)

Micro and Access Product Institutions

The Micro and Access Product Institutions Department is responsible for supervising the business conduct of micro-insurers and other financial services entities operating in the "micro" or "access product" space. This includes micro-insurers, friendly societies, co-operative financial institutions, co-operative banks and insurers that provide funeral policies (assistance business).

Number of supervised entities:

	2018/19	2019/20
Insurers aiding business policies	45	46
Micro-insurers	0	2
Friendly societies	196	197
Co-operative Financial Institutions	0	23
Co-operative Banks	0	4

Co-operative financial institutions and co-operative banks are currently licensed with the PA in terms of the Co-operative Banks Act, 40 of 2007. The FSCA's concurrence is required as per the MoU between the PA and FSCA for the licensing of these entities. The conduct standards for banks which were developed by the FSCA for the banking industry will be applicable to co-operative banks but not co-operative financial institutions. The FSCA will soon start developing conduct standards for CFIs, taking into account their nature, size and complexity.

Off-site supervision:

- Friendly Societies
  - 28 friendly societies submitted annual returns.
  - 1 complaint was received during the period under review.
- Insurers providing assistance business policies:
  - 92 complaints received.

Market conduct on-site inspections conducted – assistance business

Insurer
African Unity Life Limited
Shield Life Limited
Workers Life Assurance Company Limited
Lion of Africa Life Assurance Company Limited
3Sixty Insurance Company Limited
New Era Life Limited
Emerald Life Limited

Financial Advisers and Intermediaries

The department supervises 10 534 FSPs that are authorised for advice and/or intermediary services. This number reflects a drop of 5% as compared to the previous reporting period of 11 534. The drop in numbers can mainly be due to the withdrawal of licences from licensees who failed to comply with the conditions for the lifting of suspensions and lapses.

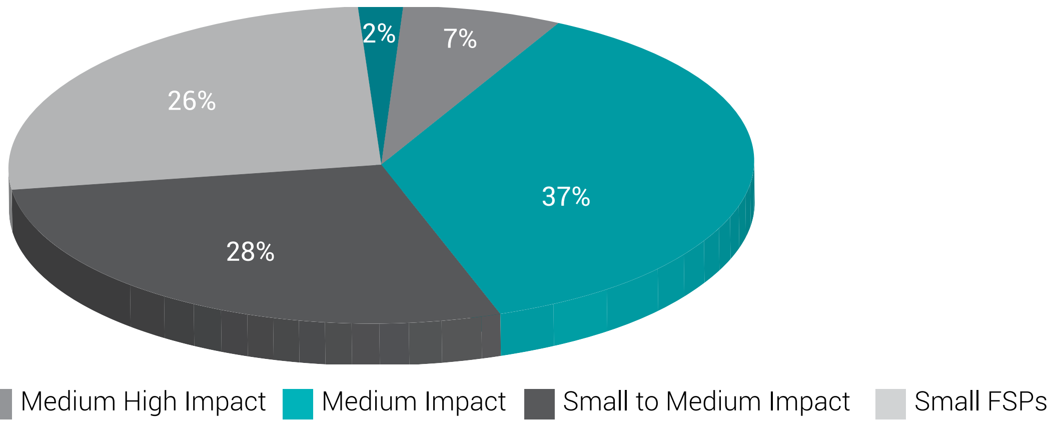
The supervised FSPs include, Category I and IV FSPs that are authorised for all financial products, but act without discretion. Category IV FSPs provide specific administrative functions in relation to assistance business (funeral) policies. The supervision of FSPs include desk-based and on-site monitoring in terms of the risk-based supervision framework approach, and enforcement of compliance with legislation.

Risk-based supervision

The risk-based approach categorises FSPs according to risks inherent in their business activities and the impact thereof on the consumers of financial products. The breakdown as at 31 March 2020 is depicted in the table and the pie chart below:

High Impact	209
Medium to High Impact	724
Medium Impact	3 923
Small to Medium Impact	2 888
Small FSPs	2 790

Risk Categorisation of FSPs



Risk-based Supervision of FSPs activities

The table below depicts the supervisory activities undertaken by the department in terms of risk-based supervision of authorised FSPs:

	2018/19	2019/20
Authorised Cat I and IV FSPs	11 068	10 534
Desk-based supervision		
Financial statements	9 415	8 424
Compliance reports	10 486	01
Extension requests	655	569
Material irregularity reports	123	100
Referrals for regulatory action		
FSPs	78	133
Individuals	0	2
On-site inspections		
FIC inspections with an educational aim	297	0
FIC inspections for compliance with the FIC Act	0	74
Ad hoc inspections for FAIS issues	0	4
Communication with industry		
SME workshops	5	10

Financial Statements

All FSPs are required to submit financial statements to the authority within four months of year-end which may include audited financial statements in some risk categories. These are analysed to determine various regulatory issues including the financial soundness requirements. A total of 8 424 financial statements were received and analysed, and 41 FSPs were referred for regulatory action because of failure to meet the financial soundness requirements. Some cases were pended for further information.

Financial year-end and submission dates

- The financial year-end and submission dates are not evenly or randomly spread throughout the year, most of the FSPs year-end is 28 February.

Fin Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Number	219	8 748	291	65	60	417	65	87	99	36	17	430
Sub-date	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Percentage	2	83	3	0.6	0.6	4	0.6	08	0.9	0.3	0.2	4

Compliance reports

- A compliance officer or in the absence of such an officer, the FSP concerned must submit to the authority, from time to time as determined by the authority, compliance reports regarding the matters. The authority did not prescribe reports for the reporting period and therefore FSPs and/or compliance officers were not required to submit compliance reports.

Irregularity reports

- Under the FAIS Act, compliance officers and auditors must report material non-compliance to the authority. During the reporting period, 100 irregularity reports were received, considered and the necessary action was taken. This reflects a reduction of 19% as compared to 123 reported in the previous reporting period. The reports were considered and the necessary action was taken.

Referrals for regulatory action

- Following the findings of contraventions of the FAIS Act by PSPs through off-site monitoring and on-site inspections, 133 FSPs were referred for regulatory action.
- In addition, 17 FSPs from Investment Providers were also referred for regulatory action.

The reasons for referrals were:

Failure to submit required financial statements and/or supporting documents	47
Failure to meet the financial soundness requirements	41
Failure to meet the competence requirements, including Regulatory Examinations (RE), qualifications and Continuous Professional Development (CPD)	8
Fraud by FSPs or a director of an FSP	6
FSP does not have a Key Individual	5
Failure to renew Professional Indemnity (PI) cover/submit proof of valid PI cover	5
Various contraventions of the General Code of Conduct	4
Honesty and Integrity	2
Failure to develop a Risk Management and Compliance Plans (RMCP) in terms of the FIC Act	2
Failure to deal with premiums correctly	2
Failure to register/renew accreditation with the Council for Medical Aid Schemes (CMS)	2
Allowing persons to submit applications to product suppliers although they were not appointed as representatives	2
Failure to submit outstanding compliance reports for previous years when compliance reports were due	2
Failure to appoint a compliance officer	1
The FSP contravened the Banks Act	1
Soliciting of clients and offering incentives	1
Mixing client funds and governance failures	1
Not registering as an Accountable Institution with the FIC	1

On-site inspections

- Inspections are done in terms of the FAIS Act and the FIC Act. During the reporting period, the department's focus was on monitoring FSPs that are accountable institutions in terms of the FIC Act, to determine compliance with the FIC Act and general compliance with the FAIS Act. A total of 74 inspections were done in respect of the former and four in respect of the latter.
- The department took a different approach with regards to on-site inspections during 2018/19 and 2019/20:
  - In 2018/19, a one-day education visit was conducted to small FSPs with no compliance officers. Most of these inspections were conducted by one inspector.
  - In 2019/20, a full, in-depth FICA inspection was conducted that lasted an average of three days and involved more staff per visit.
- The major issues identified during the FIC Act inspections were:
  - Accountable institutions have difficulty understanding their money laundering/ terror financing (ML/TF) risks and as a result, struggled to develop customised Risk Management and Compliance Plans (RMCPs) and roll out such customised RMCPs to reflect in the ML/TF risk assessment of clients and conducting the relevant Customer Due Diligence (CDD) in line with their risk-based approach.
  - Most accountable institutions have an RMCP, but it is not customised – the fact that it is mostly templates, creates difficulty in implementing individual risk assessment of clients because the templates are void of the individual risk-based approaches of accountable institutions.

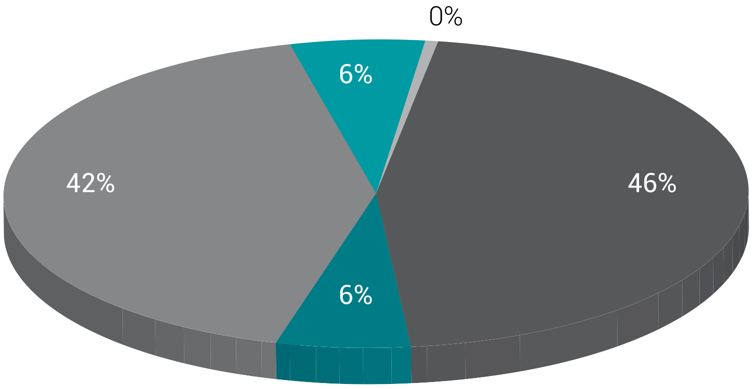
Enforcement of compliance with legislation

- The department's goal is to ensure that all authorised FSPs are held to a high degree of compliance with the FAIS Act and all applicable laws, and therefore enforcement of compliance is a priority, especially for the sake of investor protection. In that regard, the department considers complaints about contraventions of the FAIS Act by authorised FSPs and off-site and on-site inspection findings of non-compliance. It also considers the FAIS Ombud's Determinations to determine whether there is a need for further regulatory action to be taken. Non-compliance can result in the suspension or withdrawal of a licence, and a debarment of any person.

The table below depicts the departmental activities in relation to its objective of enforcement of compliance with legislation.

Activity	Frequency	
	2019	2020
Complaints	1 915	1 664
Anonymous tip-offs	240	222
Regulatory action	1 095	1 531
Debarments	187	203
FAIS Ombud's Determinations	36	14

Enforcement of Compliance with Legislation



FAIS Ombud's Determinations

- The Ombud for financial services providers is required to send copies of the Determinations to the authority. These Determinations are considered to ascertain whether further regulatory action is required. During the reporting period, 14[15] Determinations were received and considered.

Complaints

- The department considers complaints relating to alleged non-compliance of the FAIS Act referred by the Business Centre. The handling of complaints plays an important role in the conduct of business supervision as it alerts the authority of areas of concern and to identify issues that may require amendments to legislation or areas that require consumer education to be focused on. In some instances, the outcome of complaints investigations leads to regulatory action and debarments of persons. During the reporting period, 1 664 complaints were received as compared to 1 915 in the previous year. The reduction can be attributed to the implementation of the Business Centre, resulting in many complaints being resolved at that level.

Regulatory action

- Regulatory action in this regard refers to a suspension or withdrawal of a licence in terms of section 9 of the FAIS Act. The FAIS Act empowers the authority to suspend or withdraw a licence, if the licensee:

  1. No longer meets the fit and proper requirements applicable to the licensee, if the licensee is a partnership, trust, corporate or unincorporated body, that the licensee or any key individual of the licensee does not meet or no longer meets the fit and proper requirements applicable to the licensee or key individual.
  2. Did not, when applying for the licence, make a full disclosure of all the relevant information to the authority, or furnished false or misleading information.
  3. Has failed to comply with any other provision of this Act or any requirement under the FSR Act, including Conduct Standard, a Prudential Standard or a Joint Standard.
  4. Has failed to pay a levy, an administrative penalty or any interest thereof.
  5. Does not have an approved key individual.
  6. Has failed to comply with the regulators' directive.
  7. Has failed to comply with any condition or restriction imposed under this Act.

15 That include Determinations that were issued prior to 1 April 2019

A licence is suspended for non-compliance that can be rectified within the period of suspension, and gets withdrawn for serious non-compliance, such as, lack of character qualities of honesty and integrity or the failure to comply with the conditions for the lifting of a suspension within the suspension period.

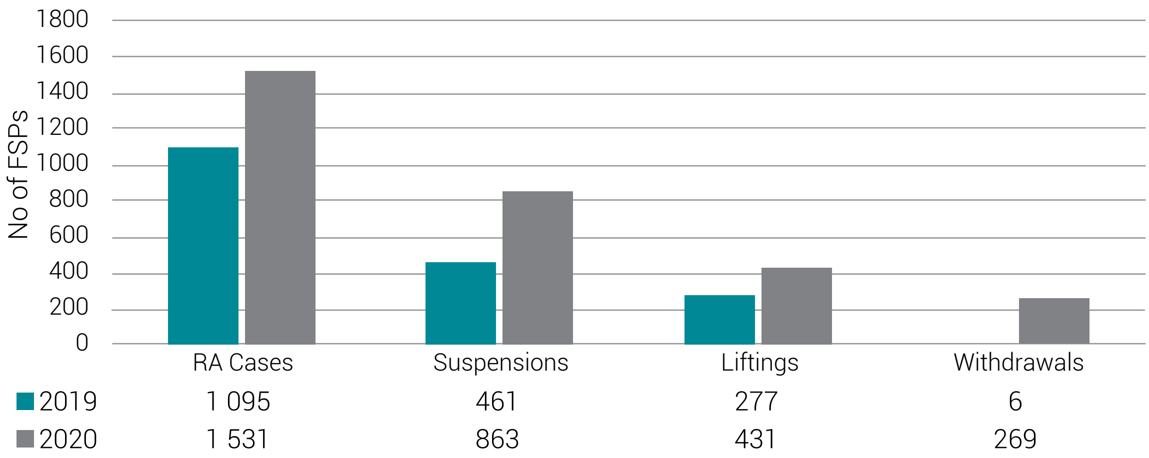
Not all the regulatory action cases opened, result in a suspension or withdrawal, as most FSPs rectify the situation as soon as notices of intention to suspend are issued. Some FSPs rectify after suspension and ultimately those that fail to comply with the condition for the lifting of a suspension, are suspended.

During the reporting period, 1 531 regulatory action cases were opened, and this number represented 15% of the total number of supervised FSPs. In addition, it reflected a 40% increase as compared to the previous period of 1 095. Out of the opened cases, including cases opened in the prior reporting period, 865 failed to rectify the identified non-compliance and were finally suspended. This number reflected an increase of 87% as compared to the previous year's 461 reported cases. Of the suspended cases, 431 complied with the conditions of the lifting of suspension within the period of suspension. Eventually, 269 cases were withdrawn, and that included licensees that were found to lack the requirements of character qualities of honesty and integrity, and suspended licensees that failed to comply with the conditions for the lifting of a suspension.

The table below provides some details of regulatory action:

Regulatory Action		
Activity	**2019**	**2020**
Regulatory action cases	1 095	1 531
Suspensions	461	863
Liftings	277	431
Withdrawals	6	269
Compliance rate[16]	90%	85%

Regulatory Action



16 The difference between total number of authorised FSPs and opened regulatory action cases as a percentage of total authorised FSPs.

Debarments by the FSCA

The authority may make a debarment order in terms of section 153 of the FSR Act in respect of a natural person, if that person has:

- Contravened a sector law in a material way.
- Contravened in a material way, an enforceable undertaking that was accepted by the responsible authority in terms of section 151(1).
- Attempted, or conspired with, aided, abetted, induced, incited or procured another person to contravene a financial sector law in a material way.
- Contravened in a material way, a law of a foreign country that corresponds to a sector law.

The department received 203 debarment cases and issued 155 debarment orders.

DEBARMENTS BY THE FSCA		
Details	**2019**	**2020**
Opened cases	187	203
Debarments	142	155

Communication with the FSPs

The Financial Advisors and Intermediaries Department hosted 10 workshops aimed at small FSPs, to guide them through the requirements of the legislation. Approximately 1 000 delegates attended the workshops. Workshops were held in:

1. Pretoria (4)
2. Johannesburg
3. Cape Town
4. Durban
5. Port Elizabeth
6. Nelspruit
7. George

The FSCA is an accredited provider of Continuous Professional Development (CPD) activities and events with the Financial Planning Institute (FPI). The workshops were all accredited as a CPD activity, and delegates received certificates confirming that they earned six hours under the topic Ethics.

Stakeholder engagement:

Various meetings with industry are held. Meetings were held with various stakeholders, including local and international regulators, banks, insurance companies, administrators, brokers and industry and professional bodies. Some of the key engagements are detailed below.

Stakeholder	Description
Compliance Institute	Quarterly meeting
FSCA Exco and ASISA Exco	Industry matters
FSCA/FIC/FATF	As a supervisory body in terms of the FIC Act, the FSCA was an integral part of the Financial Action Task Force (FATF) Mutual Evaluation of South Africa, which took place during February 2020
FSCA/FIC/SARB	Discuss supervision in terms of the FIC Act

Achievement of strategic objectives

Strategic objective	Performance indicator	Achievement 2018/19	Target 2019/20	Achievement 2019/20	Reason for deviation
Conduct risk-based supervision to monitor and improve financial investment environment	Percentage achievement of targets set out in risk-based supervision plans relating to on-site visits	90%	80%	104%18	None - targets were achieved
	Percentage achievement of analysis of statutory returns as set out in the service level agreement	96%	80%	91.5%	None – targets were achieved

Investment Providers

The department supervises Collective Investments Scheme (CIS) managers, Collective Investment Schemes in Hedge Funds, and Investment Provider FSPs. The latter includes discretionary FSPs, FSPs that take discretion over hedge fund investments, and Administrative FSPs, which are also known as linked investment service providers.

The supervised entities include:

Investment Providers		
Collective Investment Schemes Managers (CISs):		
	2018/19	**2019/20**
CISs in Securities	52	51
CISs in Property	1	1
CISs in Participation Bonds	2	2
Foreign Collective Investment Schemes	117	119
Collective Investment Schemes in Hedge Funds		
CISs in Hedge Funds	15	16
Foreign Hedge Fund Schemes	7	6
Investment Providers (FSPs)		
Category II (Discretionary) FSPs	702	707
Category IIA (Hedge Fund Manager FSPs)	126	126
Category III (Administrative FSPs)	28	28

Desk-based supervision

The department receives and analysed a variety of statutory returns:

Investment Providers		
Collective Investment Schemes		
	2018/19	**2019/20**
Capital Adequacy Reports	760	708
Mark to Market Valuation Reports	532	550
Quarterly Portfolio Holding Reports	6 103	6 254
Annual Financial Statements	51	54
Collective Investment Schemes in Hedge Funds		
Annual Financial Statements	15	16
Monthly Risk Reports	1 080	148
Quarterly Portfolio Holding Reports	1 031	229

Investment Providers		
Collective Investment Schemes		
Capital Adequacy Reports	200	192
Investment Providers – FSPs		
Compliance Reports		
Category II, and	1 585	424
Category IIA		79
Category III	48	12
Financial Statements		
Category II	766	641
Category IIA		111
Category III	21	29
Extension Requests		
Category II	83	68
Category IIA		11
Category III	4	3
Irregularity Reports		
Category II	28	22
Category IIA		3
Referrals for Regulatory Action		
Category II and IIA	4	17

Enforcement Actions:

Collective Investment Schemes in Securities	
Entity	**Contravention**
Met Collective Investments (Pty) Ltd (MetCI)	- Paragraph 15(1) and 16 of Board Notice 90 - Paragraph 3(8)(a), (b)and (c) of Board Notice 90 - Sections 2(1), 4(4)(a), (c) and (d) read with section 4(5) of CISCA - Paragraphs 7 and 8 of Board Notice 910 - Paragraph 3(2)(c) and 3(17) of Board Notice 90 - Section 106 of CISCA - Paragraph 4(1)(a), 4(1)(c)(iv), 15(5)(f), 16(3)(a) and 16(3)(e)(iii) of Board Notice 92 - Sections 2(1)(a), (b) and 4(1) of Financial Institution Act

Complaints:

- Collective Investment Schemes: 6 complaints were received.

On-site inspections conducted

A number of on-site inspections were conducted at supervised institutions:

Collective Investment Schemes	
Type of inspection	**Manager**
FIC Compliance	Stanlib Collective Investment Scheme
FIC Compliance	Alexander Forbes
FIC Compliance	Cadiz
FIC Compliance	Coronation
FIC Compliance	10X
FIC Compliance	H4
FIC Compliance	RealFin
FIC Compliance	Absa
FIC Compliance	FNB and Ashburton
FIC Compliance	Momentum

Collective Investment Schemes	
Type of inspection	**Manager**
FIC Compliance	Kagiso
FIC Compliance	Investec
FIC Compliance	Discovery

Collective Investment Schemes in Hedge Funds	
Type of inspection	**Manager**
Post Registration On-site	Stanlib Collective Investment Scheme
General Compliance	Sanne Management Company (RF) (Pty) Ltd
General Compliance	Prescient Management Company (RF) Pty Ltd
General Compliance	Sygnia Collective Investments (Pty) Ltd
General Compliance	Nautilus Managed Account Platform
General Compliance	H4 Collective Investments (RF) (Pty) Ltd
General Compliance	Realfin Collective Investments (RF) (Pty) Ltd
General Compliance	Prime Alternative Investments (RF) (Pty) Ltd
Risk Management processes and procedures	Investec Alternative Investments GP

Investment Providers FSPs:

Investment Providers – FSPs		
Type of inspection	**FSP Name**	**FSP No.**
FIC Compliance	Stanlib Wealth Management (Pty) Ltd	590
	Stanlib Asset Management (Pty) Ltd	719
	Stanlib Multi-Manager (Pty) Ltd	763
FIC Compliance	Alexander Forbes Investments Administration Services (Pty) Ltd	34557
	Alexander Forbes Financial Planning Consultants (Pty) Ltd	31753
	Alexander Forbes Individual Client Administration (Pty) Ltd	32494
	Caveo Fund Solutions (Pty) Ltd	24297
FIC Compliance	Coronation Alternative Investment Managers (Pty) Ltd	49893
	Coronation Asset Managers (Pty) Ltd	548
	Coronation Investment Managers (Pty) Ltd	45646
FIC Compliance	Kagiso Asset Management (Pty) Ltd	784
FIC Compliance	Silica Financial Administration Solutions (Pty)Limited	3733
	Investec Wealth and Investment (A Division of Investec Securities (Pty) Ltd)	15886
	Investec Wealth and Investment Management (Pty) Ltd	44897
	Silica Administration Services (Pty) Ltd	45113
	Investec Specialist Investments Fund Managers (Pty) Ltd	48518
FIC Compliance	Discovery Life Investment Services (Pty) Ltd	30277
FIC Compliance	Finwell Financial Management Services	718
FIC Compliance	First Global Wealth Management (Pty) Ltd	767
FIC Compliance	Momentum Asset Management (Pty) Ltd	623
	Momentum Wealth (Pty) Ltd	657
	Momentum Outcome-Based Solutions (Pty) Ltd	19840
	Momentum Securities (Pty) Ltd	29547

Investment Providers – FSPs		
Type of inspection	**FSP Name**	**FSP No.**
	Momentum Investment Consulting (Pty) Ltd	32726
	Momentum Alternative Investments (Pty) Ltd	34758
FIC Compliance	Absa Asset Management (Pty) Ltd	522
	Absa Investment Management Services (Pty) Ltd	524
	Absa Trust Ltd	525
	Absa Alternative Asset Management (Pty) Ltd	22877
	Absa Stockbrokers and Portfolio Management (Pty) Ltd	45849
FIC Compliance	FNB Fiduciary (Pty) Ltd	574
	FNB Premium, A Segment of First National Bank, A Division of FirstRand Bank Ltd	624
	Rand Merchant Bank, A Division of FirstRand Bank Limited	664
	First National Bank, A Division of FirstRand Bank Limited	3071
	Ashburton Fund Managers (Pty) Ltd	40169
	FNB Investor Services (Pty) Ltd	44341

Stakeholder engagements

- 8 meetings held with CIS managers
- 3 meetings held with Hedge Fund managers
- 15 meetings held with Financial Service Providers.

Trustees and ASISA meetings: Quarterly and Bi-annual Meetings

Name of stakeholder	Brief summary of engagement
ASISA	The objective is to foster stronger relationships and discuss current pertinent issues
Trustees	The objective is to foster stronger relationships and discuss current pertinent issues
SARB	Yearly non-bank intermediation (shadow banking) monitoring exercise

Achievement of strategic objectives

Strategic objective	Performance indicator	Achievement 2018/19	Target	Achievement 2019/20	Reason for deviation
Collective Investment Schemes					
Conduct risk-based supervision to monitor and improve the financial investment environment	Percentage achievement of targets set out in risk-based supervision plans	Achieve 80% of the targets set out in the risk-based supervision plans	80%	93%	N/A
	Monitoring and analysis of returns	Achieve 80% of the targets set out in the risk-based supervision plans	80%	92%	N/A
Collective Investment Schemes in Hedge Funds:					
Conduct risk-based supervision to monitor and improve the financial investment environment	Percentage achievement of targets set out in risk-based supervision plans	Achieve 80% of the targets set out in the risk-based supervision plans	80%	96%	N/A
	Monitoring and analysis of returns	Achieve 80% of the targets set out in the risk-based supervision plans	80%	98%	N/A
Investment Providers FSPs:					
Conduct risk-based supervision to monitor and improve the financial investment environment	Percentage achievement of targets set out in the risk-based supervision plans relating to on-site visits	98%	80%	92%	N/A
	Percentage achievement of analysis of the statutory returns	99%	80%	98%	N/A

MARKET INTEGRITY SUPERVISION DIVISION

PURPOSE

The division is accountable for licensing market infrastructures, over the counter (OTC) derivative providers, credit rating agencies and benchmark providers as well as supervising the conduct of those entities, with a focus on ensuring the efficiency and integrity of the financial markets thereby assisting in maintaining financial stability. The division also administers the Financial Markets Act, 2012 (Act No.19 of 2012), Credit Rating Services Act, 2012 (Act No.24 of 2012), applicable provisions of the Financial Sector Regulation Act, 2017 (Act No.9 of 2017) as well as relevant subordinate legislation made in terms of those laws.

STRATEGIC OBJECTIVES

- Ensure efficient, transparent and fair financial markets and related financial services and promote investor protection.
- Perform risk-based supervisory reviews for regulated entities including market infrastructures.
- Ensure responsible and accountable credit rating agencies.
- Protect the integrity, transparency and reliability of the credit rating process and credit ratings.
- Reduce systemic risk.

DEPARTMENTS

The Market Integrity Division consists of the Market Infrastructures, Self-Regulatory Organisations (SROs) Supervision Department and the Over-the-Counter Markets Supervision Department as well as Financial Benchmarks and Credit Rating Agencies Supervision Department.

PERFORMANCE

The Market Infrastructures and SROs Supervision department is accountable for licensing and supervising the conduct of market infrastructures as defined in the Financial Markets Act, Act No.19 of 2012.

Market Infrastructures

Exchanges	Central Securities Depositories	Associated Clearing Houses
5	2	2

The FSCA oversees five licensed exchanges viz. JSE Limited (JSE), ZAR X (Pty) Ltd (ZARX), 4 Africa Exchange (Pty) Ltd (4AX), A2X (Pty) Ltd (A2X) and Equity Express Securities Exchange (Pty) Ltd (EESE). Of these, all but the JSE has been licensed within the past four years and are still in the growth and development phase. The oldest, the JSE is established for over 130 years and is viewed as one of the best regulated exchanges in the world. The new exchanges introduced much needed competition in the local exchange landscape. Of the four new competitors, three (ZARX, 4 AX and EESE) have adopted a stand-alone exchange model and target a previously untapped issuer market while A2X is primarily a secondary market and targets JSE listed issuers.

One of the challenges brought about by the new exchanges is the introduction of market fragmentation which may compromise market integrity. To mitigate against this risk, the FSCA drafted a Position Paper on market fragmentation which was widely consulted on with stakeholders, following which a Conduct Standard was drafted. The draft Conduct Standard essentially sets minimum standards for all licensed exchanges with regards to, inter alia, price sensitive information; corporate actions; financial soundness/capital adequacy requirements; default procedures; accounting standards; corporate governance; continuing obligations and best execution. It is expected that the Standard will be finalised during 2020.

Over-the-Counter Derivative Providers

During the year under review, the FSCA began the licensing process for Over-the-Counter Derivative Providers (ODPs). The process identifies bank and non-banks that are market makers in OTC derivatives in South Africa and compels them to be licensed. The intended outcome for the sector is that OTC markets will now have greater transparency around key issues such as pricing, market exposure and instruments traded. The market will accordingly be more structured and enable the authority to regulate market conduct more effectively. All applications were submitted to the FSCA by 14 June 2019. A decision was taken during November 2019 that the department would finalise license applications in progress and transfer the remaining applications for licensing of ODPs to the FSCA's Licensing Division. At year-end, the progress made with the applications that remain with the Market Infrastructure and the OTC Markets Department is reflected in the table below:

Applications transferred to Licensing Division

LICENSING OF ODP APPLICATIONS	
Number of applications received	52
Number of applications assessed	10
Number of applications approved	2
Number of applications declined	2
Application evaluations in progress	6
Transferred to Licensing Department	42

The department remains focused on supervision and oversight of licensed ODPs. The supervision and oversight programmes will be developed and rolled out as more ODPs are licensed and will initially commence with post-licensing reviews. The reviews are scheduled to commence during the 2020/21 financial year.

PERFORMANCE

Financial Markets Review

South Africa's financial sector authorities – the National Treasury, the South African Reserve Bank and the FSCA established the Financial Markets Review Committee (FMRC) to develop recommendations to reinforce conduct standards in wholesale financial markets, focusing on the following:

- Specific tools to strengthen the implementation and governance of conduct standards by market participants.
- Areas where changes to financial markets legislation and associated subordinate legislations are required to support a new conduct framework for wholesale financial markets.

The work programme of the Financial Markets Review (FMR) project commenced in May 2017 under the auspices of the FMRC. A draft report titled, *Protecting the Integrity and Effectiveness of South African Wholesale Financial Markets* was released by the South African financial sector authorities on 3 September 2018. Stakeholders were invited to provide comments and suggestions on the recommendations contained in the draft report by 1 October 2018.

The final report was published in 2019 and contains 43 recommendations for consideration by policymakers that will assist financial sector authorities to enhance the integrity and conduct regulatory framework of wholesale financial markets in South Africa.

Developments on Standards

Financial Markets Act, 2012 (Act No. 19 of 2012) (FMA)

The Joint Standard on margin requirements for non-centrally cleared OTC derivative transactions has been published for public consultation. In addition, extensive stakeholder engagement has been conducted with industry participants on the Joint Standard. It is envisaged that this Joint Standard will be finalised before the end of 2020.

Supervision

The department performed seven on-site risk-based inspections during the year under review. The scope of the on-site inspections of the various market infrastructures covered, inter alia, governance structure, financial matters, risk management, information technology as well as the specific sections of the relevant infrastructures' listing requirements and trading rules. The findings raised were addressed to the satisfaction of the authority. In the coming year, there will be more emphasis placed on operational and conduct risk with a focus on themed visits that are influenced by prevailing market conditions.

During the latter part of the financial year, the OTC Markets and Issuers Supervision Department was combined with the Market Infrastructures and SRO Supervision Department. Both areas are highly specialised and skills availability is paramount in maintaining high levels of proficiency and expertise with the area. In an effort to bolster stable, efficient and fair financial markets and related financial services and to promote continuity of operations, we have embarked on a cross-skilling initiative that will enable seamless execution of all supervisory functions across the combined department. This aligns with the FSCA's objective of removing silos and encouraging collaboration across specialist areas.

Strengthening the efficiency and integrity of financial markets

Some of the notable measures taken by the department in order to work towards strengthening the efficiency and integrity of financial markets were:

- The conclusion of the MoU between the SARB and the FSCA to govern cooperation in supporting financial stability and working with the SARB's National Payment System Department (NPSD) on oversight of payment service providers, as well as with the SARB's Financial Surveillance Department (FinSurv) on services related to the buying and selling of foreign exchange.
- The commencements of a process for the development of a regulatory framework for securities finance activities in the South African markets.
- The preparation of a draft Conduct Standard for Exchanges which will be published in due course for public comment.
- The development of a draft short-selling reporting regime in which short sales are flagged by the authorised user and reported to the exchange concerned as well as to the FSCA.
- Participation in the Financial Markets Implementation Committee.
- Review the Financial Markets Act, 2012.
- Active participation in relevant international and regional bodies and forums (e.g. IOSCO and CISNA), in order to keep abreast with international developments.
- Having Strate (Pty) Ltd, a central securities depository, conduct a self-assessment against the principles stipulated in the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs). The FSCA and the PA are currently reviewing Strate's self-assessment.
- Participation in formal consultation forums such as the Market Conduct Regulatory Framework Steering Committee (MCRF SteerCo, Intergovernmental Fintech Work Group (IFWG), the Exchange Fragmentation Forum as well as regular (usually quarterly) industry association meetings with specific industry associations.

1.2.5 Key departmental performance

Strategic objectives	Performance indicator	Achievements 2018/19	Target 2019/20	Achievements 2019/20	Reason for deviation
Conduct risk-based supervision to monitor and improve the financial investment environment	Percentage achievement of targets set out in risk-based supervision plans	100%	Achieve 80% of the targets set out in risk-based supervision plans	100%	No deviation
	Number of on-site reviews	7 reviews	Perform one on-site risk-based review per market infrastructure by 31 March 2020	100%	No deviation
Effective enforcement of compliance with legislation	Percentage compliance with timelines set out in SLC	90%	90%	97.7%	No deviation

Financial Benchmarks and Credit Rating Agencies Supervision Department

Credit Rating Agencies

The department is mandated to supervise and licence entities in terms of the Credit Rating Services Act No. 24 of 2012 (CRS Act). The CRS Act provides for both the regulatory and supervisory requirements which are legally binding on registered credit rating agencies (CRAs) operating in South Africa. In support of this mandate, the department applies both an on- and off-site supervisory approach of CRAs.

There are three registered CRAs in South Africa that provide credit ratings across a broad range of sectors, namely, S&P Global Ratings Europe Ltd (SPGRE) South Africa branch, Moody's Investors Service South Africa (Pty) Ltd (Moody's South Africa) and Global Credit Ratings Co. (Pty) Ltd (GCR Ratings).

The department aligned its oversight functions to the global trends and the guiding principles of the International Organisation of Securities Commissions (IOSCO). The importance of Risk-Based Supervision (RiBS) is recognised, and the department has therefore adopted RiBS into its supervisory process. This is to ensure that regulatory oversight is more effective, investor protection is advanced and systemic risk is mitigated. The department continued with its risk-based supervisory on-site inspections which serve to assess compliance with laws and rules and helps to ensure that CRAs adhere to the internal policies, procedures and methodologies used in determining credit ratings. The on-site inspections noted a number of deficiencies, and all the CRAs concerned have put in place adequate remedial action plans and tightened their internal control mechanisms to curb future re-occurrence.

The authority imposed an administrative penalty of R487 000 on GCR for contravening the conflict of interest provisions in the CRS Act. GCR failed to separate the analytical function from other business conducted by a credit rating agency.

One of the department's objectives is to foster and enforce compliance with the legal framework governing the operations of credit rating agencies in South Africa by ensuring that only registered credit rating agencies perform credit rating services and issue credit ratings in South Africa. In this regard, the authority imposed an administrative penalty of R300 000 on NKC African Economics (Pty) Ltd (NKC) for contravening section 3(2) of the CRS Act by performing credit rating services and/or issuing a credit rating whilst it was not registered as a credit rating agency.

GCR's Information Technology (IT) outsourcing application was approved in terms of section 12 of the CRS Act with certain conditions. The authority had determined that the changes to the previously approved IT service provider was material and required a new application assessment.

The FSCA approved the request by Moody's South Africa for the renewal of the exemption from the requirement to rotate lead analysts and persons approving credit ratings as per Rule 6(9) and 6(10) of Board Notice 228 of 2013.

The request by the Prudential Authority for the exemption of certain regulated persons from the requirement of section 4(1) of the CRS Act was approved. South African banks meet the definition of a 'regulated person' in the CRS Act when it relies on credit ratings, inter alia, to comply with national legislation (including the Regulations relating to Banks) for a 'regulatory purpose', and it is, in terms of section 4(1) of the CRS Act, obliged to only use credit ratings issued or endorsed by a registered CRA or an approved external CRA. The exemption was subject to the Prudential Authority reporting on a quarterly basis to the authority on the progress made towards legislative amendments to the Banks Act and Regulation 51 relating to the Banks that would obviate the need for this exemption.

The Minister of Finance requested that the exemption from section 3(2) of the CRS Act permitting Fitch Ratings Limited to perform credit ratings services relating to the issuing of sovereign ratings and state-owned companies, including special purpose vehicles of the State be extended beyond 31 December 2019 for an additional period of two years. However, because the exemption had expired on 31 December 2019, the authority treated the request as a new application for exemption. In processing the new application, the authority obtained confirmation from the National Treasury that the reasons provided in the initial exemption application still applied, and therefore granted a further exemption for a period of two years until 31 December 2021.

2.2 Financial Benchmarks

The activity of providing a benchmark is not currently regulated in terms of any financial sector law. Section 3(3)(a)(iii) of the Financial Sector Regulation Act No. 9 of 2012 (FSR Act) expressly empowers the Minister of Finance to, through Regulations, designate as a financial service the provision of a benchmark or index, if doing so will further the object of this Act. The authority submitted a request for such designation of financial benchmarks to the minister, setting out the reasons as to why consideration should be given to designate the provision of a benchmark as a financial service, and the proposed powers to be set out for purposes of licensing and regulating this service.

The integrity of financial benchmarks is critical to the pricing of many financial instruments, allocating capital and risk. Any risk of manipulation of benchmarks may undermine market confidence, causing significant loses to investors and distorts the real economy. In terms of the European Union's Benchmark Regulations, non-EU benchmarks can only be used in the EU if the benchmarks are qualified under the Third Country Regime. Third Country Administrators have until 1 January 2022 to comply. In order to apply for equivalence, the authority must establish a regulatory framework for benchmarks. The development of such a regulatory framework has commenced.

RETIREMENT FUNDS SUPERVISION DIVISION

PURPOSE

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. The Retirement Funds Supervision Division of the FSCA is mandated by the Pension Funds Act (PFA), 1956 (Act No.24 of 1956) to license and supervise retirement funds and beneficiary funds, although there are a few funds that are not subject to regulation and supervision in terms of the PFA as they were established in terms of specific provisions in other statutes and have elected not to be subject to the PFA. These funds include the Government Employees' Pension Fund, Associated Institutions Pension Fund and the Transnet Pension Fund. There are over 5 000 registered retirement funds (with approximately 30% of retirement funds regularly receiving contributions and/or paying benefits). The combined value of their assets is over R4 trillion.

STRATEGIC OBJECTIVES

The division's priorities are aligned with the following overall objectives of the FSCA:

1. Transformed and inclusive retirement funds industry.
2. A robust regulatory framework that promotes fair treatment of retirement fund members and beneficiaries.
3. Informed retirement fund members.
4. Proactive retirement fund industry stakeholder management.

DEPARTMENTS

The division consists of four departments, each responsible for the following:

Conduct Supervision	This department is responsible for the supervision of retirement funds, including oversight of compliance with fund rules, conducting supervisory on-site inspections of funds and assisting with oversight of conduct of trustees and other aspects of fund governance. Two fund inspection teams have been established for volume and span of control reasons. These teams are responsible for conducting supervisory on-site inspections of funds and for analysing and monitoring market conduct returns submitted by funds. The teams will apply a risk-based approach to supervision, taking into account the nature, scale and complexity of funds overseen. Additional responsibilities of the teams include: • Assist with implementation of the FSCA's project to facilitate the payment of unclaimed retirement fund benefits to members and beneficiaries, and overseeing the conduct of the applicable retirement funds in relation to their handling of unclaimed benefits. • Dealing with complaints relating to the conduct of retirement funds, including complaints received from whistle-blowers. • Overseeing compliance by the funds and employers concerned with section 13A of the Pension Funds Act in relation to contribution payments. • Dealing with and responding appropriately to reportable irregularities in relation to fund statutory returns, from the perspective of identifying and mitigating conduct risks. • The Entities in Distress and Administrative Action team deals with retirement funds that find themselves in distressed positions and related administrative processes. In particular, it deals with interventions in the management of a fund as contemplated in section 26 of the Pension Funds Act, processes to place funds under statutory management or curatorship and related enforcement actions.

Prudential Supervision	This department established four teams and is responsible for: **Transfers and Terminations** This team is accountable for the oversight of retirement fund conversions, amalgamations, transfers and liquidations. **Investments and Fund Performance** This team is accountable for the oversight of the conduct and performance of funds in relation to their investment policies and processes. This will include a focus on monitoring funds' compliance with the investment allocation requirements of Regulation 28 to the Pension Funds Act, through analysis of quarterly Regulation 28 asset allocation reports. **Financial Statements** This team is accountable for analysing and monitoring annual financial returns submitted by retirement funds, with a view to overseeing the ongoing financial soundness of retirement funds. **Special Projects** This team is accountable for various special projects relating to the prudential supervision of retirement funds including basic research, data compilation and analytics, costs and charging structures.
Authorisations and Reviews	This department established three teams and is responsible for the following: • Registering retirement funds. • Approvals or rejection of rule amendments, revisions and consolidations to the rules of registered funds in terms of section 12 of the Pension Fund Act. • Receipt and consideration of applications for the termination of participating employers and cancellation of the registration of funds that have ceased to exist as contemplated in section 27 of the Pension Fund Act. • Consideration and approval of individual fund exemptions in terms of the PFA. • Consideration and approval of extension of periods in terms of the Financial Sector Regulation Act (FSRA), 2017 (Act No.9 of 2017). • Implementation of section 8(5)(2) of the PFA with regards to principal officers. • Implementation of PFA Determinations, where applicable.
Fund Governance and Trustee Conduct	The Fund Governance and Trustee Conduct Department is a newly established department, which came into effect on 1 September 2019. The department is responsible for: • Oversight of the governance of retirement funds, conduct of trustees, default regulations, assisting with drafting a Governance Standard. • Strategic monitoring governance returns, trustee training, and funds' ability to deliver on the six Treating Customers Fairly outcomes. • Providing legal support to the division. It also evaluates and recommends appropriate sanctions in respect of trustees in cases where conduct issues are detected. It further provides input in respect of applicable legislation. It is further responsible for coordinating a Retirement Funds Conference biennially.

PERFORMANCE

SERVICE DELIVERY OBJECTIVES, INDICATORS AND OUTPUTS

Retirement Funds Supervision Division

The division's service delivery standards are set out in a service level commitment (SLC) and the division's business plan. The division reports quarterly to Exco on its adherence to the business plan and its contribution towards the implementation of the FSCA's Strategic Plan.

Key departmental performance

Strategic objective	Performance indicators	Estimated 2019/20 performance	Target for 2019/20	Achievement 2019/20	YTD actual
Promote inclusion and transformation in the industries regulated by the FSCA	Number of reports on training provided to trustees on the Trustee Tool Kit	Promote the Trustee Tool Kit training amongst trustees and report quarterly on the training (4 reports)	Promote the Trustee Tool Kit training amongst trustees and report quarterly on the training (4 reports)	4 reports	4 reports
Conduct risk-based supervision to monitor and improve the financial investment environment	On-site inspections: Percentage achievement of targets set out in risk-based supervision plan	Achieved 100% of the targets set out in risk-based supervision plans	Achieve 80% of the targets set out in risk-based supervision plans	80% achievement of targets	100% achieved
	Off-site inspections: 1. Percentage achievement of analysis of the annual financial statements	Achieved 72.70% of the target set for analysing the annual financial statements within set timelines	Achieve 80% of the target set on analysis of the annual financial statements	80% achievement of targets	Target met 72.70% achieved
	2. Percentage achievement of rule amendments, revised rules, special rules, etc.	Achieved 85.28% of the target set by analysing various rules	Achieve 80% of the target set for the analysis of rules	80% achievement of targets	Target not met 85.28% achieved
	3. Percentage achievement of section 26 board appointments	Achieved 96.85% of the target set for section 26 board appointments	Achieve 80% of the target set for section 26 board appointments	80% achievement of targets	Target met 96.85% achieved
	4. Percentage achievement of complaints handling	Achieved 84.83% of the target set for complaints	Achieve 80% of the target set for complaints	80% achievement of targets	Target met 84.83% achieved
	5. Percentage achievement for overseeing liquidations	Achieved 93.18% of target set for liquidations	Achieve 80% of the target set for liquidations	80% achievement of targets	Target met 93.18% achieved
2. Enforcement of legislation	Percentage compliance with timelines set out in the division's SLCs	Achieved 88.81% overall turnaround times set in the SLC	80% achievement of SLC timelines	100% achieved	88.81% cumulative targets met for the division

Strategy to address areas of under-performance

- Large numbers of applications received to comply with default regulations and section 26 appointments.
- The division will reprioritise focus areas and resources, modernise processes and consider recruitment in the new financial year.

Stakeholder engagements

Engagements with various professional industry bodies such as SAICA was maintained as well as IRBA, IRFA, BATSETA, Pension Lawyers Association, meetings with boards of trustees representing various funds as well as various fund principal officers, auditors, valuators, asset managers and benefit administrators was maintained in terms of the division's stakeholder engagement plan, as seen below:

Stakeholders	Level of Engagement	Method of Engagement	Frequency	Purpose
IRFA Legal and Technical Committee	Workgroup	Meeting	Quarterly	Industry workgroup
IRFA Audit Committee	Workgroup	Meeting	Quarterly	Industry workgroup
SAICA Retirement Funds Project Group (RFPG)	Workgroup	Meeting	Quarterly	Industry workgroup
OECD/IOPS	Meeting and conference	Meeting	Quarterly	International liaison
IRBA CFAS (Committee for Auditing Standards)	Technical advisor to FSCA representative Marius du Toit	Meeting	Quarterly	Audit standard setting
XBRL SA	Meeting	Meeting	Quarterly	Data harmonisation
IRFA Audit Committee workgroup	Meeting	Meeting	Quarterly	Industry workgroup
SAICA Retirement Funds Project group	Meeting	Meeting	Quarterly	Industry workgroup on accounting guidelines
Various meetings with funds, boards, principal officers, curators, liquidators, statutory managers, members, participating employers, unions, etc.	Ad hoc meetings	Ad hoc meetings	On request	Ad hoc meetings
Various meetings with industry bodies such as BATSETA, ASISA and National Treasury, SARS and SARB	Scheduled and ad hoc meetings	Scheduled and ad hoc meetings	On request	Scheduled and ad hoc meetings

CONDUCT SUPERVISION MATTERS

The Conduct Supervision Department is taking a more active approach in assessing the conduct of trustees and other officers of retirement funds.

Acting under section 25 of the PFA, read together with section 132 of the FSRA, the division's current risk-based supervisory plan, 103 on-site inspections were conducted on funds. Significant supervisory issues were identified during the conduct of these on-site inspections in respect of the following:

- Boards not properly constituted in terms of section 7A of the PFA and/or fund rules.
- Failure by boards to monitor compliance with provisions of the PFA, specifically section 13A of the PFA and regulation 33.
- Failure by boards and principal officers to monitor compliance with Directive PF No. 8.
- Expenses and remuneration of board members are high.
- Funds are being managed in terms of unregistered rules.
- Failure by boards to timeously submit annual financial statements and valuation reports.

- Failure by principal officers to comply with their fiduciary duties in terms of applicable legislation.

Directive

- The Financial Sector Conduct Authority has, in terms of section 144 of the Financial Sector Regulation Act, 2017, issued a Directive to the Mineworkers Provident Fund, directing the fund to reinstate a board member, who was removed from the board for whistle-blowing to the FSCA.

Enforceable undertakings

All enforceable undertakings given and accepted by division are published on the FSCA website. Six enforceable undertakings were given and accepted by the Retirement Funds Supervision Division during the period 1 April 2019 to 31 March 2020.

The enforceable undertakings given and accepted relate to:

- Compliance with the fund rules insofar as it relates to eligibility of membership.
- Avoiding conflicts of interest in terms of section 7C(2)(c) of the Pension Funds Act, 1956 and compliance with Directive PF No.8
- Compliance with fiduciary duties in terms of section 7C and 7D of the Pension Funds Act, 1956 compliance with section 2 of the Financial Institutions (Protection of Funds) Act, 2001 (FI Act).

Statutory manager appointments:

- The FSCA appointed a statutory manager to the Amplats Group Provident Fund in terms of section 5A of the FI Act, 2001. The statutory manager was tasked with, inter alia, assisting the board to comply with its fiduciary duties in terms of section 7C and 7D of the Pension Funds Act, 1956.
- The Conduct Supervision Department is also monitoring the Private Security Sector Provident Fund, following the appointment of two statutory managers to assist the fund in its compliance with the Pension Funds Act and other relevant legislation.

Funds under curatorship:

The Conduct Supervision Department has been actively monitoring funds under curatorship to ensure that curators act within their mandate and any non-compliances identified, are resolved.

The division works closely with the Office of the General Counsel on all curatorship matters.

SPECIAL SUPERVISORY MATTERS

To address some specific supervisory challenges, the department has implemented the following:

- The Conduct Supervision Department has been structured into dedicated teams who specifically deal with, inter alia, supervision and monitoring of high impact funds, monitor reportable irregularities and whistle-blowing reports, assist in the appointment and supervision of boards appointed in terms of section 26(2) of the PFA and monitor funds under statutory management and curatorship, i.e. distressed entities. This assists the department to fulfil the FSCA's approach of pre-active, pre-emptive, intrusive and intensive regulation.
- Developed new processes for the enforcement of compliance with the provisions of section 13A of the Act (non-payment or late payment of contributions and failure to timeously submit contribution schedules to retirement funds) and is developing a supervisory process that will be more intrusive and based on outcomes which result in the ultimate benefit for members. This process identifies high impact pension funds for a desktop review whereby fund information is requested and analysed. Where serious concerns are identified via the desktop review analysis, these are addressed through a focused on-site inspection to deal with the identified issues. This process will result in the effective utilisation of resources as well as shorter and more focused inspections, as well as costs saving for both the division and the fund concerned and administrative penalties.

Several funds were also identified for terminating their curatorship, viz. Bophelo Beneficiary Fund, Cadac Pension Fund and SACCAWU National Provident Fund.

The department also supports the Enforcement Division in identifying priority enforcement cases.

AUTHORISATION AND REVIEWS MATTERS

The Authorisation and Reviews Department has initiated new processes and requirements for the cancellation of funds and the termination of participation by employers in umbrella funds.

PRUDENTIAL SUPERVISION MATTERS

A system to allow funds to submit cashflow statements has been initiated and being developed, as well as the revision of the quarterly asset allocation reports on investments, irrespective of whether the funds are in breach or not. The process to revise the regulatory reporting framework in line with international standards has also commenced, including updates to the notes to the annual financial statements.

Final revisions have been made on the draft liquidation, derivatives, securities lending transactions and hedge funds standard for public comment release.

Penalties have been issued for the late and non-submission of annual financial statements.

FUND GOVERNANCE AND TRUSTEE CONDUCT MATTERS

The Fund Governance and Trustee Conduct Department engaged in the following activities:

Default Regulations:

- Receipt and processing of Exemption applications.
- Receipt and processing of Extension applications.

Inaugural Retirement Funds Conference:

On 12 September 2019, the division hosted its inaugural Retirement Funds Conference arranged and coordinated by the department in collaboration with all the other departments within the division and the FSCA. The conference covered the FSB's transition to the FSCA, sustainable investing, costs and their implications on retirement fund savings, transformation in the retirement fund industry and the function of each department within the division.

Trustee training:

On 27 May 2019, a Guidance for Trustees workshop was held on the Roles and Responsibilities of Trustees, Rules of Pension Funds, Financial Statements, section 13A of the Pension Funds Act and Regulation 33 thereto, on Directive 8 and default regulations which occurred prior to the establishment of the department.

Legislative input:

Participating in the technical team responsible for the alignment of the Pension Funds Act and the Conduct of Financial Institution Bill (CoFI Bill), and provided input in respect of various amendments to the provisions of the Pension Funds Act which is to form part of the consequential amendments to the CoFI Bill. Provided input on proposed changes to the CoFI Bill insofar as it related to retirement funds.

Governance return (work in progress):

A draft Governance Standard has been developed, the draft of a governance return is in process, which will be incorporated in the conduct of business return in collaboration with other departments in the division.

LITIGATION

The division is working in collaboration with the Office of the General Counsel on all litigation matters pertaining to retirement funds.

FINANCIAL SERVICES TRIBUNAL MATTERS

The division is working in collaboration with the Office of the General Counsel on all litigation matters pertaining to retirement funds.

POLICY AND REGULATION MATTERS

The division works in collaboration with the Regulatory Framework department on conduct standards, guidance notices, interpretation rulings and industry communication.

UNCLAIMED BENEFIT MATTERS

The division also collaborates with the Business Centre and the Supervisory Framework Department on matters pertaining to unclaimed benefits.

INTERNATIONAL RELATIONS

In collaboration with the Regulatory Liaison Department, the division continues to fulfil its role in the activities of the IOPS and currently represents the FSCA on the Executive Committee of IOPS, OECD Working Party on Private Pensions and the SADC Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA).

OUTLOOK

Continued Focus on environmental, social and governance (ESG)

Responsible, Sustainable and Impact Investing continues to gain momentum internationally and locally. As major asset owners, retirement funds can contribute significantly to shaping a more equal, diverse and safe society, workplace and environment for everyone to work, live and retire in. The FSCA will continue to monitor, engage and partner with key local and international institutions and the industry to ensure that funds give effect to ESG principles contained in Regulation 28. A survey was issued by the FSCA and the World Bank Group to assess the industry investment practices.

Enhancing Governance and Trustee Conduct

The South African system, as with certain other systems internationally, enables workers to be represented by trustees on a fund. The FSCA appreciates the importance of fund members having a voice on how their hard-earned savings and funds are run, managed and invested. The fitness and propriety of elected and appointed trustees, and principal officers, should be of a high level given their statutory and fiduciary duty to always act in the best interest of the fund and its members.

The FSCA's Trustee Toolkit will, therefore, be continuously enhanced to equip trustees with basic knowledge and competencies to enable them to make the correct decisions and act ethically.

The governance of commercial umbrella funds will continue to be enhanced, and options will be considered on how best to represent workers views on the board of such funds, without creating excessive administration for employers, funds and the regulator. This process will entail engagements with unions and industry to find the most suitable model of representation. A number of commercial umbrella funds are also embracing the FSCA's guideline to appoint 50% of independent trustees.

The appointment of employees of a sponsor as principal officers on umbrella funds remains an undesirable practice and is therefore not supported by the FSCA, including also the undesirable practice of having independent trustees who also render services to a fund. This is also borne out by previous experience.

Focus will also now shift to monitoring member outcomes under the default regulations, following the registration of various rules and the granting of exemptions.

Consolidating unclaimed benefits

The National Treasury announced in the 2020 Budget that legislation will be prepared to consolidate unclaimed benefits in the retirement industry and establish a single registry. This should manage any perceived or actual conflicts of interest in the industry. The fund will be subject to the FSCA's supervision. The important principles and some of the features of Know-Your-Customer (KYC), are also worth considering for the industry to ensure that member details are constantly up to date to ensure that the challenge of unclaimed benefits is not pervasive in the future.

Termination of funds

A system with many dormant funds detracts the regulator from effective supervision, given the limited resources. Around two-thirds of currently registered funds are either without trustees, members, assets or are in the process of terminating. As part of enhancing the process to deregister funds, the FSCA will continue collaborating with the auditing profession to mitigate the likelihood of deregistering funds in error, especially those funds which might still have assets. An Agreed-Upon-Procedure (AUP) is being finalised with inputs from the audit profession and industry. As part of this enhancement process, independent interim trustees are now being appointed to such terminating funds.

Administrators are urged to come forward and approach the courts to reinstate funds incorrectly deregistered. Twenty-five funds erroneously deregistered have been reinstated during this reporting period. On-site supervisory visits will assist in ensuring that fund and administrators' systems are robust.

Supervision

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

ACTIVITY	NUMBER
Registrations of new funds	30
Umbrella schemes:	
• Recording new participating employers and registration of revised special rules	6 088
• Recording of termination of participation of employers	649
Approving rule amendments, revised or consolidated rules	1 411
Approving schemes to transfer assets and/or liabilities between funds and other entities	1 414
Supervising fund liquidations:	
• Liquidation exemption section 28(17) completed	203
• Liquidation sec 28(15)(a) and (b) completed	222
Complaints	127

Note: The table excludes applications received but not yet decided, extensions and exemptions.

RETIREMENT FUNDS INDUSTRY STATISTICAL OVERVIEW

As at 31 March 2020, there were 5 124 (31 March 2019: 5 140) registered retirement funds in South Africa of which 1 452 (31 March 2019: 1 528) funds are active (a fund with members for whom it receives contributions and/or pays benefits).

Regulated entities supervised at 31 March 2020

Privately administered (with assets other than policies of insurance)	2 970
Wholly underwritten (only assets being policies of insurance)	2 154
Total	**5 124[1]**

Note: as at 31 March 2020 there were 1 528 active funds

A number of retirement funds are not subject to regulation and supervision under the PFA, including the Government Employees Pension Fund (GEPF), because they were established by separate statutes. All other funds must be registered in terms of the PFA and are thus regulated and supervised by division.

The following statistics are the latest available for retirement funds:

RETIREMENT FUNDS: FINANCIAL YEAR ENDING 31 DECEMBER 2018						
Financial year ending	**2016**	**Change %**	**2017**	**Change %**	**2018**	**Change %**
Number of funds	5 144	(0.0)	5 158	0.3	5 124	(0.7)
Membership ('000)	16 644	1.2	16 946	1.8	17 522	3.4
Contributions (R'm)	227 024	6.6	238 520	5.1	255 902	7.3
Benefits paid (R'm)	325 918	13.6	314 603	(3.5)	358 042	13.8
Assets (R'm)	4 146 048	2.7	4 262 395	2.8	4 490 617	5.4

Retirement funds: Number of funds by administrator at 31 March 2020

Administrator	Active funds*	Other funds	Total funds
Liberty Group	107	992	1 099
MMI Group	52	747	799
Alexander Forbes Financial Services	2 695	480	745
Sanlam Life Insurance	112	228	340
Absa Consultants and Actuaries	118	171	289
Old Mutual Life Assurance Company (South Africa)	22	169	184
NBC Fund Administration Services	74	59	133

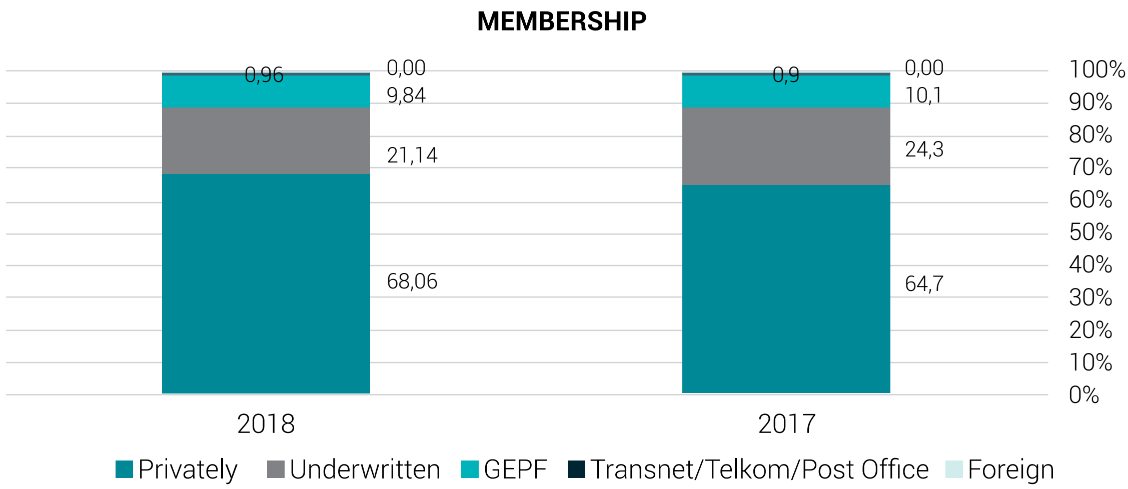
Administrator	Active funds*	Other funds	Total funds
NMG Consultants and Actuaries Administrators	56	62	118
Own administrator	38	62	100
All other administrators	611	706	1 317
Total	**1 455**	**3 669**	**5 124**

* *Includes funds that have informed the FSCA that they intend to stop conducting business after their liquidations, 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 2018 stood at 17 522 325, of which 11 447 361 were active members and 6 074 964 were pensioners, deferred pensioners, dependents and unclaimed benefit members. Some double counting is unavoidable, as some individuals are members of more than one fund.

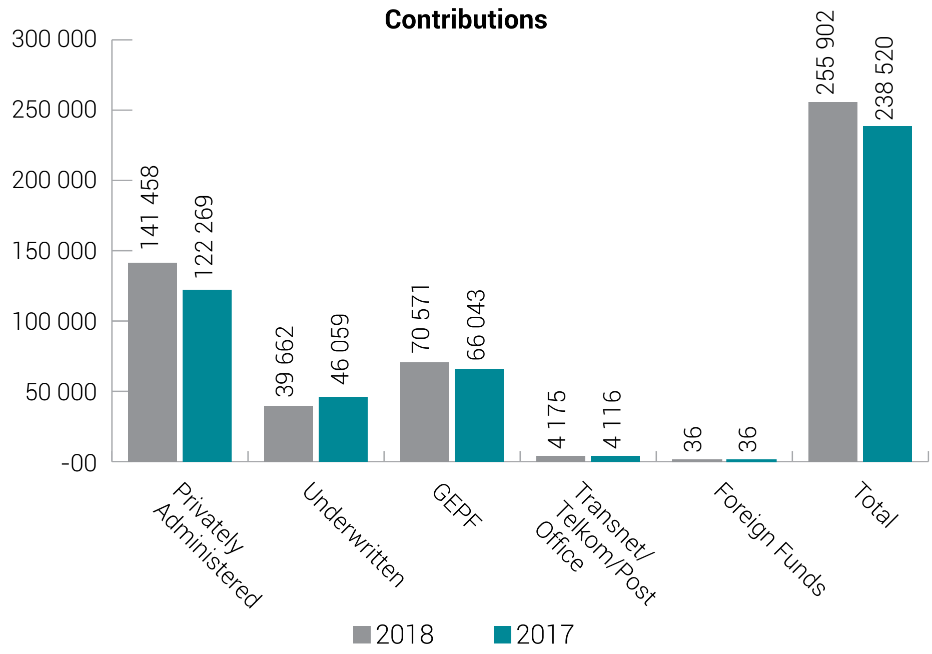
Membership (%)



Contributions

Total contributions received by retirement funds in South Africa increased by 7.29% from R238.5 billion in 2017 to R255.9 billion in 2018.

CONTRIBUTIONS (R million)



Assets

Retirement fund industry assets increased by 5.4%, from R4.3 trillion in 2017 to R4.5 trillion in 2018. The net assets of privately administered funds increased by 8.9% from R1.94 trillion in 2017 to R2.11 trillion in 2018.

ASSETS (R'm)

Unclaimed benefits

The aggregate value of unclaimed benefits reported by retirement funds regulated and supervised under the PFA as at 31 March 2020 is as follows:

	Number of funds	Aggregate amount of unclaimed benefits R'm	Number of beneficiaries for whom unclaimed benefits are held
Occupational retirement funds (both stand-alone and umbrella, underwritten and not)	1 338	34 345	3 990 691
Beneficiary funds	9	110	1 647
Unclaimed benefits funds	50	9 124	909 065
Total	**1 397**	**43 579**	**4 901 403**

Note: There could be some double counting as some members may have unclaimed benefits in more than one fund.

Since the implementation of the unclaimed benefits search engine, 40 322 possible matches have been identified and an asset value of approximately R1.2 billion was paid to 14 558 members after valid claims were submitted to the relevant funds.

INVESTIGATIONS AND ENFORCEMENT DIVISION

PURPOSE

The main objective of the Enforcement Division is to deal with all complaints or cases of alleged contraventions of a sector law. The division is responsible to investigate any reasonably suspected contraventions of any financial sector law and to see the cases through until the appropriate regulatory and/or enforcement actions are completed, if any. In addition, it is also the responsibility of the Enforcement Division to investigate and deal with unlicensed persons that provide a financial service, financial product or a market infrastructure.

Investigations by the Enforcement Division are conducted in terms of extensive investigation powers as conferred in sections 135, 136, 137 and 138 of the Financial Sector Regulation Act 9 of 2017.

PERFORMANCE

During the review period, the division finalised **33** investigations in respect of contraventions of the Financial Markets Act and **74** in respect of various financial sector laws. In some of these cases, administrative penalties were levied. The penalties amounted to R104 857 500 (Financial Markets Act) plus **R137 185 501.81** for other financial sector law violations. In some cases, there were ensuing withdrawal of licences and debarment of individuals.

The division has had, in several cases, inter-agency collaborations with the Reserve Bank, Financial Intelligence Centre (FIC) and the Asset Forfeiture Unit (AFU). These cases are to a large extent, Ponzi Schemes. Through assistance of the FIC, bank accounts were frozen and within 10 days, the AFU obtained preservation orders for later forfeiture to the state. This has led the division to be more effective in enforcing compliance.

The division has built excellent cross border relationships and collaborated with foreign regulators when asked for assistance. In return, the division also receives assistance when matters require offshore assistance.

The most significant of the enforcement actions taken by the division was against Steinhoff International Holdings. The division determined that Steinhoff had published false and misleading statements in breach of the provisions of the Financial Market Act.

An administrative penalty of R1.5 billion was imposed on Steinhoff and in terms of section 173 of the FSR Act, the authority agreed to remit a portion of the R1.5 billion penalty and ordered Steinhoff to pay R53 million as an administrative penalty.

The authority agreed to the reduction of the penalty to avoid penalising innocent shareholders and the misstatements were because of a fraud perpetuated by certain former officers of Steinhoff.

The division is constantly working to make the investigations more efficient and timelier. Fair administrative justice means that the investigations take longer than the division would like. The division will constantly find ways to speed up the administrative and investigative process without negatively affecting the rights of investigated parties to a fair process which it undertakes to execute in an unbiased and independent manner.

SPECIALIST SUPPORT DIVISION

PURPOSE

The Specialist Support Division was established as a new division in the functional operational structure of the Financial Services Conduct Authority. The division comprises a number of specialist departments, staffed by technical experts in their respective disciplines, tasked with providing specialist technical support, primarily to the supervisory divisions of the FSCA.

STRATEGIC OBJECTIVES

- Perform supervisory functions in relation to specific sections (those relating to the functions of actuaries) of the Pension Funds Act.
- Provide actuarial services to other divisions.
- Provide data analysis services primarily to the Supervision Divisions.
- Provide expert technical support to the supervision functions through ongoing development of the FSCA's supervisory framework.
- Perform business model and product analysis primarily in support of the Licensing and Supervision Divisions.
- Investigate and analyse advertising and disclosure trends and practices in the market.

DEPARTMENTS

The division comprises five departments. During the reporting period, the departments were established and started the process of recruiting suitably qualified staff.

DEPARTMENT		RESPONSIBILITIES
1	Actuarial Services	The department analysed valuation reports tabled with the Financial Sector Conduct Authority to determine the financial soundness of pension funds. Where applicable, the schemes for restoration of financial soundness are considered to ascertain whether these are likely to achieve their objective within a reasonable period. In addition, actuarial support is provided to the various other divisions, as and when required.
2	Data Analysis	The department provides support to other FSCA divisions, in particular, the Supervision Divisions, in analysing data submitted through market conduct statutory returns or other ad hoc data sets, in order to monitor market conduct risk indicators. The department also assists the Supervision Divisions in the design of statutory returns or other information requests, to ensure that they will yield meaningful data, as well as the design and preparation of public reports summarising industry statistics and benchmarking key conduct indicators. The Investigations and Enforcement and Regulatory Policy Divisions are also likely to use this department to assist them in specific investigatory or research work requiring data analysis skills.
3	Business Model and Product Analysis	To provide support to other FSCA divisions, notably the COB Supervision Division and the Licensing Division, in analysing business models and products of specific financial institutions as well as to support thematic supervisory reviews.
	Disclosure, Advertising and Market Analysis	The department is tasked with ongoing scanning and analysis of media campaigns (including social and online), and ongoing monitoring of new advertising and marketing approaches. The department also provides support to the other FSCA divisions, notably the COB Supervision Division, in reviewing the disclosure, advertising and marketing strategies of financial institutions as well as to support thematic reviews in this area. Furthermore, it conducts research on local and international regulatory and supervisory approaches relating to disclosure, advertising and marketing, and compares the marketing material and financial products to determine whether unreasonable expectations are being created, and also assesses the relevant aspects of treating customers fairly.
	Supervisory Framework	The department provides support to supervision functions through ongoing review and development of the FSCA's supervisory framework – comprising approaches to supervision and supervision methodologies. The department is also required to carry out ongoing research and monitoring of local and international supervisory standards and approaches. This department is also accountable for the current development work on the FAIS competency framework and the Trustee Toolkit for retirement fund trustees, both of which are expected to continue evolving, as well as future competency frameworks that may be required as the CoFI Bill develops.

PERFORMANCE

SERVICE DELIVERY OBJECTIVES, INDICATORS AND OUTPUTS

Actuarial Services Department

The Actuarial Services Department started the year with a backlog of pension fund valuation reports to consider, many submitted more than six months before. The key objectives for the year were to reduce the number of cases requiring consideration, as well as to reduce the time taken to respond to reports submitted.

The cases identified as backlog cases were completed. The number of cases requiring consideration at the end of the year is just over half the number that had not been considered at the start of the year. In addition, of the cases requiring consideration, none were submitted more than six months ago. Given the focus on the backlog of cases, the service level commitments have not been met in many cases. The focus for the new year will be to bring the turnaround times back into line with the service level commitments.

Disclosure, Advertising and Market Analysis

For the period under review, the department undertook the following activities:

- Participated in the draft Conduct Standard on Advertising, Marketing and Information Disclosure Requirements for Collective Investment Schemes.
- Provided input into the draft Conduct Standard for Banks.
- Assisted FinCoNet in drafting the report on Financial Advertising (Standing Committee 5).
- Conducted ongoing media scanning.
- Submitted five referral memorandums to relevant FSCA departments.
- Amongst other reports, the department conducted research and produced reports outlining the trends identified regarding the:
  - advertising of interest rates on fixed deposits and fixed-term investments by South African banks and other financial institutions
  - marketing and advertising approaches used to promote complex investment products (i.e. Ponzi Schemes, Binary Options, Forex Trading and Contracts for Difference) in South Africa
  - marketing and advertising approaches used to promote funeral insurance policies and transactional bank accounts.

Supervisory Framework Department

For the period under review, the department undertook the following activities:

- Developing a proposed risk-based supervisory framework.
- Participated in developing an aligned and comprehensive complaints management system that will enable analysis of complaints data to ensure:
  - the identification of trends
  - identification of financial institutions, products, services or persons not delivering on fair outcomes to consumers
  - providing appropriate financial products services that meet the needs and reasonable expectation of customers
  - financial institutions not embedding treating customers fairly (TCF) outcomes in its culture.
- Establishing the current position, extent and practices of unclaimed assets/benefits within the financial sectors supervised by FSCA.
- Review of the requirements and format of FAIS regulatory exams.
- Review and update of Trustee Toolkit.

Business Models and Product Analysis

For the period under review, the department undertook the following activities:

- Conducted analysis and assessments of quantitative aspects for OTC derivatives licensing including Market Risk, Financial Instrument Valuation, Business Model Analysis, Operational Risk and Working Capital.
- Assessment on the quantitative requirements of Trade Repositories and the license application of entities.

- Assessment of the margining requirements of OTC derivative providers.
- Business model and product analysis of a large pension fund.
- Banking project aimed at extending the work of the Promontory Report on the comparison of banking products in South Africa.
- Contributed to the analysis of improvements that could be made to the regulation of hedge funds including market risk.
- Conducted research on Crypto Derivative instruments for the IFWG and act as a first responder to the innovation hub.
- Conducted research on aggregators, referrals and lead generation in the insurance industry for the RDR Steering Committee.

Data Analysis

For the period under review, the department undertook the following activities:

- Crafted a Data Analysis Strategic Plan with the objective to detail the strategy of the Data Analysis Department for the financial years 2019 to 2021, including the capability model, the maturity model and the roadmap.
- Completed a business case whose main objective was to research and outline data analysis tools available in the market, what capabilities they offer and how much they cost. Business cases are the first step towards procurement of any data analysis tool because they offer the available information and outline the project plan of what needs to be done to achieve the project successfully.
- Participated in the Enterprise-wide Information Management Programme, as a domain lead to set up the Analytics Centre of Excellence as the hub, to set-up the hub and spoke operational model. During this process, departmental heads were engaged and introduced to the programme and shown the benefits of active participation in the programme.
- Participated in the draft of the Information Steward Board draft document to set-up and operationalise the data steward tactical plan.
- Participated in the draft of the Protection of Personal Information (PoPIA) Compliance Committee.
- Participated in the Enterprise Architecture (EA) team that is putting together the EA design.
- Pro-actively drafted data analysis initiatives that will assist the divisions' realise the importance of using data analysis for decision-making, amongst others; profiling of *conduct risk of companies and individuals; trend analysis of segments across different distribution channels; mis-selling in the micro-insurance space, analytics of fees paid to the third parties within pension funds; claims management analytics, complaints management analytics and analytics between the complaints submitted and the TCF framework.*
- Assisted the division with the design of the information requests to ascertain that they yield meaningful information, amongst others, loyalty bonus questionnaire, underwriting and claims assessment practice review and insurance value-added products.
- Supported other divisions with data analysis initiatives, amongst others, cell-captive analytics, Moody's financial soundness analytics and 4AX financial soundness analytics.

CORPORATE SERVICES DIVISION

PURPOSE

The Corporate Services provides essential internal support services to ensure the smooth functioning of the FSCA's Human Resources, Facilities and Security and Communication and Language Services departments.

The Human Resources report is presented in Part D of this annual report. The Facilities and Security Department is responsible for the provision of integrated facilities management services to maintain, improve and adapt the FSCA's work environment, including managing and coordinating the best use of space, building services and infrastructure, people and the provision of a range of supplies and services – more information in this regard can be found in part C of this annual report.

STRATEGIC OBJECTIVES

- To ensure that the FSCA's organisational design, skills and infrastructure are 'fit for purpose' to optimally support all functions as we build the new organisation.
- To provide essential internal support services to ensure the smooth functioning of the FSCA's human resources, facilities, security and communication and language service operations.

DEPARTMENTS

The division consists of three departments as outlined below:

DEPARTMENT		RESPONSIBILITIES
1	Communication and Language Services	The department is accountable for developing and implementing the FSCA's strategy for internal and external communication. It is also responsible for the management of the reputation of the FSCA, including the development and implementation of the FSCA's general marketing and external communication activities. The department is also accountable for implementation of the FSCA's language policy.
2	Human Resources	Accountable for providing support to the human resources requirements and operations of all areas of the FSCA. See performance information in Part D.
3	Security and Facilities	Responsible for the provision of integrated facilities management services to maintain, improve and adapt the FSCA's work environment, including managing and coordinating the best use of space, building services and infrastructure, people and the provision of a range of supplies and services. See performance information in Part C.

The performance report on the Communications and Language Services Department is presented below.

PERFORMANCE

Communication and Language Services Department

The department has played a pivotal role in building a positive image and reputation for the FSCA by forging strategic relationships between the authority and its internal and external stakeholders, and by continuously assisting to drive the vision and mandate of the FSCA.

The department, through its language services function, is also responsible for the implementation of the FSCA Language Policy. This includes monitoring the use of all official languages by the FSCA in the authority's interaction with employees, the industry and members of the public.

Some of the key highlights of the department include successfully launching the FSCA as the country's first dedicated market conduct regulator, and optimally using the organisation's communication touch points to build the brand. Our initiatives and platforms include:

- Media roundtables
- Media releases
- Broadcast interviews
- Social media
- Client management system
- Call centre
- Languages services.

Service delivery year to date/objectives

- During the review period, the department responded to 197 media queries, and issued a total of 120 media releases related to the work of the FSCA. There were also three media roundtable discussions held. These aimed to give members of the media the opportunity to interact with the authority regarding any regulatory developments.
- The department created social media platforms for the FSCA to interact more directly with consumers and industry players.
- A consumer-focused radio campaign was launched to create awareness about the new authority.
- Having created the FSCA's social media pages on Twitter, Facebook and LinkedIn in December 2018, impressive growth was shown on all platforms during the review period. The FSCA even launched a YouTube channel to host and post FSCA and related videos online.
- The Facebook page saw an increase of 750% in followers to the current 2 629. It also had a total reach (total number of users who viewed or interacted with the page) of 226 500 for the period.
- The FSCA Twitter page also saw massive growth in its followers of 773% to a total of 1 800 followers. With impressions for the period totalling 348 537.
- The LinkedIn page now has over 15 000 followers with over 152 000 impressions and 2 800 unique profile visits.
- The following events, campaigns and interviews were posted on our social media pages:
  - Business Day, Power FM and 702 FSCA brand campaigns
  - Video archives of the FSCA Retirement Funds Conference on YouTube
  - The launch of the Consumer Education Department (CED) FSCAMyMoney.co.za website
  - FSCA media interviews.
- A total of 6 858 queries were received from the client management system (emails, faxes, walk-ins) during the period, recording a decrease of 1 360 queries when compared to 8 218 in the previous year. Queries responded to were mostly FAIS related (4 227), followed by queries related to retirement funds (1 696).
  - Annual calls received via our call centre reached a total of 42 574 in March 2019. This shows a steady increase when compared to previous years (41 968 in March 2018, and 38 318 in March 2017).
  - Translation, interpreting and editing services were provided to the organisation. This included the provision of South African Sign Language interpretation and advice on access to information for the Consumer Education Development of the Financial Literacy Material project for the Deaf and Hard of hearing. Transcription services of the investigation and enforcement reports. Interpreting services for the Financial Services Tribunal and lastly the translation of the notices on the Insurance Regulatory Framework, FSCA Perimeter Report, SABC radio adverts and Promotion of Access to Information Act (PAIA).

SECURITY AND FACILITIES BUSINESS UNIT

The Security and Facilities Business Unit oversaw the operations of the two buildings in the Riverwalk Office Park, as well as the maintenance and upgrades of existing buildings and equipment. The Facilities Business Unit ensured that the FSCA had a suitable, safe and secure working environment for its employees, visitors and their activities.

The unit was actively involved in several projects, including the ongoing space management project to redesign office space.

Sustainability

The FSCA remained committed to sustainable business operations. It initiated various programmes and initiatives in support of sustainable practices.

Environment

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

Water consumption

A number of water-saving measures are in place, e.g. monitoring water consumption to detect possible leaks, monitoring and repairing taps, pipes and toilet leaks. The buildings also have hydro-boils that provide instant warm water and water coolers that provide instant cold water and sensor-activated taps in our bathrooms.

Electricity consumption

The FSCA focuses on reducing its consumption of energy, mainly electricity, through some sustainable initiatives which include the switching off of air conditioners, lights, basement fans and hydro-boils after-hours and during weekends.

Recycling

We have recycling initiatives in place which includes shredding, and the recycling of glass, plastic and paper.

GOVERNANCE

Occupational health and safety

In terms of the OHS Act (Act 85 of 1993) and Regulations, the FSCA must ensure and maintain a safe working environment for employees.

Provision of a healthy workplace remains a focus area for the FSCA. We have contracted the National Occupational Safety Association (NOSA) in 2019 to render OHS audits in terms of compliance and governance at the FSCA. The FSCA has been awarded a Certificate of Compliance for the second year in a row, which reiterates our commitment to our employees, contractors and visitors with regards to health and safety.

This year, OHS continued to focus on statutory appointments, committee compliance, ongoing inspections, training as well as induction of all new employees. OHS awareness communications to all staff are done every quarter via email. Two evacuation drills were conducted in the year.

The Occupational Health and Safety Act, Act 85 of 1993, was adhered to and no contraventions were reported.

The FSCA responded to the outbreak of the COVID-19 virus by installing anti-bacterial hand sanitisers throughout the building and by educating and encouraging our staff to use it. Deep cleaning of the buildings also took place.

INFORMATION COMMUNICATION AND TECHNOLOGY DIVISION

PURPOSE

The Information and Communication Technology (ICT) Division has established itself as a strategic partner to the Financial Sector Conduct Authority Business Divisions and has committed itself to establishing a technological and digital environment that is responsive to the business of the FSCA.

STRATEGIC OBJECTIVE

The FSCA Regulatory Strategy was adopted following the enactment of the FSR Act. In response to this strategy, the ICT division adopted a Data Driven Digital (DDD) strategy to support the enablement and achievement of the business objectives.

The strategic objective of the DDD strategy is to take advantage of disruption technologies, in particular, advance analytics and artificial intelligence to enable the FSCA to tap into the value of its data to establish deep insight analysis to support Regulatory decisions.

The target is to transform the FSCA into a digitised regulator, shifting its fundamental business model to support various forms of digital channels for engagement with regulated entities, while still balancing traditional practices of process automation to build internal efficiencies through an overhaul of core and support systems.

PERFORMANCE

SERVICE DELIVERY OBJECTIVES, INDICATORS AND OUTPUTS

The ICT divisional strategy is driven by the programmes of the DDD strategy which is adopted in support of the Regulatory Strategy of the FSCA. The following are the key programmes that the ICT division will be driving to advance delivery of the DDD strategy:

- Process Automation Programme (to digitise core and support processes of the business through provision of simple, integrated seamless services supported by strong ICT capabilities to achieve operational efficiency).
- Digital Transformation Programme (to embed culture of business insight and analytical decisions supported by evidence from advance analysis of consumer and customer data).
- Cyber Security Programme (to ensure a cyber resilient digital platform for the FSCA through a multi-level defense mechanism).
- IT Service Improvement Programme (to take advantage of current and emerging technologies to achieve holistic customer experience of all FSCA stakeholders and ensure consistency).

The **Process Automation Programme** was a major focus in the last strategic planning cycle. The scope of this programme continued into the reporting cycle given the project status of some of the key process automation projects like the enterprise resource planning (ERP) and integrated regulatory solution (IRS).

- IRS – the target was to finalise the strategic sourcing of the IRS system and obtain business approval for the project plan. However, the sourcing process was not concluded as planned within the period under review. This remains a key focus for the next financial year.
- ERP – although the project was aimed for go-live before the end of the reporting cycle, the project managed to achieve 85% of the overall project completion due to unexpected project delays.

The **Digital Transformation Programme** focus for the reporting period was on building all the ICT capabilities required to deliver on the DDD strategy and the information strategy with a particular emphasis on building the foundation to enable digitisation. Particular focus was on establishing those capabilities that do not exist currently within ICT i.e. data/information management and analytics capability, vendor management, ICT demand management and ICT innovation capabilities. The information strategy and data governance are some of the enabling strategies that were planned to be developed as part of this programme.

- To this end, the information strategy has since been approved and processes to implement it are underway in line with the implementation plan. As part of this strategy implementation, the key highlights include the adoption of the enterprise information policy, adoption of the information governance framework and charter, PoPIA compliance framework and knowledge management approach
- To support the implementation of the business intelligence and advance analytics platform, the data quality standards enterprise architecture and analytics solution architecture have been achieved
- ICT management framework was revised to detail demand management and was approved accordingly. The operationalisation of the demand management started during the reporting period and continue to be and will be monitored on an ongoing basis for impact.

The **Cyber Security Programme** was adopted in recognition of the importance of knowing and managing the organisational cyber security threats. The ICT Division acknowledges the importance of knowing the cyber security threats that the FSCA faces to ensure deployment of effective protection and response strategies for the organisation. To this end, the following were achieved as part of the implementation plan:

- Defining the Enterprise Risk Management (ERM) aligned Cyber Security Risk Management Framework
- The Cyber Security Incident Response Team (CSIRT) responsibilities and cyber security specific incident response plan
- The discovery and classification of the FSCA critical data.

The Service Improvement Programme was adopted to drive internal customer service improvement within the organisation. Key focus was in stabilisation and optimisation initiatives that are aimed at ensuring that business continues to function optimally while the digital transformation agenda is pursued. ICT delivered services and projects that enabled the FSCA business to continue serving its regulatory stakeholders during this transitional period. Special attention was paid to FSCA worker and supplier experience, stabilisation, availability and mobility when implementing systems, functions and services.

Enhancements for the FSCA community were implemented through service improvements such as the upgrade to skype for business, video conferencing facility as well as expanded wireless coverage across the two FSCA buildings.

Key departmental performance

Strategic objective	Performance indicator	Achievement 2017/18	Target 2018/19	Achievement 2018/19	Reason for deviation
Building a new organisation	Implementation of projects as set out in the project list (including release calendar, excluding IRS and ERP projects)	Achieved 91.73% implementation	90% implementation of all approved projects with business sign-off	96% achieved	N/A
	Achievement of SLC as communicated and expected by the FSCA user	Achieved 96.06% of SLC	90% of ICT SLC met	95.78% SLC achieved	N/A

Changes to planned targets

IRS – the target was to finalise the strategic sourcing of the IRS system and obtain business approval for the project plan. However, the sourcing process was not concluded as planned within the period under review. This remains a key focus for the next financial year.

ERP – although the project was aimed for go-live before the end of the reporting cycle, the project managed to achieve an 85% overall project completion due to unexpected project delays.

PA/FSCA – The planning on the PA/FSCA targets has changed following the PA/FSCA joint IT strategic workshop. The PA/FSCA IT Governance Committee made an undertaking thereafter to instead start with the development of the architecture and transformation plan for PA/FSCA upon which the solution will be built, hence, the change in the initial target.

PERFORMANCE OF THE OFFICE OF GENERAL COUNSEL

PURPOSE

The Office of General Counsel (OGC) is tasked with the delivery of a comprehensive legal services support function to the FSCA – in effect, acting as "in-house legal counsel" in respect of its service delivery objectives which are aimed at minimising the exposure of the FSCA to external and internal legal risks, both from a regulatory and operational perspective.

SERVICE DELIVERY OBJECTIVES

(i) To provide cost-effective and efficient legal and litigation support services in matters involving the FSCA.

(ii) To provide the FSCA with advice regarding constitutional and administrative law aspects in discharging its regulatory and legislative functions.

(iii) To provide general corporate legal services including the drafting and vetting of contracts to which the FSCA is a party and advice on labour related matters.

(iv) To contribute institutional support services to the Financial Services Tribunal (the Tribunal) established in accordance with section 219 of the Financial Sector Regulation Act, 2017 (Act No.9 of 2017).

(v) To provide specialist advice to the FSCA on compliance with international standards in Anti-Money Laundering and Counter Financing of Terrorist activities (AML/CFT).

DEPARTMENTS

The OGC executes on its objectives via five specialised units, that is:

Department	Responsibilities
Litigation Unit	This unit manages High Court litigation and representation of the FSCA in applications before the Tribunal.
Legislative Review Unit	Supports the achievement of the objective in paragraph (ii) above.
Corporate Legal Services Unit	Serves as the Advisory Unit to the FSCA as a corporate body.
Specialist AML/ CFT Advisory Unit	Supports the achievement of the objective set out in paragraph (v) above.
Tribunal Secretariat and Liaison Unit	Manages processes for the placing of applications before the Tribunal and provides Secretariat support to the Tribunal as a transitional requirement contained in the Ministerial Regulations of 29 March 2018 made in terms of the FSR Act.

PERFORMANCE

SERVICE DELIVERY OUTPUTS

The OGC has substantially achieved its objectives and targets for the year. Highlights during the period under review included:

Litigation

OGC provided ongoing legal support to the FSCA in the curatorship matters of various institutions, including Cadac Pension Fund, Corporate Money Managers, Rockland, Municipal Councillors Pension Fund, Bosele National Provident Fund and SACCAWU National Provident Fund, in respect of which there is a pending application for the cancellation of the curators' appointment. On 8 August 2019, the appointment of the Fidentia curators was cancelled. The effective date of the curators' discharge will be determined by way of publication of a Notice on the FSCA's website as and when certain administrative matters have been attended to. An application for the cancellation of the appointment of the Rockland curator, alternatively the appointment of a replacement curator is opposed by the FSCA.

In December 2019, the action instituted in 2014 by the Pep Limited Provident Fund against the regulator for the alleged failure in its duties with regard to investments made by the Fund with the Trilinear Group of Companies, was settled on terms negotiated by the insurer of the regulator, acting in terms of the policy of insurance which entitles the insurer to take over control of the settlement of an action.

During October 2019, the FSCA obtained warrants to carry out a search and seizure at the premises of Sekunjalo Investments Holdings (Pty) Ltd, African Equity Empowerment Investments Limited and other entities as part of an FSCA's investigation of suspicious prohibited trading practices in shares of Ayo Technology Solution Ltd. Two applications to set the warrants aside were subsequently received, one which seeks declaratory relief that the provisions of section 138(1)(b) of the FSR Act are inconsistent with the provisions of section 14 (right to privacy) of the Constitution. The applications are opposed by the FSCA.

The review application by Hortors Pension Fund concerning the validity of Regulation 35(4) of the Pension Funds regulations was dismissed by the High Court during the period under review, following similar rulings in the preceding review period of applications by the Southern Sun Group Retirement Fund and Free State Municipal Pension Fund. All three matters are proceeding on appeal to the Supreme Court of Appeal.

The review application launched by 4 Africa Exchange (Pty) Ltd against the award of an exchange licence to another exchange, ZAR X and to also set aside a decision of the Appeal Board of the erstwhile FSB was heard during August 2019 and was dismissed with costs granted in favour of the FSCA.

On 28 March 2019, the Public Protector issued Report No. 46 of 2018/19 entitled "Report on an investigation into allegations of maladministration, abuse of power and improper conduct by the former Executive Officer of the Financial Services Board, Adv DP Tshidi, as well as systemic corporate governance deficiencies at the Financial Services Board." The Public Protector made various findings against the former Executive Officer (EO) of the FSB and directed certain remedial action to be implemented by the FSCA. The FSCA and former EO launched an application to review and set aside the report on 7 June 2019. The Public Protector's answering affidavit, filed on 29 November 2019, conceded that the report should be set aside. The matter was re-enrolled for hearing on 21 September 2020 on which day the hearing was completed. Judgment was handed down on 9 October 2020. The Public Protector's report no 46 of 2018/9 dated 28 March 2019 was reviewed and set aside and declared constitutionally invalid for lack of jurisdiction. Costs were ordered against the PP until 13 November 2019.

The matter was postponed on 13 May 2020 as the virtual hearing encountered technology challenges. The matter was re-enrolled for hearing on 21 September 2020 on which day the hearing was completed. Judgment was handed down on 9 October 2020. The Public Protector's report no 46 of 2018/9 dated 28 March 2019 of an investigation into *"allegations of maladministration, abuse of power and improper conduct by the former Executive Officer of the Financial Services Board, Adv. D. P. Tshidi, as well as systemic corporate governance deficiencies at the Financial Services Board"* was reviewed and set aside and declared constitutionally invalid for lack of jurisdiction.

The Financial Services Tribunal

The Tribunal hears applications for the reconsideration of decisions by decision-makers as defined in section 218 of the FSR Act. During the period under review, 265 applications for reconsideration of decisions and 204 applications for leave to reconsider FAIS Ombud summary dismissal decisions were lodged with the Tribunal. One hundred and thirty decisions, including 19 consent orders, in relation to applications for reconsideration were published on the FSCA website. Rulings in relation to all applications for leave to reconsider summary dismissal decisions by the FAIS Ombud were handed down. Twelve decisions of the Tribunal were taken on review to the High Court.

Legislation

The Legislation Report below refers to the development of various pieces of legislation relating to the FSCA.

Financial Sector Regulation Act, 2017

On 10 May 2019, the National Treasury (NT) published a correction of the Notice published on 14 March 2019, which amended the commencement notice (which determines the different dates on which the different provisions of the Act take effect as envisaged in section 305 of the Act). Further amendment notices were published on 30 August 2019 and 24 March 2020. The notices amended certain effective dates of certain provisions of the Act. Draft amendments to the Financial Sector Regulations were published for public comments on 27 November 2019.

Conduct of Financial Institutions Bill (CoFI)

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 NT published the draft Conduct of Financial Institutions (CoFI) Bill 2018, on 11 December 2018, together with an Explanatory Policy Paper that sets out the policy rationale for the CoFI Bill. Comments were invited until 1 April 2019.

Financial Sector Levies Bill and Financial Sector Levies (Administration) Bill

The Levies Bill is to provide for the imposition and collection of levies for the benefit of the Financial Sector Conduct Authority, the Prudential Authority, the Financial Services Tribunal, the Ombud Council, the Office of the Pension Funds Adjudicator and the Office of the Ombud for Financial Services Providers. The Financial Sector Levies (Administration) Bill is to amend Chapter 16 of the Financial Sector Regulation Act, to appropriately provide for the administration of levies imposed in terms of the Levies Act, 2019, and to amend Schedule 5 of the Public Finance Management Act, 1999. The Minister of Finance indicated in the Budget Speech that the Bills will be submitted to parliament in 2020.

Subordinate legislation

The OGC continued to support FSCA operational divisions and departments with providing advice regarding the development of subordinate legislation.

Financial Action Task Force Mutual Evaluation

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 and currently comprises 37 member jurisdictions and two regional organisations, representing most major financial centres from around the globe. South Africa is currently the only member from Africa. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF monitors the progress of its members through peer reviews, in implementing necessary measures, reviews money laundering and terrorist financing techniques and countermeasures, and promotes the adoption and implementation of appropriate measures globally. During the review period, an assessment of South Africa for compliance with the FATF recommendations commenced through a mutual evaluation led by a team from the International Monitory Fund (IMF), FATF and Eastern and Southern Africa Ant-Money Laundering Group (ESAAMLG). The on-site visit from the FATF team took place from 22 October to 12 November 2019. The FATF methodology adopted for this evaluation means that countries are no longer only assessed for technical compliance with the FATF recommendations, but also for effectiveness of a country's AML/CFT system.

The Office of General Council is responsible for coordinating the FSCA's response to the mutual evaluation as well as providing comments and motivations on the draft reports issued by the FATF assessors. The responses relate to the technical compliance assessment as well as the effectiveness of the assessment. The OGC is also responsible for preparing and coordinating the responses from the private sector i.e. Financial Services Providers, CIS managers and Authorised Users of an Exchange to the mutual evaluation. In addition, OGC also represents the FSCA in various AML/CFT forums that were critical for purposes of the mutual evaluation i.e. Interdepartmental Committee on AML/CFT, Interdepartmental Working Group Mutual Evaluation, Interdepartmental Working Group National Risk Assessment and National Risk Assessment Drafting Committee.

The FATF assessors issued two draft reports on the outcomes of the mutual evaluation which were commented upon by the OGC. The final report on South Africa's mutual evaluation is expected during the next review period.


Financial Sector Conduct Authority
FSCA

PART C
GOVERNANCE

TRANSITIONAL MANAGEMENT COMMITTEE

Abel Sithole
Commissioner

Dube Tshidi
Executive Head

Caroline da Silva
DE: Regulatory Policy

Jurgen Boyd
DE: Market Integrity Supervision

Marius Du Toit
DE: Specialist Support

Paul Kekana
Chief Financial Officer

Olano Makhubela
DE: Retirement Funds Supervision

Katherine Gibson
TMC member

OPS EXCO

Dube Tshidi
Executive Head

Caroline da Silva
DE: Regulatory Policy

Jurgen Boyd
DE: Market Integrity Supervision

Kedibone Dikokwe
DE: Conduct of Business Supervision

Marius Du Toit
DE: Specialist Support

Phokeng Mogase
Chief Information Officer

Jabulane Hlalethoa
DE: Corporate Services

Paul Kekana
Chief Financial Officer

Felicity Mabaso
DE: Licensing and Business Centre

Olano Makhubela
DE: Retirement Funds Supervision

Brandon Topham
DE: Investigations and Enforcement

STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY OF THE ANNUAL REPORT

To the best of our knowledge and belief, we confirm the following:

- All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor-General.
- The annual report is complete, accurate and is free from any omissions.
- The annual report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.
- The Annual Financial Statements (Part E) have been prepared in accordance with the SA standards of GRAP applicable to the public entity.
- The Accounting Authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.
- The Accounting Authority is responsible for establishing and implementing a system of internal control designed to provide reasonable assurance on the integrity and reliability of the performance information, the human resources information and the annual financial statements.

In our opinion, the annual report fairly reflects the operations, performance information, human resources information and financial affairs of the FSCA for the financial year ended 31 March 2020.

STRATEGIC OUTCOMES ORIENTED GOALS

This is the second year of operations since the inception of the FSCA. The table below reflects the progress achieved, following our strategic plan and annual performance plan for the year under review.

Strategic outcome	Achievement to date towards 3-year targets
1. Building a new organisation	
This strategic priority will ensure that there is effective and seamless transition of operations from the FSB to the FSCA with minimum disruption to regulatory oversight and service delivery.	The new functional activity-based operational structure for the FSCA was implemented on 1 October 2018 and the new divisions assumed their respective responsibilities in the new structure under the leadership of the TMC. All Divisional Executives and Heads of Department have been filled and good progress has been made towards filling other vacant positions. This is particularly important in relation to new activities being regulated by the FSCA, like in relation to banking. The FSCA will continue to operationalise the new structure over the medium-term, being mindful of potential financial resourcing limitations. Key outstanding vacant positions relate to the Commissioner and Deputy Commissioners, who are all appointed by the Minister of Finance. To be pro-active, outcomes focused and risk-based, the FSCA is embedding a culture of being pro-active, pre-emptive, intensive and intrusive across the organisation, and is establishing processes to identify and respond to market conduct that poses key risks or threats to consumers' interests, acting upon these in an intensive and intrusive manner. The FSCA has continued with its regulatory and supervisory mandate in ensuring that service delivery and embedding its functional business operational structure remains on track. As part of building the new organisation, the HR Department focused on talent acquisition, learning and development and organisation development interventions aimed at instilling employee behaviours that support a transformative culture that is proactive, pre-emptive and risk-based. • All key and critical roles at HOD and Specialist levels were filled. In addition, the revised talent management strategy and framework has been implemented. The talent management framework enables the FSCA to proactively nature talent to ensure a sustainable supply of talent that will allow the organisation to deliver on its new mandate. • A new competency framework that supports the new technical and behavioural competencies required to deliver on the new mandate was developed and implemented. • All job profiles were reviewed to align to the new competency profile.

<table>
<tr><th>Strategic outcome</th><th>Achievement to date towards 3-year targets</th></tr>
<tr><td></td><td>• Various cultural transformation change initiatives were implemented including values cascade sessions aimed at embedding the new values of the FSCA.
• Change management support is provided for all the projects that are aimed at achieving the FSCA strategic objectives.
• In order to embed the risk-based model of supervision, the FSCA in partnership with the Toronto Centre implemented a risk-based supervision training that was attended by all supervisory divisions.
• Building banking skills continue to be a focus area and to this effect, a banking learnership has been implemented to equip employees with the necessary skills. The first cohort gained experiential learning at the major banks and the programme is in its second year of delivery.</td></tr>
<tr><td colspan="2">2. An inclusive and transformed financial sector</td></tr>
<tr><td>This strategic priority aims to promote entry to the financial services sector by black and emerging entrepreneurs and broadening access to financial services and products by the previously excluded section of our people.</td><td>The FSCA developed a transformation driven approach for considering necessary exemptions to small and emerging financial service providers to assist them in entering the financial sector. The FSCA proposed amendments to the FAIS General Code of Conduct to allow qualifying beneficiaries as contemplated in the Financial Sector Code to receive enterprise development contributions from other financial services providers and product providers. In addition, through the implementation of the amended FAIS application forms, the FSCA is collecting data relating to the B-BBEE status of licensed financial services providers, their percentage of black ownership and percentage of black woman ownership. The data will assist the FSCA to develop interventions to promote transformation of the financial services sector.

The FSCA continued to hold training workshops with emerging financial service providers to inform and assist them with regulatory compliance, reaching hundreds of individuals each year and for the 2019/20 financial year, just under 600 attendees participated in these workshops held across South Africa. A draft transformation strategy has been developed and will be finalised and implemented over the medium-term. The strategy considers how the FSCA can implement its risk-based and proportionate approach to regulation and supervision in support of objectives of financial inclusion and transformation of the financial sector. The FSCA is actively supporting revisions of the Financial Sector Code, as led by the FSTC. This work will continue over the medium-term

The FSCA's financial inclusion strategy was approved, and focuses on six strategic pillars for supporting financial inclusion, being:
• Promote financial inclusion through financial education
• Collect and monitor data on financial inclusion to monitor progress
• Support technological innovation that enables financial inclusion
• Support small financial services providers who typically serve lower income customers with simple and affordable products
• Promote the supply of appropriate financial products and services to SMMEs
• Create a regulatory and supervisory framework that promotes financial inclusion
• Effectively cooperate with other stakeholders and participate in broader financial inclusion initiatives.</td></tr>
<tr><td colspan="2">3. A robust regulatory framework that promotes fair customer treatment</td></tr>
<tr><td>This strategic priority ensures that the FSCA's regulatory and supervisory frameworks are in line with international standards and best practices. It will also ensure that the conduct supervision process is effective and efficient.</td><td>The FSCA continues to focus on achieving strategic targets in line with its regulatory frameworks plan, risk-based supervisory plans, compliance with legislative requirements and relevant principles of regulation as recommended by the international standard setting bodies. The approach to risk-based supervision and reporting of conduct risk by regulated entities is being strengthened with support by the World Bank Group to ensure that the FSCA is proactive, pre-emptive, intensive and intrusive in exercising its supervisory functions This work will continue over the medium-term.</td></tr>
</table>

Strategic outcome	Achievement to date towards 3-year targets
	The FSCA continued to carry out proactive research into and monitoring of financial sector trends, emerging risks and international developments, while ensuring regulatory instruments are timeously developed to address emerging risks. This resulted in the development and publication of various draft regulatory instruments during the reporting period, spanning across all industries regulated by the FSCA. The FSCA also participated in the work of international financial sector principle/standard setting bodies (IAIS, IOPS, IOSCO). The FSCA continued to actively focus on developing frameworks for new activities that now fall within the jurisdiction of the FSCA as a result of the promulgation of the Financial Sector Regulation Act. This included the development of a draft Conduct Standard for Banks which was submitted to parliament early in 2020 and working closely with National Treasury in further refining the new activities to be included in the ambit of the Conduct of Financial Institutions Bill (CoFI Bill). The FSCA also initiated a project which aims to more effectively harmonise the regulatory frameworks regulated by the FSCA in order to avoid fragmentation and regulatory arbitrage, and to ensure more consistent customer outcomes across the financial sector. The harmonisation project is a long-term project which is envisaged to support the implementation of CoFI Bill framework, once promulgated, by consolidating numerous requirements contained in existing financial sector laws into a single harmonised regulatory framework.
4. Informed financial customers	
This strategic priority aims to promote financial education to customers of financial services and products by way of focused financial literacy interventions using media, workshops, exhibitions and other resources.	The FSCA continued with its planned interventions for consumer education and has implemented a total of 268 activities reaching about 25 167 consumers through face-to-face interactions such as workshops and exhibitions. A further 2 786 616 consumers were reached through 16 media interactions. A targeted approach assisted in nationalising the Financial Literacy Speech Competition for Grade 11 learners from quintile 1, 2 and 3 schools. The competition also provided opportunities for tertiary education through full bursaries to the nine provincial winners as part of the prizes. Another intervention targeted participants of the Expanded Public Works Programme with workshops on how to budget and save. The FSCA regularly liaised with local and national standards setting bodies on best practice for financial education. These include the National Consumer Financial Education Committee (NCFEC), OECD's International Network on Financial Education (INFE) and SADC's Committee on Insurance, Securities and Non-banking Authorities. (CISNA). Further to the above, the FSCA has started a process to develop conduct standards for financial education to coordinate financial education implemented by the finance sector. The continuation of the research into the financial literacy and capabilities of consumers in South Africa was also commissioned. This was done in order to better understand consumers' financial behaviour. The research data and analysis will assist in the design and development of future financial education programmes and projects.
5. Strengthening the efficiency and integrity of our financial markets	
This strategic priority aims to strengthen oversight of financial market efficiency and integrity by the evolving market infrastructure landscape.	As part of South Africa's commitment to adhere to global financial standards and the increasing need for the protection of investors and consumers of financial products, the FSCA continues to focus on key areas such as formulating frameworks for the regulation of benchmarks and securities financing transactions (SFTs) in the South African capital markets. Work surrounding the development of a reporting and disclosure framework for short sales is continuing and it is envisaged that a final Position Paper on the proposed framework will be published during the second half of 2020. South Africa's financial sector authorities – National Treasury, the South African Reserve Bank (SARB) and the Financial Sector Conduct Authority (FSCA) established the Financial Markets Review Committee (FMRC) to develop recommendations to reinforce conduct standards in wholesale financial markets focusing on (i) specific tools to strengthen the implementation and governance of conduct standards by market participants; and (ii) areas where changes to financial markets legislation and associated subordinate legislation are required to support a new conduct framework for wholesale financial markets.

<table>
<tr><th>Strategic outcome</th><th>Achievement to date towards 3-year targets</th></tr>
<tr><td></td><td>The Financial Markets Review (FMR) was finalised in November 2018 and the final Financial Markets Review Report was published on 3 March 2020 which included 42 recommendations made by the Financial Markets Review Committee. The Financial Markets Implementation Committee will oversee the implementation of the recommendations and report back to its principals (NT, SARB, PA and FSCA).

A Discussion Paper: Building Competitive Financial Markets for Innovation and Growth was published on 28 February 2020 for comments until 20 April 2020.</td></tr>
<tr><td colspan="2">6. Understanding new ways of doing business and disruptive technologies</td></tr>
<tr><td>This strategic priority focuses on the constant evolvement and new technologies within the financial service by creating opportunities to improve efficiencies, reach more customers and drive inclusion.</td><td>In light of FSCA's efforts to proactively monitor and regulate fintech activity, the Fintech Department was established to focus on five key strategic areas including:
• providing regulatory guidance to Fintechs
• testing new Fintech innovations in a Sandbox
• conducting research on latest Fintech developments in order to influence policy change
• providing subject matter expertise within FSCA and to external stakeholders
• engaging with the Fintech ecosystem (incubators, venture capitals, academics, incumbents).

To this end, several key milestones where achieved over the past financial year (since the established of the Fintech Department). In September 2019, the Fintech Innovation Hub was established.

In September 2019, the FSCA Fintech Department successfully co-hosted IFWG Fintech workshop with SARB in September, focused on six workstreams including, harnessing AI for economic growth, innovation, digital identity, open banking, cybersecurity and digital currencies. The workshops gave an opportunity for Regulators, Fintech firms and banking incumbents to interact on key fintech regulations, policies and trends.
• In October 2019, the FSCA Fintech Department successfully co-hosted the South African Fintech Hackathon with SARB. This led to the selection of two top Fintechs (from 100 entries), that went on to participate in the Global Fintech Hackathon in Singapore.
• In January 2020, the Fintech Department together with the IFWG published the South African Fintech landscape research, which identified 222 active and operational Fintech firms in South Africa. The top three segments included payments which made up 30% of the Fintech landscape, B2B technology players at 20% and lending at 12%.

Over the coming three years, the Fintech Department will be focused on guiding even more Fintechs on regulatory matters, conducting Sandbox tests by introducing further cohorts, and carrying out research focused on digital platforms, non-traditional data, Regtech and Suptech, open banking and artificial intelligence in order to develop new policies. The department will also host a number of industry workshops as a means to drive collaboration between regulators and the Fintech ecosystem.</td></tr>
</table>

CORPORATE GOVERNANCE REPORT

GOVERNANCE COMMITTEES

The Financial Services Conduct Authority (FSCA) is committed to best governance practices which comply with international standards. The Financial Sector Regulation (FSR) Act, 2017 (Act No.9 of 2017) provides for the governance structure and sets the governance objective for the FSCA as follows: "The Financial Sector Conduct Authority must manage its affairs in an efficient and effective way, and establish and implement appropriate and effective governance systems and processes, having regard, amongst other things, to internationally accepted standards in these matters."

The FSR Act establishes the Executive Committee (Exco) of the FSCA, consisting of its Commissioner and Deputy Commissioners, all of whom are appointed by the Minister of Finance. The Exco is the decision-making body of the FSCA. However, at the date of this report, neither a Commissioner nor Deputy Commissioners had been appointed and the role of the Exco was assumed by the FSCA Transitional Management Committee (TMC) comprising an acting Commissioner, the executive management of the FSCA and an independent member appointed by Minister of Finance. The TMC was established by way of a regulation to the FSR Act. The TMC provided the governance oversight during the year under review. Its meetings were held twice a month, one meeting considered policy matters and the other, licensing matters.

The FSR Act further requires the Director-General of the National Treasury to establish two oversight committees, namely, a Remuneration Committee and a Risk Committee. The function of the Remuneration Committee is to review, monitor and advise the Executive Committee on the Remuneration Policy of the FSCA and that of the Risk Committee is to review, monitor and advise the Executive Committee on risks faced by the FSCA and plans for managing those risks. The Director-General appoints the members of both these committees who are external and independent of the FSCA. Both committees held scheduled quarterly meetings throughout the year.

An independent Audit Committee, as required by the PFMA was established comprising four external members. The committee provided oversight over financial reporting, internal financial controls, internal and external audits, compliance with legislation and financial risk management.

These governance committees are empowered by the FSR Act to review, monitor and advice on the reports from management and thereafter make recommendations to the acting Commissioner as the Accounting Authority. These committees are responsible for monitoring standards of sound corporate governance and give stakeholders the assurance that the FSCA's business operations are conducted ethically, within prudent risk parameters and in pursuit of best practice by ensuring that the institution complies with relevant legislation and codes of good corporate governance practices. Each governance committee has its own terms of reference, which are reviewed annually in line with best practice.

All governance committee members have access to the advice and services of the Chief Risk Officer, who is responsible for providing adequate support to the governance committees to ensure that they discharge their fiduciary duties effectively and efficiently. The Office of the Chief Risk Officer (Governance, Risk and Assurance Department) provides guidance to governance committee members on their fiduciary responsibilities within the enabling legislative framework.

RISK MANAGEMENT

The FSCA risk management processes are designed to identify, analyse, evaluate and monitor strategic and operational risks across the entire organisation. The FSCA continues to use risk management as a tool to identify potential threats that could impede its ability to achieve its strategic objectives.

The Governance, Risk and Assurance (GRA) Department will continue with the Risk Owner and Champion model, as it is perceived to be the best for the FSCA's organisational structure. The GRA department has implemented a decentralised risk model to give greater effect to risk accountability. Further entrenchment of the model will require investment in terms of people and upskilling existing risk champions in key operational area

The FSCA utilises an Enterprise Risk Management (ERM) framework that considers legislative and government regulations and sets out clear roles and responsibilities in our assurance function. The ERM framework is independently overseen by the TMC and senior management, with risks reported though various governance committees. Executive management control is maintained through management committees, which focus on specific risk types. The appointed risk champions in each business unit play an important role as the point of contact between the business unit and Risk Management Unit. We continue embedding and maturing the ERM framework through various interventions, including ongoing training and awareness.

The GRA department focused its attention on the top 10 strategic risks that affected the organisation. The risks identified were thoroughly assessed to ensure that they received the required level of attention within the entity. With the outbreak of COVID-19, business resilience was tested, and an additional strategic risk was added to the strategic risk register. This saw the entity develop a pandemic plan that was implemented successfully to ensure that there is minimal business disruption and ensuring the safety of employees as a priority.

These risks together with the strategic risks were also presented to the Risk Committee in their quarterly meetings, for their scrutiny.

At an operational level, the risks registers are reviewed and updated on a quarterly basis. This is an essential component of the entity's quarterly reporting internally and to the National Treasury. Risk management is fully integrated into strategic and operational planning and the close quarterly monitoring of performance has helped ensure that the entity' goals and targets for the year are achieved. The entity's top three risks are summarised in the table that follows:

Strategic objective	Risk	Consequence(s) of risk	Likelihood	Risk mitigation by management
To build an effective and efficient organisation, fully capacitated to deliver on its mandate	Cyber Risk - the risk of financial and data loss as result of unauthorised and illegal access to the FSCA ICT infrastructure	• Reputational damage • Financial loss • Loss of trust • Transgression of regulation and FSCA policies • Operational shutdown - inability to deliver on mandate • Loss of critical FSCA data as well as confidential industry data • POPI transgression	Certain	• Cyber security strategy implementation • Proactive threat management • Identity driven security • Data centric security
To strengthen the efficiency and integrity of our financial markets	Reputational Risk - loss of credibility and respect for the FSCA as an effective regulator of market conduct	• Ineffective regulator • Loss of credibility • Negative media coverage • Greater non-compliance by the industry • Ineffective response to events	Certain	• Appointment of a Reputation Manager • Revised communication strategy, framework and policy • Social media scanning • Identification and review of pressure points in the FSCA that could result in reputational risk • Improved operational efficiency

Strategic objective	Risk	Consequence(s) of risk	Likelihood	Risk mitigation by management
To empower customers and potential customers of financial products and services	Global pandemic risk - inability of the FSCA to continue functioning effectively due to the outbreak of a global pandemic (e.g. Corona Virus)	• Threat to health and well-being off employees • Ineffective regulator (Ineffective regulation, supervision and enforcement) • Inability to deliver on mandate • Interruption of services • Reputational damage • Financial loss to FSCA • Financial loss to consumers • Possible litigation • Low staff morale • Operational shutdown • Loss of credibility • Negative media coverage • Greater non-compliance by the industry • Ineffective response to events • Financially unsound and non-compliant regulated entities • Unproductive FSCA staff members	Certain	Development of a FSCA Pandemic Policy

FRAUD AND CORRUPTION

The FSCA's fraud and corruption prevention strategy includes its Fraud and Corruption Prevention Policy, Fraud and Corruption Prevention Plan, Fraud and Corruption Response Plan and Whistle Blowing Policy. An awareness campaign which runs through the year ensures that staff is aware of their responsibility to report fraud and corruption. The whistle blowing hotline, managed by an independent service provider, attracted on average 48 tip-offs a month. A register of tip-offs is maintained to ensure that all tip-offs received, that fall within the mandate of the FSCA, are followed up. Tip-offs that fall within the mandate of other regulators are passed on to them and to the South African Police where relevant.

Ethical conduct and organisational integrity are key to prevent fraud and corruption in any organisation. To equip our staff with the skills and competencies to make ethical decisions and to uphold organisational integrity, the FSCA runs an online interactive ethics training course developed for the entity by the National School of Government. It is mandatory for every staff member to complete the training and to provide evidence of completion by way of a completion certificate which is systems generated at the successful completion of the course. The staff is expected to spend 10 hours on training related activities which are self-paced and which they may attempt over a six-week period.

CODE OF CONDUCT AND ETHICS

The FSCA's code of conduct and ethics establishes norms and standards related to integrity, ethics, professional conduct and anti-corruption. It acts as a guideline to employees with regard to their conduct from an ethical point of view, both in their individual conduct and in their relationship with others. It helps to uphold organisational integrity as well as build a values-driven workplace.

The code spells out the spirit in which employees should perform their duties, what should be done to avoid conflicts of interest, and what is expected of them in terms of their personal conduct. Compliance with the code of conduct and ethics enhances professionalism and helps ensure confidence in the FSCA. The FSCA builds a culture that encourages employees to think and behave ethically by providing training and awareness through induction sessions.

The code always places a duty and responsibility on FSCA employees to behave ethically. Employees will be subject to disciplinary steps if they are in breach of the code of conduct and ethics.

SOCIAL RESPONSIBILITY AND SUSTAINABILITY

The FSCA will continue the practice established by the FSB of donating to schools and charitable institutions its assets whose book values have been fully depreciated. Notwithstanding that these assets have been fully depreciated for accounting purposes, they can still be used by such institutions. The FSCA remains committed to sustainable business operations.

Environment

As an office-based organisation, the FSCA has a limited impact on the environment. Our office buildings incorporate many green features, particularly elements of energy and water saving.

Water Consumption

A number of water-saving measures are in place, e.g. monitoring water consumption to detect possible leaks, monitoring and repairing taps, pipes and toilet leaks. The buildings also have hydro boils that provide instant warm water, water coolers that provide instant cold water and sensor-activated taps in bathrooms which save water.

Electricity Consumption

Some of our sustainable initiatives include the switching off of air conditioners, lights, basement fans and hydro boils after-hours and during weekends. Light sensors were installed in the bathrooms, meeting rooms and training rooms during the 2018/19 financial year.

Recycling

Under the recycling programme, printer cartridges, plastic, tin cans and glass bottles are recycled. This programme also includes the shredding of paper, magazines, newspapers and cardboards.

INTERNAL AUDIT

The internal audit function is outsourced. The internal audit function provides reasonable assurance regarding management's assertions in relation to the achievement of objectives, effectiveness and efficiency of operations, reliability of financial information, and compliance with laws and regulations. In so doing, it provides value by evaluating and making recommendations to improve the FSCA's governance, risk management and internal control.

The Audit Committee is established in terms of section 51 (1)(a)(ii) of the PFMA and Treasury Regulations. The committee performs an oversight role and is accountable to the Accounting Authority to properly consider and evaluate all matters in order to form an opinion on these matters and to communicate these in the annual report.

AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2020.

The Audit Committee is established as a statutory committee in terms of section 51(1)(a)(ii) of the PFMA and Treasury Regulations 3.1.13 and 27(1). The TMC appointed the members of the Audit Committee of the erstwhile FSB as members of the first Audit Committee of the FSCA. The committee has formally adopted formal terms of reference and has fulfilled its responsibilities for the year, in compliance with the said terms of reference.

MEMBERSHIP AND ATTENDANCE

The committee consists of independent members who collectively have sufficient qualifications and experience in financial matters to fulfil their duties. The Executive Head, Chief Financial Officer and Chief Risk Officer are permanent invitees to committee meetings while the external and internal auditors attend by invitation. The internal and external auditors have unrestricted access to the Audit Committee. The committee met six times during the year.

The members of the committee together with their qualifications and record of attendance are listed below.

Member	Qualifications	Appointment date	24/05/19	12/07/19	05/09/19	03/10/19	29/11/19	23/03/20
J Mogadime Chairperson	BA; MBA; Dip Marketing (Cim)	1 April 2018	✓	✓	✓	✓	✓	✓
D Msomi	BA (Hons); PMD; MBA; Postgraduate (Corporate Governance); Postgraduate (Advertising and Marketing)	1 April 2018	✓	✓	✓	✓	✓	✓
PJ Sutherland	BCom LLB (Cum Laude); PhD	1 April 2018	✓	✓	✓	✓	✓	✓
H Wilton	BCom; MBA	1 April 2018	✓	✓	A	✓	✓	✓
H Ratshefola	BCom (Information Systems); IBM Executive Leadership	18 September 2018	A	✓	✓	A	✓	✓

AUDIT COMMITTEE RESPONSIBILITIES

The committee is satisfied that it has discharged its responsibilities as set out in its terms of reference, including the following:

- The safeguarding of assets, the operations of adequate systems of internal control and risk management, reporting processes and the preparation and accurate reporting of financial statements in compliance with the applicable legal requirements and accounting standards.
- Overseeing the activities of, and ensuring coordination between the internal and external auditors.
- Overseeing financial risks and monitoring controls designed to minimise these risks.
- Reviewing the entity's annual report, including the annual financial statements and the annual performance information.
- Annual review of the committee's work in line with the terms of reference and its effectiveness and making recommendations to the Accounting Authority to ensure the committee's continuing effectiveness.

RISK MANAGEMENT

- A separate Risk Committee monitors and oversees the assessment and mitigation of enterprise-wide risks.
- The committee is satisfied that the processes and procedures followed by the Risk Committee are adequate to ensure that financial risks are identified and monitored.
- The internal auditors use the risk register overseen by the Risk Committee to prepare their audit coverage plans and to undertake their work in the higher risk areas identified.
- The risk register is reviewed and updated quarterly to ensure that all major risks facing the entity, including emerging risk, are managed effectively.
- The Chairperson of the Risk Committee is a member of the Audit Committee.

THE EFFECTIVENESS OF INTERNAL CONTROLS

The Audit Committee has reviewed the following:

- The effectiveness of the entity's internal financial control systems, including receiving assurance from management, internal audit and external audit.
- Significant issues raised by the internal and external audit process, including the manner in which they were resolved.
- Noted management's actions in addressing identified control weakness.

Assurance provider	Total findings	Resolved findings	Unresolved findings
Internal audit	21	16	5
External audit	10	10	0

Based on the above and assurance obtained, we believe that the internal controls are effective.

REGULATORY COMPLIANCE

The committee has done the following:

- Reviewed the quarterly reports submitted to the National Treasury in terms of the PFMA and Treasury Regulations. No findings were noted.
- Reviewed the policies and procedures to ensure compliance with applicable laws and regulations.
- Noted the external audit report which indicated that no instances of non-compliance were identified.

INTERNAL AUDIT

The committee has done the following:

- Reviewed and recommended the internal audit charter for approval by the TMC.
- Evaluated the independence, effectiveness and performance of the internal audit function and compliance with its mandate.
- Satisfied itself that the internal audit function has the necessary resources, budget, standing and authority within the entity to enable it to discharge its functions.
- Approved the internal audit plan.
- Ten audits were planned for the financial year but due to the late start of the audits, nine were completed by the end of the year and the remainder was in progress awaiting management comments. No major issues were reported based on the work performed by the end of the year. The list of the audits was done in consultation with the Audit Committee.
- Encouraged cooperation between the internal and external audit functions.

EXTERNAL AUDIT

- The committee is satisfied with the independence and objectivity of the external auditors. The external auditors attended all the quarterly committee meetings and engaged with the Audit Committee members to ensure that there were no unresolved issues.
- The committee also approved the audit strategy and acknowledged the contents of the engagement letter presented by the external auditors.
- The committee has reviewed and accepted the external audit report.

EVALUATION OF FINANCIAL STATEMENTS AND ANNUAL REPORT

The committee evaluated the annual financial statements and annual performance report for the year ended 31 March 2020. It also reviewed:

- The external auditor's report.
- The FSCA's compliance with applicable laws and regulation.
- Significant adjustments resulting from the audit.

The committee has discussed and agreed on the conclusions of the external auditors on the annual financial statements, read together with the report of the external auditors. At its meeting held on 03 September 2020, the committee recommended the financial statements to the TMC for approval.

INDUCTION OF GOVERNANCE COMMITTEE MEMBERS

A comprehensive induction programme was developed to ensure that new Governance Committee members are adequately briefed and have the required knowledge of the structure of the FSCA, operations, policies and industry-related issues to enable them to fulfil their fiduciary duties and responsibilities. The Office of the Chief Risk Officer administers the induction programme. Further to the above, these new members are provided with details of all applicable legislation, minutes of the committees and relevant subcommittee meetings for the previous 12 months, the most recent management accounts and relevant subcommittee terms of reference.

ATTENDANCE OF THE GOVERNANCE COMMITTEE MEETINGS

RISK COMMITTEE

The committee assists the institution in ensuring that it implements effective policies and plans for risk management that will enhance its ability to achieve strategic objectives. It advises the institution on the adequacy of risk management processes and strategies. It met four times in the review period, with attendance reflected below. Please note that Mr. Abel Sithole recused himself from participating in all the Governance Committee meetings due to a possible conflict of interest by virtue of his appointment as the Accounting Authority.

The FSCA Risk Committee responsibilities are to:

- Review risk management policies, framework, strategy and practices in the FSCA.
- Review the assessment of risks and opportunities emanating from the triple context (economy, society and environment) in which the organisation operates and the capital the organisation uses.
- Review the assessment of the potential upside or opportunity presented by risks with potentially negative effects of achieving the organisational objectives and functions.
- Review the design, implementation and monitoring of appropriate risk responses.
- Review the establishment and maintenance of business continuity arrangements that allow the organisation to operate under conditions of volatility, and to withstand and recover from acute situations.
- Review the risk integration and embedding of risk management in the business activities and culture of the organisation.
- Review the report from management in respect of sustainability risks, litigation matters, ICT risks, licensing and retirement funds risk.
- Review the risk appetite and insurance policies of the organisation.

The members of the committee together with their qualifications and record of attendance are listed below.

Member	Qualifications	05/06/2019	04/09/2019	27/11/2019	05/03/2020
H Ratshefola – Chairperson	BCom (Information Systems); IBM Executive Leadership	✓	✓	✓	✓
A Sithole	BA; MA (International Relations); MA (Futures Studies); MBA; HED; Diploma in Actuarial Techniques	R	R	R	R
H Wilton	BCom; MBA	✓	A	✓	✓
J Mogadime	BA; MBA; DIP Marketing (CIM)	✓	✓	✓	✓

✓: Attendance A: Apologies R: Resigned N/A: Not applicable

HUMAN RESOURCES COMMITTEE

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

The members of the committee together with their qualifications and record of attendance are listed below.

Member	Qualifications	05/06/2019	04/09/2019	25/11/2019	05/03/2020
D Msomi – Chairperson	BA (Hons); PMD; MBA; Postgraduate (Corporate Governance); Postgraduate (Advertising and Marketing)	✓	✓	✓	✓
A Sithole	BA; MA (International Relations); MA (Futures Studies); MBA; HED; Diploma in Actuarial Techniques	A	✓	R	R
H Wilton	BCom; MBA	✓	A	✓	✓
P Sutherland	BCom LLB (Cum Laude); PhD	✓	✓	✓	✓

✓: Attendance A: Apologies R: Resigned N/A: Not applicable

REMUNERATION COMMITTEE

The committee ensures the institution's remuneration strategies and policies are implemented. It reviews compensation matters and benchmarks salaries of staff. The committee met four times in the review period, with attendance reflected below.

The members of the committee together with their qualifications and record of attendance are listed below.

Member	Qualifications				
D Msomi – Chairperson	BA (Hons); PMD; MBA; Postgraduate (Corporate Governance); Postgraduate (Advertising and Marketing)	✓	✓	✓	✓
A Sithole	BA; MA (International Relations); MA (Futures Studies); MBA; HED; Diploma in Actuarial Techniques	A	✓	R	R
H Wilton	BCom; MBA	✓	A	✓	✓
P Sutherland	BCom LLB (Cum Laude); PhD	✓	✓	✓	✓

✓: Attendance A: Apologies R: Resigned N/A: Not applicable

REMUNERATION COMMITTEE REPORT

1. INTRODUCTION

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

2. REMUNERATION PHILOSOPHY, STRATEGY AND POLICY

The remuneration mix applied by the FSCA consists of guaranteed package and variable pay. Due to the nature of its business and operating model, the FSCA does not have a long-term incentive plan in place. The FSCA adapts its rewards strategies on a continuous basis through benchmarking against industry practices to ensure relevance, competitiveness as it drives employee retention and drives new employee behaviour as outlined in its regulatory strategy. Accordingly, 87.65% of employees were awarded short-term incentives in 2019 based on performance. Funding for the incentive scheme is based on a budgeted percentage of the annual Cost to Employer payroll. Short-term incentives of general staff are subject to operational EXCO approval each year, based on economic circumstance and the performance of the organisation.

Performance targets are set annually and approved by Ops EXCO. Executive members' individual performance targets are linked to organisational targets and cascaded to individual performance goals. The executive incentive scheme is separate to the staff incentive scheme and the total pay-out is linked to the individual performance score.

2.1 Role of the Remuneration Committee

This committee is tasked to ensure that senior management and staff are appropriately rewarded to ensure, as far as possible, that we are able to recruit, motivate and retain talent.

The purpose of the Remuneration Committee is to ensure that the FSCA adheres to fair pay practises and that staff are rewarded appropriately. The committee dealt with the following matters over the past year:

Quarter 1	Discretionary incentives (Approval) Non-cash incentives Report Performance Report Mid-Year Review of Remuneration Report Transition to the Twin Peaks model of regulation
Quarter 2	Discretionary incentives (Approval) Salary Increases-Market Trends survey Terms of Reference (Approval) Transition to the Twin Peaks model regulation
Quarter 3	Discretionary incentives (Approval) Transition to the Twin Peaks model of regulation Performance Report Mid-Year Performance bonuses (Approval) Salaries increases (Approval)
Quarter 4	Budget provisions (Salaries, Bonus, Incentives) Committee evaluations Discretionary incentives (Approval) Remuneration statement for the annual report Transition to the Twin Peaks model regulation

2.2 Key Remuneration Decisions in 2019

The FSCA has ensured that there are no employees remunerated below the -25% of the market median. Salary adjustments are granted to deserving and performing staff members twice a year (July and December), to those who earn below -25% of the market median to bring their salary closer to the median. The table below summarises adjustments made during 2019.

General Staff

Summary of July 2019 Structural Adjustments

No. of Staff	Applicable Adjustment	Motivation
32	Between 2% and 19%	H252(Junior Analyst) Pay grade minimum (-25% of the market median) adjusted to R280 000 pa
13	Between 4% and 21%	Salary below -25% of the market median
45		

Summary of December 2019 Structural Adjustments

No. of Staff	Applicable Adjustment	Motivation
9	Between 21% and 50%	Analyst progression, salary below minus 25%
9		

Summary of July 2019 Promotions

No. of Staff	% Adjustment	Motivation
21	Between 15% and 23%	To align with the reward strategy as salaries were below -25% of the market median as part of the retention process of the analyst group

As at 30 December 2019 (after structural adjustments and analyst progressions), the FSCA had 454 (79.23%) employees remunerated within range, and 119 (20.77%) employees remunerated above +25% of the market median.

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 i.e. when students pass their examinations, they receive an incentive either as a structural salary adjustment or a once-off bonus payment. Bonuses differ for 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 (three actuarial students in each category) during the year are summarised below:

Summary of Actuarial Salary Changes

Date	Structural Adjustments	Bonuses
Jan/Feb 2020	R 315 360.00	R 26 000.00
Total	**R 315 360.00**	**R 26 000.00**

2.3 Summary of Executive Remuneration

Summary of EXCO Remuneration Mix

Name	GP R'000	STI R'000	Total R'000
Tshidi, DP	R 6 269	R 800	R 7 069
Boyd, JA	R 3 789	R 662	R 4 451
Du Toit, MM	R 3 724	R 518	R 4 242
Da Silva, CD	R 3 724	R 518	R 4 242
Makhubela, OB	R 3 219	R 374	R 3 593
Kekana, LP	R 3 535	R 576	R 4 111
Mogase P	R 2 531	R 259	R 2 790
Topham, B	R 3 710	R 432	R 4 142
Hlalethoa, JJR	R 3 723	R 489	R 4 212
Mabaso, F	R 2 986	R 432	R 3 418
*Dikokwe, K	R 1 830	R 200	R 2 030

*Dikokwe appointed effective 1 July 2019

PART D

HUMAN RESOURCES MANAGEMENT

HUMAN RESOURCES MANAGEMENT

HUMAN RESOURCES OVERVIEW

Following the successful transition of employees from the FSB to the FSCA, the key HR focus areas for the reporting period were as follows: embedding the new organisational values, implementing the revised competency framework and talent acquisition. Various change initiatives aimed at continuously improving employee performance and engagement levels were carried out. This included employee focus groups, engagement surveys, townhall communication sessions and various electronic communications aimed at ensuring alignment between expected employee behaviours and organisational goals.

TRAINEE DEVELOPMENT PROGRAMME

During the period under review, 15 unemployed graduates were offered an opportunity to participate in the FSCA internship programme. The internship programme contributes to the ideals and targets of the National Development Plan of decreasing youth unemployment levels. These interns were placed in various departments where they dealt with real work scenarios that prepared them for the world of work.

ACTUARIAL BURSARY PROGRAMME

Two students are funded by the FSCA to study towards a qualification in actuarial science. They are expected to complete their studies in 2021 and will thereafter be appointed by the FSCA on a full-time basis.

EMPLOYEE WELLNESS

The physical and psychosocial wellness of employees has always been of paramount importance for the organisation. The FSCA instituted a holistic employee wellness programme in partnership with the Life Healthcare Group. The previous year saw an increased focus on men's health through various initiatives such as the incorporation of the Prostate-Specific Antigen screening to the Wellness Days, men's cancer wellness talks and the men's dialogue which was very well received by our male colleagues. In addition, targeted sessions are held on various wellness topics such are mental health, women's cancer and resilience training. Employees are continually encouraged to participate in employer supported physical fitness activities such as walking, road running, soccer and netball.

HUMAN RESOURCE OVERSIGHT STATISTICS

Our Workforce

The permanent staff complement as at 31 March 2020 was 570. The operating model has been bedded down with all key and critical positions having been filled.

Personnel Costs by Programme/Activity/Objective

Programme/Activity/Objective	Total Expenditure	Personnel Expenditure	% of Total Expenditure	No. of Employees	Average Personnel Cost Per Employee
Administration and Support	372,322	155,996	42%	188	830
Licensing and Business Centre	62,231	37,808	61%	84	450
Regulatory Policy	67,262	39,852	59%	45	886
Conduct of Business Supervision	113,388	73,714	65%	125	590
Market Integrity Supervision	35,990	22,731	63%	23	988
Retirement Fund Supervision	91,060	57,951	64%	69	840
Investigation and Enforcement	77,539	48,787	63%	36	1,355
Total	**819,791**	**436,838**	**-**	**570**	**766**

Personnel Cost by Salary Band

Level	Personnel Expenditure (R000)	% of Total Personnel Cost	No. of Employees	Average Personnel Cost per Employee (R000)
Top Management	39,698	9%	11	3,609
Senior Management	64,220	15%	35	Q
Professional Qualified	231,819	53%	264	878
Skilled	73,723	17%	168	439
Semi-skilled	27,378	6%	92	298
Total	**436,838**	**100%**	**570**	**766**

Performance Rewards

The FSCA awarded performance bonuses in recognition of employee performance, including Exco members, at the end of the performance cycle.

Levels	Number of Employees	Incentives Paid	% of Incentives
Top Management	11	R5,260,000	17
Senior Management	29	R4,347,209	14
Professional Qualified	235	R15,062,546	48
Skilled	147	R4,519,608	15
Semi-skilled	86	R1,919,687	6
Total	**508**	**R31,109,050**	**100**

Training Costs

Programme/Activity/Objective	Personnel Expenditure (R000)	Training Expenditure (R000)	Training Expenditure as a % of Personnel Expenditure	Number of Employees Trained	Average Training Cost per Employee
Administration and Support	155,996	3,417	2%	188	18
Licensing and Business Centre	37,808	732	2%	84	9
Regulatory Policy	39,852	91	0%	45	2
Conduct of Business Supervision	73,714	1,197	2%	125	10
Market Integrity Supervision	22,731	300	1%	23	13
Retirement Fund Supervision	57,951	995	2%	69	14
Investigation and Enforcement	48,787	879	2%	36	24
Total	**436,838**	**7,611**	**-**	**570**	**-**

Employment and Vacancies

Vacancies and headcount were reallocated in line with the new operating model of the FSCA which became effective on 1 April 2018. The headcount and vacancies were adjusted from an establishment of 697 to an establishment of 623.

Programme/Activity/Objective	31 March 2019 Number of Employees	30 April 2019 Approved Posts	31 March 2020 Number of Employees	2020 Vacancies	% Vacancies
Administration and Support	181	212	188	24	45%
Licensing and Business Centre	75	90	84	6	11%
Regulatory Policy	40	46	45	1	2%
Conduct of Business Supervision	90	135	125	10	19%
Market Integrity Supervision	24	27	23	4	8%
Retirement Fund Supervision	72	75	69	6	11%
Investigation and Enforcement	56	38	36	2	4%
Total	**538**	**623**	**570**	**53**	**100%**

Levels

Level	31 March 2019 Number of Employees	30 April 2019 Approved Posts	31 March 2020 Number of Employees	2020 Vacancies	% Vacancies
Top Management	6	13	11	2	4%
Senior Management	32	36	35	1	2%
Professional Qualified	256	294	264	30	57%
Skilled	186	184	168	16	30%
Semi-skilled	92	96	92	4	8%
Total	**572**	**623**	**570**	**53**	**100%**

Employment Changes

The FSCA appointed 75 new staff members during the 2019/20 financial year. The staff turnover rate decreased from 9% to 8% which is within the targeted turnover rate. Eight of the appointments were made at senior management level. All Departmental Head vacancies necessitated by the new operating model were filled. The internal movements below are due to internal appointments and promotions.

Levels	Employed at Beginning of Period	Appointments	Internal Movements	Terminations	Employed at End of Period
Top Management	11		1	1	11
Senior Management	29	8	3	5	35
Professional Qualified	244	27	13	20	264
Skilled	165	34	-16	15	168
Semi-skilled	89	6	-1	2	92
Total	**538**	**75**	**0**	**43**	**570**

Significant Terminations

A total of 42 staff members left during this period. With sadness, the organisation experienced one bereavement in the position of Head: Project Management Office. One of the resignations was at executive level in the position of Divisional Executive: Conduct of Business who resigned effectively on 30 April 2019. The Departmental Head: Credit Rating Agencies and Departmental Head: Office of the General Counsel, respectively went on retirement on 31 October 2019 and 31 December 2019. The Department Head: OTC and Market Issuers resigned effective 31 December 2019.

Reason	Number	% of Total Staff Leaving
Death	1	2%
Resignation	36	84%
Dismissal	2	5%
Retirement	3	7%
Ill Health	0	0%
Expiry of Contract	0	0%
Other	1	2%
Total	**43**	**100%**

Labour Relations: Misconduct and Disciplinary Action

Two dismissals took place due to misconduct during the financial year. The FSCA signed a recognition agreement with the Public Servants Association in June 2019. Most of the Commission for Conciliation, Mediation and Arbitration (CCMA) referrals related to referrals that were made by the Union and were dealt with at conciliation stage and resolved internally.

Nature of Disciplinary Action: General Staff	Number
Enquiry	2
Grievance	2
Verbal Warning	1
Written Warning	None
Final Written Warning	None
Mutual Separation	1
Dismissed	2
CCMA	4

Employment Equity Target and Employment Equity Status

The FSCA embraces fair and non-discriminatory employment practices and policies and is committed to identifying and eliminating any unfair discriminatory practices. To monitor progress toward the achievement of its employment equity goals, the HR Department provided quarterly updates on the progress made to the Executive Committee, management and employees. The tables below indicates the Employment Equity profile of the FSCA as at 31 March 2020. Initiatives were implemented to address underrepresentation of designated groups.

Male

Levels	Male							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	4	1	1	1	0	1	2	1
Senior Management	8	0	1	4	2	0	5	11
Professional Qualified	98	80	5	10	6	5	15	16
Skilled	64	81	3	11	1	2	2	4
Semi-skilled	32	54	2	11	1	1	0	0
Total	**206**	**216**	**12**	**37**	**10**	**9**	**24**	**32**

Female

Levels	Female							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	3	0	0	1	0	0	1	0
Senior Management	10	5	2	2	1	1	6	10
Professional Qualified	93	73	8	6	10	5	29	19
Skilled	82	69	8	6	1	2	7	10
Semi-skilled	44	68	7	7	0	3	6	4
Total	**232**	**215**	**25**	**22**	**12**	**11**	**49**	**43**

Levels	People with Disability			
	Male		Female	
	Current	Target	Current	Target
Top Management	0	0	0	0
Senior Management	0	0	0	0
Professional Qualified	0	2	0	0
Skilled	1	1	1	1
Semi-skilled	1	2	2	1
Total	**2**	**5**	**3**	**2**

PART E

FINANCIAL INFORMATION

INDEX

The reports and statements set out below comprise the annual financial statements presented to the Parliament of the Republic of South Africa:

Financial Sector Conduct Authority
Annual Financial Statements for the year ended 31 March 2020

REPORT BY THE ACCOUNTING AUTHORITY

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 World Health Organisation (WHO) on 11 March 2020 declared the novel coronavirus (COVID-19) outbreak a global pandemic. The President of the Republic of South Africa declared a National State of Disaster on 15 March 2020 and a nationwide lockdown from 27 March 2020. The COVID-19 outbreak continues to have a significant impact on economies and international financial markets.

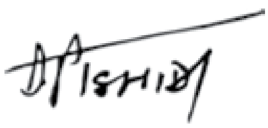
The Accounting Authority has recognised the impact of the COVID-19 crisis and the resultant restrictions on the local economy and the ability of some regulated entities to fulfil their financial obligations and has accordingly implemented numerous measures to ensure the health and safety of our stakeholders at the same time preserving our resources, performing financial scenarios and liquidity stress testing in order to remain sustainable.

The Accounting Authority acknowledges its responsibility for the preparation and integrity of the financial statements and related information included in the annual report. In order for the Accounting Authority 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 GRAP, as well as policies and procedures established by the Accounting Authority and independent oversight by the Audit and Risk Management Committees.

The FSCA is well placed to manage future funding requirements pertaining to its regulatory activities and has sufficient resources to continue its business for the foreseeable future. The Accounting Authority therefore concludes that using the going concern basis is appropriate in preparing its financial statements as there are no material uncertainties related to events or conditions that may cast significant doubt about the FSCA's ability to continue as a going concern.

The financial statements for the year ended 31 March 2020, as set out on pages 133 to 172, were approved by the Accounting Authority on 9 September 2020 and were signed on its behalf by:



Adv DP Tshidi

Commissioner

REPORT OF THE AUDITOR-GENERAL TO THE PARLIAMENT ON THE FINANCIAL SECTOR CONDUCT AUTHORITY

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Financial Sector Conduct Authority set out on pages 133 to 172, which comprise the statement of financial position as at 31 March 2020, statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the annual 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 Sector Conduct Authority as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with the standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act (Act No. 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 this auditor's report.
4. I am independent of the public entity in accordance with sections 290 and 291 of the Code of Ethics for professional Accountants and parts 1 and 3 of the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA codes) as well as 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 codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the 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 the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act (Act no. 1 of 1999) (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 public entity'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 appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Financial Sector Conduct Authority
Annual Financial Statements for the year ended 31 March 2020

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 the 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 this 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 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected strategic priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

11. My procedures address the usefulness and reliability of 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 do 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 strategic priority presented in the annual performance report of the public entity for the year ended 31 March 2020:

Strategic priority	Pages in the annual performance report
Strategic priority 4 – Informed financial customers	29–30

13. I performed procedures to determine whether the reported performance information was properly presented and whether the 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 this strategic priority:

- Strategic priority 4 - Informed financial customers

Other matters

15. I draw attention to the matters below.

Achievement of planned targets

16. Refer to the annual performance report on pages 24 to 30 for information on the achievement of planned targets for the year and explanations provided for the under and overachievement of a number of targets.

Adjustment of material misstatements

17. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of strategic priority 4 - Informed financial customers. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

18. 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.

19. I did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

20. The Accounting Authority is responsible for the other information. The other information comprises the information included in the annual report which includes the foreword by the minister, commissioner's report, overview by the executive head, chief financial officer's overview and the audit committee report. The other information does not include the financial statements, the auditor's report and those selected strategic priorities presented in the annual performance report that have been specifically reported in this auditor's report.

21. 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.

22. 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 strategic priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

23. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Financial Sector Conduct Authority
Annual Financial Statements for the year ended 31 March 2020

Internal control deficiencies

24. 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 on it. I did not identify any significant deficiencies in internal control.

Other reports

25. I draw attention to the following engagements conducted by various parties which 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.

26. The Office of the Public Protector investigated allegations of maladministration, abuse of power and improper conduct by the former Executive Officer of the Financial Services Board as per the report issued on 28 March 2019. Financial Sector Conduct Authority has taken the matter for judicial review and at the date of this report, it had not yet been concluded.

Auditor-General

Pretoria

08 September 2020

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

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

Financial statements

28. In addition to my responsibility for the audit of the financial statements as described in this 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 relating to events or conditions that may cast significant doubt on the ability of the public entity 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 my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

29. 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.

30. 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, actions taken to eliminate threats or safeguards applied.

Financial Sector Conduct Authority

Annual Financial Statements for the year ended 31 March 2020

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

Amounts in Rand	Note(s)	2020	2019
Assets			
Current Assets			
Cash and cash equivalents	3	542 429 536	481 160 068
Receivables from exchange transactions	4	11 625 662	20 023 395
Statutory receivables from exchange transactions	5	5 262 747	5 172 253
Statutory receivables from non-exchange transactions	6	163 726 878	10 200 789
Prepayments	7	12 178 437	4 381 004
Financial asset at fair value	10	1 221 000	713 580
		736 444 260	**521 651 089**
Non-Current Assets			
Property, plant and equipment	8	57 288 758	65 773 423
Intangible assets	9	16 362 086	16 305 970
Financial asset at fair value	10	59 795 383	71 611 389
		133 446 227	**153 690 782**
Total Assets		**869 890 487**	**675 341 871**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	95 456 302	73 890 682
Payables from non-exchange transactions	12	170 725 326	29 335 967
Levies and fees received in advance	13	44 974 526	38 354 895
Provisions	14	16 737 083	15 524 269
Finance lease obligation	15	3 897	512 097
		327 897 134	**157 617 910**
Non-Current Liabilities			
Provisions	14	3 986 420	4 214 518
Finance lease obligation	15	2 200	6 097
Operating lease liability		26 992 054	22 675 802
Post retirement benefit obligation	16&17	46 298 280	51 152 893
		77 278 954	**78 049 310**
Total Liabilities		**405 176 088**	**235 667 220**
Net Assets		**464 714 399**	**439 674 651**
Accumulated Reserves			
Contingency reserve	18	85 846 540	80 679 845
Discretionary reserve	19	30 454 521	35 658 180
Accumulated surplus		348 413 338	323 336 626
Total Net Assets		**464 714 399**	**439 674 651**

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2020

Amounts in Rand	Note(s)	2020	2019
Revenue			
Revenue from exchange transactions	23	96 340 655	79 252 973
Revenue from non-exchange transactions	24	829 754 536	776 982 781
		926 095 191	**856 235 754**
Expenses			
Advisory and other committee fees		(8 319 242)	(5 314 773)
Contribution towards funding of the Office of the Ombud for FSPs	25	(64 384 188)	(54 846 500)
Contribution towards funding of the Office of the PFA	25	(70 758 372)	(64 325 520)
Depreciation and amortisation	8&9	(20 857 254)	(19 657 957)
Executive management remuneration	25	(51 365 666)	(39 479 291)
External audit fees	26	(3 711 463)	(2 733 010)
Finance costs	15	(26 822)	(101 561)
Internal audit fees		(2 454 740)	(710 110)
Legal fees		(17 403 464)	(12 149 598)
Committee members fees	25	(1 071 430)	(1 806 873)
Operating lease rentals - buildings		(74 310 249)	(69 458 032)
Other operating expenses	27	(94 634 799)	(78 137 138)
Professional and consulting fees		(13 639 451)	(13 855 651)
Provision for credit losses	28	(1 502 776)	(2 729 352)
Salaries, staff benefits, training and other staff expenses		(467 296 075)	(449 669 629)
		(891 735 991)	**(814 974 995)**
Operating surplus		**34 359 200**	**41 260 759**
Fair-value adjustments	10	(14 119 146)	2 841 941
Post-retirement medical aid fund obligation	16	4 854 613	267 059
Gains from transfer of functions between entities not under common control		-	326 880
Loss on disposal of assets		(54 919)	(198 361)
		(9 319 452)	**3 237 519**
Surplus for the year		**25 039 748**	**44 498 278**
Surplus from continuing functions		-	44 498 278

Financial Sector Conduct Authority
Annual Financial Statements for the year ended 31 March 2020

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2020

Amounts in Rand	Discretionary Reserve	Contingency Reserve	Total reserves	Accumulated surplus	Total net assets
Balance at 01 April 2018	**32 253 903**	**75 305 818**	**107 559 721**	**287 616 652**	**395 176 373**
Changes in net assets					
Surplus for the year	-	-	-	44 498 278	44 498 278
Transfer from accumulated surplus to discretionary reserve	3 404 277	-	3 404 277	(3 404 277)	-
Transfer from accumulated surplus to contingency reserve	-	5 374 027	5 374 027	(5 374 027)	-
Total changes	3 404 277	5 374 027	8 778 304	35 719 974	44 498 278
Balance at 31 March 2019	**35 658 180**	**80 679 845**	**116 338 025**	**323 336 626**	**439 674 651**
Changes in net assets					
Surplus for the year	-	-	-	25 039 748	25 039 748
Transfer from discretionary reserve to accumulated surplus	(5 203 659)	-	(5 203 659)	5 203 659	-
Transfer from accumulated surplus to contingency reserve	-	5 166 695	5 166 695	(5 166 695)	-
Total changes	(5 203 659)	5 166 695	(36 964)	25 076 712	25 039 748
Balance at 31 March 2020	**30 454 521**	**85 846 540**	**116 301 061**	**348 413 338**	**464 714 399**
Note(s)	19	18			

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

Amounts in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Receipts			
Cash received from industry		730 748 108	805 566 101
Interest received		39 535 710	36 035 471
Dividends received		1 292 314	1 451 086
		771 576 132	843 052 658
Payments			
Employee costs		(516 927 877)	(480 640 730)
Suppliers		(175 488 804)	(172 408 000)
Other payments		(2 056 880)	(90 526 609)
		(694 473 561)	(743 575 339)
Net cash flows from operating activities	29	**77 102 571**	**99 477 319**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(9 486 588)	(18 182 481)
Proceeds from sale of property, plant and equipment	8	-	243 800
Purchase of intangible assets	9	(2 997 036)	(3 047 904)
Purchase of financial assets	10	(7 194 293)	(6 120 760)
Proceeds from sale of financial assets	10	4 383 733	3 410 769
Net cash flows from investing activities		**(15 294 184)**	**(23 696 576)**
Cash flows from financing activities			
Finance lease payments		(512 097)	(616 506)
Finance costs		(26 822)	(125 800)
Purchase of leased assets	8	-	(10 682)
Net cash flows from financing activities		**(538 919)**	**(752 988)**
Net increase in cash and cash equivalents		**61 269 468**	**75 027 755**
Cash and cash equivalents at the beginning of the year		481 160 068	406 132 313
Cash and cash equivalents at the end of the year	**3**	**542 429 536**	**481 160 068**

Financial Sector Conduct Authority

Annual Financial Statements for the year ended 31 March 2020

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

Amounts in Rand	Approved budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance					
Revenue					
Revenue from exchange transactions	80 799 521	**80 799 521**	96 340 655	**15 541 134**	40
Revenue from non-exchange transactions	835 110 212	**835 110 212**	829 754 536	**(5 355 676)**	
Total revenue	**915 909 733**	**915 909 733**	**926 095 191**	**10 185 458**	
Expenses					
Advisory and other committee fees	(18 603 303)	**(18 603 303)**	(8 319 242)	**10 284 061**	40
Contribution towards funding of the Office of the Ombud for FSPs	(64 384 188)	**(64 384 188)**	(64 384 188)	**-**	
Contribution towards funding of the Office of the PFA	(70 758 372)	**(70 758 372)**	(70 758 372)	**-**	
Depreciation and amortisation	(49 238 495)	**(49 238 495)**	(20 857 254)	**28 381 241**	40
Executive management	(59 394 716)	**(59 394 716)**	(51 365 666)	**8 029 050**	40
External audit fees	(3 629 957)	**(3 629 957)**	(3 711 463)	**(81 506)**	40
Finance costs	(117 076)	**(117 076)**	(26 822)	**90 254**	40
Internal audit fees	(1 340 000)	**(1 340 000)**	(2 454 740)	**(1 114 740)**	40
Legal fees	(12 515 004)	**(12 515 004)**	(17 403 464)	**(4 888 460)**	40
Committee members fees	(1 692 955)	**(1 692 955)**	(1 071 430)	**621 525**	40
Operating lease rental - buildings	(75 550 565)	**(75 550 565)**	(74 310 249)	**1 240 316**	40
Other operating expenses	(115 083 061)	**(115 083 061)**	(94 634 799)	**20 448 262**	40
Professional and consulting fees	(40 634 967)	**(40 634 967)**	(13 639 451)	**26 995 516**	40
Provision for credit losses	-	**-**	(1 502 776)	**(1 502 776)**	40
Salaries, staff benefits, training and other staff expenses	(550 926 744)	**(550 926 744)**	(467 296 075)	**83 630 669**	40
Total expenditure	**(1 063 869 403)**	**(1 063 869 403)**	**(891 735 991)**	**172 133 412**	
Operating (deficit)/surplus	**(147 959 670)**	**(147 959 670)**	**34 359 200**	**182 318 870**	
Fair-value adjustment	-	**-**	(14 119 146)	**(14 119 146)**	40
Post retirement medical aid fund obligation reversal	-	**-**	4 854 613	**4 854 613**	40
Loss on disposal of assets	-	**-**	(54 919)	**(54 919)**	
	-	**-**	**(9 319 452)**	**(9 319 452)**	
(Deficit)/Surplus for the year	**(147 959 670)**	**(147 959 670)**	**25 039 748**	**172 999 418**	

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation of Annual Financial Statements

Reporting entity

The Financial Sector Conduct Authority (FSCA) is a National Public Entity, as specified in Schedule 3A of the Public Finance Management Act (PFMA) 1999 (Act No. 1 of 1999), (as amended by Act No.29 of 1999). The FSCA is mandated by the South African government to enhance and support the effeciency and intergrity of financial markets, protect financial customers and assist in maintaining financial stability 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 FSCA'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 No 29 of 1999). The financial statements are presented in South African Rand.

The 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.

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 FSCA 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 judgements, 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 judgements and estimates are explained in the relevant policy, where the impact on the financial statements may be material.

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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Standard	Summary and Impact	Effective date
GRAP 34 - Separate Financial Statements	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. The financial results and disclosures are not likely to be affected when the standard is adopted.	Issued by the ASB March 2016 Effective date for this standard is 1 April 2020.
GRAP 35 - Consolidated Financial Statements	This standard establishes principles for the presentation and preparation of consolidated financial statements. The FSCA does not prepare consolidated financials, therefore no impact is envisaged when the standard is effective.	Issued by the ASB March 2016 Effective date for this standard is 1 April 2020.
GRAP 36 - Investment in Associates and Joint Ventures	This standard prescribes the accounting for investments in associates and joint ventures and to set out requirements for the application of equity method. The FSCA does not have investment in associates and joint ventures, therefore no impact is envisaged when the standard is effective.	Issued by the ASB March 2016 Effective date for this standard is 1 April 2020.
GRAP 37 - Joint Arrangements	The objective of this standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. The FSCA does not have investment in joint venture, therefore no impact is envisaged when the standard is effective.	Issued by the ASB March 2016 Effective date for this standard is 1 April 2020.
GRAP 38 - Disclosure of Interest in Other Entities	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. The FSCA does not have interest in other entities, therefore no impact is envisaged when the standard is effective.	Issued by the ASB March 2016 Effective date for this standard is 1 April 2020.
GRAP 110 - Living and Non-living Resources	This standard outlines principles for the recognition, measurement, presentation and disclosure requirements for living resources and disclosure for non-living resources. The financial results and disclosure are not likely to be affected when the statement is adopted.	Issued by the ASB March 2016 Effective date for this standard is 1 April 2020.
IGRAP 20 - Accounting for Adjustments to Revenue	The objective of this Interpretation is to provide guidance on the accounting for adjustments to revenue. The financial results and disclosure are not likely to be affected when the interpretation is adopted.	Issued by the ASB December 2018 Effective date for this interpretation is 1 April 2020.

1.1 Significant accounting judgements 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 judgement in the process of applying the FSCA's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are disclosed below.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting estimates and assumptions

Provisions

Provisions are raised based on management's determined estimate using the information available. The accounting policy for provisions is disclosed under note 1.12 and additional disclosure of these estimates of provisions are included in note 14.

Depreciation and amortisation

During each financial year, management reviews property, plant and equipment and 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 FSCA'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 (refer to note 1.4 and note 1.5).

Post-employment benefits

The cost of certain guaranteed minimum benefits in terms of defined benefit plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality 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 of 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 1.9.

Leasehold improvements and finance leased assets are written off over the expected period of the relevant lease agreements. 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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.2 Property, plant and equipment (continued)

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	5-50 years
Motor vehicles	Straight line	13 years
Computer equipment	Straight line	3-20 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date when there is an indicator. If the expectations differ from previous estimate, the change is accounted for as a change in accounting estimate. For further detail refer to note 34. Items of property, plant and equipment are also tested for impairment annually when there is 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 8).

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

Intangible assets are tested for impairment annually when there is 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 1.9.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	3-25 years

Intangible assets are derecognised when the asset is disposed off or when there are no further economic benefits 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

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.

Financial Instrument at amortised cost

Receivables

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4 Financial instruments (continued)

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 Statutory receivables

Statutory receivables are receivables that arise from legislation or supporting regulations and require settlement by another entity in cash.The FSCA's statutory receivables are made up of levy debtors, inspection cost debtors, penalty debtors, legal fees and other receivables. The levies are imposed on all authorised financial institutions in terms of section 15A of the FSB Act and penalties including other receivables as listed above are imposed as per the FSR Act and FSCA various sectoral legislations that the FSCA administers.

The statutory receivables are initially recognised at their transaction amount. Subsequently, statutory receivables are measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Statutory receivables are recognised as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions; or
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Levies).

An impairment loss is established when there is an indication that a statutory receivable, or a group of statutory receivables that are due, will not be collected according to the original terms of the receivables. Significant financial difficulty of the debtor which may be evidenced by an application for debt counselling or business rescue, probability that the debtor will enter sequestration, liquidation or other financial re-organisation, default, bankruptcy or delinquency in payments, and adverse changes in international, national or local economic conditions are considered indicators that the trade receivable is impaired.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, is reduced, through the use of an allowance account.

When the statutory receivable is uncollectable, it is written off and subsequent recoveries of amounts previously written off are credited in the statement of financial performance.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.6 Leases (continued)

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 of 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 straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are 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.

1.7 Related parties

All payments to executive management and non-executive members of the FSCA 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.

1.8 Prepayments

Prepayments are payments made in advance for services or goods that have not been delivered for which the FSCA 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.

1.9 Impairment of non-cash-generating assets

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

If there is an indication that the asset 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 cost less accumulated depreciation or amortisation, the impairment loss is recognised immediately in surplus or deficit.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.9 Impairment of non-cash-generating assets (continued)

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

The FSCA 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.

1.10 Levies and fees received in advance

Levies and fees received in advance are stated at the amount received. The effect of discounting is immaterial.

1.11 Employee benefits

Short-term employee benefits

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

Retirement benefits

The FSCA contributes to a pension fund and to a defined benefit post-retirement medical aid plan. Only pensioners and employees who were in service at 1 January 1998 are eligible for benefits under the post-retirement medical aid plan.

The pension fund is a defined contribution plan with a defined benefit guarantee for pensioners.

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.

1.12 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 is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.12 Provisions (continued)

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.

Contingent assets and contingent liabilities are not recognised as provisions. Contingencies are disclosed in note 32.

Performance bonus

Performance bonus is a short-term employee benefit which 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 provision 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.

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. The liability is calculated by valuing all future payments expected to be made in respect of benefits accrued up to the valuation date. Payments are set-off against the liability resulting from the valuation by the actuaries and are charged against the surplus or deficit. 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.

1.13 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. Refer to note 31.

1.14 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.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.14 Revenue from exchange transactions (continued)

An exchange transaction is one in which the FSCA 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.

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 FSCA and specific criteria have been met as described below.

Revenue from exchange transactions comprises of 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 bond 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 trade.

1.15 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 an 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 of levies, penalties and other income.

All registered entities are required to pay annual levies to maintain their licences in terms of section 15 of the FSB Act. Levies are raised in terms of the regulations published in the Government Gazette and are accounted for on an accrual basis.

The FSCA is funded through levies charged to industry and recovered levies in excess of the FSCA'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. The income from fines and penalties as per the FSCA's various sectoral legislation is credited to the surplus or deficit, but as this income is not considered to form part of the normal operating activities of the FSCA, it is transferred to the discretionary reserve. The amounts received or to be received from fines and penalties as per the FSR Act are payable to National Treasury.

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.

1.16 Finance costs

Finance costs are charges incurred by the FSCA in connection with the finance lease liability. Finance costs are recognised as an expense in the period in which they are incurred.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.17 Translation of foreign currencies

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 surplus or deficit.

1.18 Accumulated funds and reserves

Accumulated surplus

Accumulated surplus are used to fund working capital requirements, capital expenditure, budgeted deficits (if any), as well as other unforeseen events. Accumulated surplus 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 surplus. Accumulated surplus 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 FSCA's long-term capital requirements and to protect the FSCA'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.

1.19 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, 1968 (Act No. 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 surplus or deficit 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 surplus or deficit.

1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance, in the year 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.

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Notes to the Annual Financial Statements for the year ended 31 March 2020

2. Financial risk management

Financial risk factors

The FSCA is exposed to a variety of financial risks as a consequence of its operations namely, market risk, credit risk and liquidity risk. The FSCA'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 under approved policies. The FSCA 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.

Market risk

Foreign exchange risk

The FSCA 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 an approved mandate. Accordingly, the FSCA's exposure to foreign currency risk is minimal.

The following sensitivity analysis has been performed.

At 31 March 2020, if the currency had weakened or strengthened by 10% against the US dollar with all other variables held constant, the surplus for the year would have been R1 419 212 (2019: R1 174 977) higher or lower on foreign exchange gains or losses upon translation of US dollar-denominated transactions.

The off-shore investment portfolios would have been R2 340 194 (2019: R2 457 732) higher or lower arising from unrealised foreign exchange gains or losses upon translation of US dollar denominated off-shore investment portfolios.

At 31 March 2020, if the currency had weakened or strengthened by 10% against the Euro with all other variables held constant, the surplus for the year would have been R118 623 (2019: R45 130) higher or lower on foreign exchange gains or losses upon translation of Euro-denominated transactions.

At 31 March 2020, if the currency had weakened or strengthened by 10% against the UK pound with all other variables held constant, the surplus for the year would have been R13 161 (2019: R23 864) higher or lower on foreign exchange gains or losses upon translation of UK pound-denominated transactions.

Asset price risk

The FSCA is exposed to equity securities price risk because of investments held by the FSCA, 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 FSCA's investments in equity of other entities that are publicly traded are included in the All Share Index of the JSE Securities Exchange Limited (All Share Index). The table below summarises the impact of increases/decreases of the All Share Index on the FSCA's surplus for the year and on reserves. The analysis is based on the assumption that the

Notes to the Annual Financial Statements for the year ended 31 March 2020

All Share Index had increased/decreased by 4% (2019: 4%) with all other variables held constant and that all the FSCA's investments moved according to the historical correlation with the index:

	Impact on surplus for the year		Impact on investment portfolio for the year	
	2020	2019	2020	2019
All share index	959 749	1 451 291	959 749	1 451 291

Cash flow and fair value interest rate risk

The FSCA 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 FSCA 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 FSCA's interest income will fluctuate by R5 188 494 for every 100 basis point fluctuation in the prime interest rate.

Credit risk

Financial assets that potentially subject the FSCA to concentrations of credit risk consist primarily of cash and cash equivalents as well as accounts receivable. The FSCA's maximum exposure to credit risk relating to accounts receivable is the amount as shown in the statement of financial position. Cash and cash equivalents in excess of the FSCA's immediate operational requirements are outsourced to a fund manager for investment in approved registered financial institutions. The investment mix is controlled by the FSCA.

The FSCA invests funds in excess of the FSCA's immediate requirements (i.e 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:

Financial instrument	2020	2019
Corporation for Public Deposits	518 849 362	456 970 928

Management does not expect any losses from non-performance by CPD.

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 FSCA, liquid resources consist of mainly cash and cash equivalents. The FSCA 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 2020 is as follows:

	March 2020	March 2021 to 2024
Opening balance for the period	481 160 068	542 429 536
Operating proceeds	771 576 132	1 020 864 233
Operating cash outflows	(694 473 561)	(918 850 636)
Cash outflow for investments	(19 677 917)	(26 035 644)
Cash outflow for financing	(538 919)	(713 039)
Proceeds from sale of investments	4 383 733	5 800 071
	542 429 536	**623 494 521**

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Notes to the Annual Financial Statements for the year ended 31 March 2020

The table below analyses the FSCA's financial liabilities at reporting date.

At 31 March 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	68 957 643	-	-	-
Finance lease obligation	3 897	2 200	-	-
At 31 March 2019	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	50 259 301	-	-	-
Finance lease obligation	512 097	6 097	-	-

Capital risk management

The FSCA's objectives when managing its funds and reserves are to safeguard the ability to continue as a going concern. The FSCA maintains various funds and reserves which serve different purposes, refer to note 1.18

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices (level 1) at reporting date. The quoted market price used for financial assets held by the FSCA is the current bid price.

3. Cash and cash equivalents

	2020	2019
Cash and cash equivalents consist of:		
Short-term deposits	518 849 362	456 970 928
Cash at bank and on hand	23 580 174	24 189 140
	542 429 536	**481 160 068**

Included in cash at bank and on hand is an amount of R6 365 264 (2019: R6 717 795), earmarked to fund the post-retirement medical aid plan. Also included in cash and cash equivalents is an amount of R74 841 878 (2019: R69 869 805) relating to the discretionary funds that are used to fund consumer education and consumer protection related expenses. In addition, the FSCA maintains a contingency fund which is included under short-term deposits of R142 553 036 (2019: R127 814 452) to fund capital requirements and to protect operating capacity against the effects of inflation and unforeseen events.

4. Receivables from exchange transactions

Staff debtors - study loans	6 861 731	5 445 951
Less: Provision for credit losses	-	(33 954)
Interest receivable	77 838	122 080
Other receivables	4 686 093	14 489 318
	11 625 662	**20 023 395**

Reconciliation of provision for credit loss of receivables from exchange transactions

Opening balance	33 954	33 954
Utilised	(33 954)	-
	-	**33 954**

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Amounts in Rand	2020	2019

5. Statutory receivables from exchange transactions

Legal fees recoveries	3 262 848	2 656 916
Less: Provision for credit losses	(2 453 527)	(2 453 527)
Recoverable legal fees	4 119 934	3 708 298
Other receivables	333 492	1 260 566
Net statutory receivables from exchange transactions	**5 262 747**	**5 172 253**

Reconciliation for impairment of statutory receivables from exchange transactions

Opening balance	2 453 527	3 605 158
Utilised	-	(1 151 631)
	2 453 527	**2 453 527**

6. Statutory receivables from non-exchange transactions

Levy debtors	17 074 663	12 820 922
Less: Provision for credit losses	(9 868 108)	(8 336 933)
Inspection cost debtors	5 313 095	7 096 540
Less: Provision for credit losses	(5 313 095)	(7 096 540)
Penalties debtors	212 373 816	12 191 664
Less: Provision for credit losses	(55 853 493)	(6 474 864)
	163 726 878	**10 200 789**

Reconciliation for impairment of receivables from non-exchange transactions

Opening balance	21 908 337	28 093 408
Utilised	(2 376 417)	(8 914 423)
Reversal prior year provision	(541 371)	(570 484)
Charged to the Statement of Financial Performance	2 044 147	3 299 836
Other - penalties	50 000 000	-
	71 034 696	**21 908 337**

7. Prepayments

The R12 178 437 (2019: R4 381 004) prepayments comprise of membership fees and software licences.

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8. Property, plant and equipment

	2020			2019		
	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Leasehold improvements	6 286 130	(2 482 514)	3 803 616	4 341 997	(2 052 987)	2 289 010
Furniture, fittings, equipment and paintings	30 629 860	(19 912 951)	10 716 909	31 005 904	(18 509 452)	12 496 452
Motor vehicles	1 503 310	(635 687)	867 623	1 503 310	(538 697)	964 613
Computer equipment	113 843 770	(71 948 501)	41 895 269	109 524 887	(59 958 851)	49 566 036
Finance leased assets	387 004	(381 663)	5 341	1 823 312	(1 366 000)	457 312
Total	**152 650 074**	**(95 361 316)**	**57 288 758**	**148 199 410**	**(82 425 987)**	**65 773 423**

Reconciliation of property, plant and equipment - 31 March 2020

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold improvements	2 289 010	1 944 133	-	(429 527)	3 803 616
Furniture, fittings, equipment and paintings	12 496 452	420 452	(6 065)	(2 193 930)	10 716 909
Motor vehicles	964 613	-	-	(96 990)	867 623
Computer equipment	49 566 036	7 122 003	(48 854)	(14 743 916)	41 895 269
Finance leased assets	457 312	-	-	(451 971)	5 341
	65 773 423	**9 486 588**	**(54 919)**	**(17 916 334)**	**57 288 758**

Reconciliation of property, plant and equipment - 31 March 2019

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold improvements	1 131 414	1 421 460	-	(263 864)	2 289 010
Furniture, fittings, equipment and paintings	11 616 665	2 910 128	(70 309)	(1 960 032)	12 496 452
Motor vehicles	1 088 296	-	-	(123 683)	964 613
Computer equipment	50 179 621	13 850 893	(371 852)	(14 092 626)	49 566 036
Finance leased assets	1 057 225	10 682	-	(610 595)	457 312
	65 073 221	**18 193 163**	**(442 161)**	**(17 050 800)**	**65 773 423**

Expenditure incurred to repair and maintain property, plant and equipment included in the Statement of Financial Performance

	2020	2019
Contracted services	175 149	264 662
General expenses	41 825	83 881
	216 974	**348 543**

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 34.

Notes to the Annual Financial Statements for the year ended 31 March 2020

9. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	27 643 219	(11 281 133)	16 362 086	24 646 182	(8 340 212)	16 305 970

Reconciliation of intangible assets - 31 March 2020

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	8 879 583	582 491	2 292 490	(2 940 920)	8 813 644
Intangible assets under development	7 426 387	2 414 545	(2 292 490)	-	7 548 442
	16 305 970	**2 997 036**	**-**	**(2 940 920)**	**16 362 086**

Reconciliation of intangible assets - 31 March 2019

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	4 659 106	555 544	6 272 090	(2 607 157)	8 879 583
Intangible assets under development	11 206 117	2 492 360	(6 272 090)	-	7 426 387
	15 865 223	**3 047 904**	**-**	**(2 607 157)**	**16 305 970**

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 34

10. Financial asset at fair value

	2020	2019
Designated at fair value		
Non-current investments	59 795 383	71 611 389
Current investments	1 221 000	713 580
	61 016 383	**72 324 969**
Non-current assets		
Non-current investments	59 795 383	71 611 389
Current assets		
Current investments	1 221 000	713 580

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

The fair value of financial instruments traded in active markets is based on quoted market prices (level 1) at the reporting date. The quoted market price used for financial assets held by the FSCA is the current bid price.

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10. Financial asset at fair value (continued)

Movement for the year

Movement for the year ended 31 March 2020

	Opening balance	Fair value adjustment	Purchases	Sales	Closing balance
Shares	36 282 269	(11 493 178)	2 888 358	(3 683 733)	23 993 716
Gilts and Bonds	11 465 381	(1 450 586)	4 305 935	(700 000)	13 620 730
Off-shore collective investment schemes	24 577 319	(1 175 382)	-	-	23 401 937
	72 324 969	**(14 119 146)**	**7 194 293**	**(4 383 733)**	**61 016 383**

Movement for the year ended 31 March 2019

	Opening balance	Fair value adjustment	Purchases	Sales	Closing balance
Shares	37 118 193	(1 342 242)	3 417 087	(2 910 769)	36 282 269
Gilts and Bonds	9 510 257	(248 549)	2 703 673	(500 000)	11 465 381
Off-shore collective investment schemes	20 144 587	4 432 732	-	-	24 577 319
	66 773 037	**2 841 941**	**6 120 760**	**(3 410 769)**	**72 324 969**

11. Payables from exchange transactions

	2020	2019
Accounts payables	13 762 591	14 020 895
Leave accrual	26 498 659	23 631 381
Other payables	1 056 875	2 892 469
Accruals	54 138 177	33 345 937
	95 456 302	**73 890 682**

12. Payables from non-exchange transactions

Payables from non-exchange transactions	170 725 326	29 335 967

The R170 725 236 (2019: R29 335 967) relates to fines and penalties raised which is payable to National Treasury as per the FSR Act. A formal request was made by the FSCA to National Treasury to retain the penalties pending the implementation of the Money Bill for Consumer Education transitional funding.

13. Levies and fees received in advance

Levies received in advance	1 303 788	1 726 118
Fees received in advance	43 670 738	36 628 777
	44 974 526	**38 354 895**

Notes to the Annual Financial Statements for the year ended 31 March 2020

14. Provisions

Reconciliation of provisions - 31 March 2020

	Opening Balance	Additions	Utilised during the year	Total
Provision for bonus	14 583 333	15 167 083	(14 583 333)	15 167 083
Provision for legal fees	172 936	250 000	(82 936)	340 000
Provision for long service awards	4 982 518	935 902	(702 000)	5 216 420
	19 738 787	**16 352 985**	**(15 368 269)**	**20 723 503**

Reconciliation of provisions - 31 March 2019

	Opening Balance	Additions	Utilised during the year	Total
Provision for bonus	9 038 413	14 583 333	(9 038 413)	14 583 333
Provision for legal fees	-	172 936	-	172 936
Provision for long service awards	4 395 774	1 102 744	(516 000)	4 982 518
	13 434 187	**15 859 013**	**(9 554 413)**	**19 738 787**

	2020	2019
Current liabilities	16 737 083	15 524 269
Non-current liabilities	3 986 420	4 214 518
	20 723 503	**19 738 787**

15. Finance lease obligation

	2020	2019
Minimum lease payments due		
- within one year	4 791	538 919
- in second to fifth year inclusive	2 329	7 120
	7 120	546 039
less: future finance charges	(1 023)	(27 845)
Present value of minimum lease payments	**6 097**	**518 194**
Present value of minimum lease payments due		
- within one year	3 897	512 097
- in second to fifth year inclusive	2 200	6 097
	6 097	**518 194**
Current liabilities	3 897	512 097
Non-current liabilities	2 200	6 097
	6 097	**518 194**
Finance costs charged for the year	26 822	101 561

The FSCA leases some of its office equipment under 36 months finance lease. There are no escalations to the lease agreement as all the machines are leased at a fixed rate for the duration of the lease.

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16. Post-retirement benefit obligations (Medical Aid Fund)

The FSCA 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 FSCA prior to retirement for employees currently in service. The FSCA is not liable for post-retirement medical aid benefits in respect of employees 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 FSCA contributes 100% of the medical aid 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 2020. It is the policy of the FSCA 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 365 264 (2019: R6 717 795) representing cash on call, has been included in 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 9.47% a year (2019: 8.28%).

Amounts recognised in the statement of financial position were detemined as follows:

	2020	2019
Present value of unfunded obligations	46 298 280	51 152 893
The movement in the present value of the unfunded obligation for the year is as follows:		
Opening balance	51 152 893	51 419 951
Current service cost	909 548	894 723
Interest cost	5 284 910	4 805 426
Actuarial (gain)/loss	(8 918 484)	(4 038 076)
Benefits paid	(2 130 587)	(1 929 131)
Closing balance	**46 298 280**	**51 152 893**
The amounts recognised in the statement of financial performance are as follows:		
Current service cost	909 548	894 723
Interest cost	5 284 910	4 805 426
Benefits paid	(2 130 587)	(1 929 132)
Net actuarial (gain)/loss recognised during the year	(8 918 484)	(4 038 076)
Net expenses included in staff costs	**(4 854 613)**	**(267 059)**

The principal assumptions used were as follows:

Financial assumptions

Discount rate:	13.48% (2019: 10.35%) per annum.
Rate of medical aid contribution increases:	9.47% (2019: 8.28%) per annum.
Rate of general price inflation:	7.97% (2019: 6.78%) per annum.

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16. Post-retirement benefit obligations (Medical Aid Fund) (continued)

Mortality assumptions

Mortality - Active employee

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	Increase
Effect on the aggregate service cost and interest cost	(729 320)	861 499
Effect on the accumulated benefit obligation	(4 643 523)	5 462 464
	(5 372 843)	**6 323 963**

Amount for the current year and previous four years	**2020**	**2019**	**2018**	**2017**	**2016**
Present value of unfunded obligations recognised in the statement of financial position	46 298 280	51 152 893	51 419 952	50 208 853	45 265 629

17. Post-retirement benefit obligation (Pension Fund)

The pension fund for permanent employees of the FSCA is registered in terms of the Pension Fund Act, 1956 (Act No. 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 were entitled to receive retirement and resignation benefits from the accumulation of defined contributions. Employees who were in the employ at 31 March 2000 were 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.

In the 2018 financial year, the trustees took a decision to implement the restructuring of all active members entitled to a defined benefit underpin to a pure defined contribution basis effective 1 January 2017. Due to the restructuring, there are no active current employees who are in the defined benefit underpin. The fund currently has 18 pensioners, the benefits of whom are regarded as a defined obligation. An actuarial valuation of the benefit obligation was performed on 31 March 2020.

The amounts recognised in the statement of financial position were determined as follows:

	2020	2019
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	45 620 000	48 241 000
Fair value of plan assets	(48 970 000)	(56 183 000)
Funded status	(3 350 000)	(7 942 000)
Asset not recognised	3 350 000	7 942 000
	-	-

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17. Post-retirement benefit obligation (Pension Fund) (continued)

The FSCA 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 are as follows:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	48 241 000	56 062 000
Interest cost	4 552 000	4 807 000
Actuarial (gain)/loss	(4 744 000)	(8 163 000)
Benefits paid	(4 696 000)	(4 465 000)
New pensioners	2 267 000	-
	45 620 000	**48 241 000**

Changes in the fair value of plan assets are as follows:

Opening balance	56 183 000	56 884 000
Expected return on assets	5 321 000	4 880 000
Actuarial gain/(loss)	(10 105 000)	(1 116 000)
Benefits paid	(4 696 000)	(4 465 000)
New pensioners	2 267 000	-
	48 970 000	**56 183 000**

Components of pension costs for the year are as follows:

Interest cost	4 552 000	4 807 000
Actuarial (gain)/loss	5 361 000	(7 047 000)
Change is asset restriction	(4 592 000)	7 120 000
Expected return on plan assets	(5 321 000)	(4 880 000)
	-	**-**

Calculation of actuarial gains and losses

Actuarial (gain) loss – Obligation	(4 744 000)	(8 163 000)
Actuarial gain/(loss) – Plan assets	10 105 000	1 116 000
	5 361 000	**(7 047 000)**

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 reporting date is as follows:

	Average life expectancy 2020	Average life expectancy 2019
Male	17 years and 4 months	17 years and 4 months
Female	21 years and 8 months	21 years and 8 months

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17. Post-retirement benefit obligation (Pension Fund) (continued)

Amounts for the current and previous four years are as follows:

	2020	2019	2018	2017	2016
	R	R	R	R	R
Defined benefit obligation	45 620 000	48 241 000	56 062 000	86 559 000	79 606 000
Plan assets	(48 970 000)	(56 183 000)	(56 884 000)	(146 907 000)	(144 034 000)
Statement of financial position restriction	3 350 000	7 942 000	822 000	60 348 000	64 428 000
	-	-	-	-	-

Other assumptions

Key financial assumptions at valuation date

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. A rate of 11.87% per annum has been used (A rate of 9.68% was used at 31 March 2019).

Long-term price inflation rate: We have assumed a long-term future inflation rate of 6.44% 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 0.50% 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 (5.83% used at 31 March 2019).

Pension increases: It has been assumed that pension increases will take place at a rate of 4.83% per annum (4.37% used at 31 March 2019). 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 11.87% 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.

Pension expenses: Allowance is made for the cost of the administration of the pensioners records in the pensioner liability at a rate of R31.00 plus VAT per pensioner per month.

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17. Post-retirement benefit obligation (Pension Fund) (continued)

Experience adjustments

	2020	2019	2018	2017	2016
Active liabilities at end of the year	-	-	-	34 667 000	26 223 000
Pensioners liabilities at end of the year	45 620 000	48 241 000	56 062 000	51 892 000	53 383 000
Combined assets at end of year	(48 970 000)	(56 183 000)	(56 884 000)	(146 907 000)	(144 034 000)
Funded status at year end	**(3 350 000)**	**(7 942 000)**	**(822 000)**	**(60 348 000)**	**(64 428 000)**
Gain/(loss) on liabilities through experience	(1 493 000)	4 222 000	5 817 000	(3 776 000)	(2 139 000)
Gain/(loss) on liabilities through assumptions	6 237 000	3 941 000	(1 744 000)	1 781 000	12 600 000
	4 744 000	**8 163 000**	**4 073 000**	**(1 995 000)**	**10 461 000**
Gain/(loss) on plan assets	(10 105 000)	(1 116 000)	2 258 000	(8 603 000)	(3 643 000)

18. Contingency reserve

	2020	2019
Opening balance	80 679 845	75 305 818
Change during the year	5 166 695	5 374 027
	85 846 540	**80 679 845**

An amount of R5 166 695 (2019: 5 374 027) was transferred from accumulated surplus to maintain the reserve at 10% of annual levy and fee income.

19. Discretionary reserve

Opening balance	35 658 180	32 253 903
Transfer (to)/from accumulated surplus	(5 203 659)	3 404 277
	30 454 521	**35 658 180**

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	356 000	2 366 400
Provisions	-	(430 500)
Interest allocated to this reserve	4 978 293	3 708 121
Expenses in respect of consumer education	(11 079 323)	(2 686 344)
Reversal provision	541 371	446 600
Net transfer to/(from) discretionary reserve	**(5 203 659)**	**3 404 277**

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20. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2020	**Financial assets at amortised costs**	**Fair value through surplus or deficit**	**Total**
Financial assets at fair value	-	61 016 383	61 016 383
Receivables	11 625 662	-	11 625 662
Cash and cash equivalents	542 429 536	-	542 429 536
	554 055 198	**61 016 383**	**615 071 581**

2019	**Financial assets at amortised costs**	**Fair value through surplus or deficit**	**Total**
Financial assets at fair value	-	72 324 037	72 324 037
Receivables	20 023 395	-	20 023 395
Cash and cash equivalents	481 160 068	-	481 160 068
	501 183 463	**72 324 037**	**573 507 500**

21. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2020	**Other financial liabilites**	**Total**
Payables	68 957 643	68 957 643
Finance lease obligation	6 097	6 097
	68 963 740	**68 963 740**

2019	**Other financial liabilites**	**Total**
Payables	50 259 301	50 259 301
Finance lease obligation	518 194	518 194
	50 777 495	**50 777 495**

22. Credit quality of receivables

Trade receivables	**2020**	**2019**
Group 1	57 950 601	16 327 423
Group 2	1 982 737	701 418
Group 3	194 170 172	42 763 424
	254 103 510	**59 792 265**

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.

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22. Credit quality of receivables (continued)

The total gross carrying amount of the impaired receivables as at reporting date is R238 024 423 (2019: R34 811 808) and the associated total impairment is R73 488 223 (2019: R24 395 818) see note 4, 5 and 6. Of these debtors, the recovery of R20 563 639 (2019: R15 846 611) has been handed over for collection. Refer to the accounting policy note 1.4 for factors management considered in determining receivables impairement.

Cash and short-term deposits are held with banking institutions and the CPD and are regarded as having low credit risk. The FSCA invests its surplus cash in the short-term deposits accounts with CPD. The interest rates on these accounts fluctuates in line with the movements in current money market rates.

23. Revenue from exchange transactions

	2020	2019
Fees and service charges	31 315 907	33 447 821
Legal fees and other cost recoveries	20 235 231	1 343 386
Interest received	37 991 593	35 111 931
Dividends received	1 358 145	1 525 472
Other income	4 349 745	4 772 337
Compensation from insurance	1 090 034	3 052 026
	96 340 655	**79 252 973**

24. Revenue from non-exchange transactions

FSCA Levies	702 953 379	661 172 941
PFA Levies	71 113 059	64 913 971
FAIS Ombud Levies	53 083 052	47 263 715
Penalties	356 000	2 366 400
Other income	2 249 046	1 265 754
	829 754 536	**776 982 781**

25. Related parties

Related party balances

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

Office of the Pension Fund Adjudicator	(7 265 788)	(11 864 055)
Office of the Ombud for Financial Services Providers	(36 246 492)	(13 778 260)
Financial Services Tribunal	2 608 853	-
	(40 903 427)	**(25 642 315)**

Funds provided to the Office of the Pension Fund Adjudicator in terms of section 30R (1) (a) of the Pension Funds Act, No. 24 of 1956 as amended.

Contribution towards funding of the office	70 758 372	64 325 520

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, No. 37 of 2002.

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Amounts in Rand	2020	2019

25. Related parties (continued)

Contribution towards funding of the office	64 384 188	54 846 500

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, No. 37 of 2002.

Income/(Payments) to or from related parties		
Income received for services to Pension Fund Adjudicator	4 194 692	4 032 492
Payments for professional fees to South African Reserve Bank	-	(40 667)
Income received for services to Ombud for Financial Services Providers	28 260	80 582
Payments for Financial Services Tribunal hearing costs	7 285 752	4 238 827
	11 508 704	**8 211 234**

The FSCA provides financial, secretarial, administrative and other support to the Tribunal as per the transitional regulations. The FSCA, National Treasury and other listed entities are within the sphere of national government.

Remuneration of management

Management class: Committe members fees

31 March 2020

Name	Human Resources and Remuneration Committee fees	Audit Committee fees	Risk Committe fees	Others	Total
AM Sithole (Commissioner FSCA)	13 991	9 327	-	-	23 318
HS Wilton	34 572	106 453	44 023	91 966	277 014
J Mogadime	-	118 889	56 459	40 418	215 766
D Msomi	43 899	118 889	-	18 655	181 443
MH Ratshefola	-	69 142	56 459	23 318	148 919
PJ Sutherland	43 899	118 889	-	62 182	224 970
	136 361	**541 589**	**156 941**	**236 539**	**1 071 430**

Financial Sector Conduct Authority
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Notes to the Annual Financial Statements for the year ended 31 March 2020

25. Related parties (continued)

31 March 2019

	Board Members' fees	Human Resources and Remuneration Committee fees	Audit Committee fees	Risk Committe fees	Other	Total
Name						
AM Sithole (Chairperson)	65 914	39 060	-	11 833	289 903	406 710
HS Wilton (Deputy Chairperson)	52 724	30 186	83 161	56 961	-	223 032
J Mogadime	52 724	-	127 837	56 961	189 326	426 848
D Msomi	52 724	39 060	127 837	-	13 495	233 116
MH Ratshefola	52 724	-	62 454	56 961	20 708	192 847
PJ Sutherland	52 724	26 624	127 837	-	8 875	216 060
DLD Turpin	60 633	-	-	47 627	-	108 260
	390 167	**134 930**	**529 126**	**230 343**	**522 307**	**1 806 873**

The Minister of Finance has, in terms of sections 61(4), 288 and 304 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017), extended the term of the FSB Board to 30 November 2018, to facilitate the tabling of the final annual report and financial statements of the FSB for the financial year ending 31 March 2018.

Notes to the Annual Financial Statements for the year ended 31 March 2020

25. Related parties (continued)

Management class: Executive management

31 March 2020

	Basic salary	Incentive Bonus	Leave Com-mutation	Long service award	Total
Name					
**DP Tshidi, Executive Head	6 268 763	800 000	474 955	30 000	7 573 718
**JA Boyd, DE: Markert Intergrity	3 788 638	662 000	-	-	4 450 638
**CD Da Silva, DE: Regulatory Policy	3 724 433	518 000	-	-	4 242 433
**MM Du Toit, DE: Specialitst Support	3 724 433	518 000	-	-	4 242 433
**O Makhubela, DE: Retirement Funds Supervision	3 218 737	374 000	-	-	3 592 737
R Harichunder, CRO (contract ended 28 February 2020)	2 452 414	-	-	-	2 452 414
**LP kekana, CFO	3 535 043	576 000	200 875	-	4 311 918
JJR Hlalethoa, DE: Corporate Center	3 722 581	489 000	222 108	18 000	4 451 689
RP Mpete, CRO (appointed 1 December 2019)	549 938	-	-	-	549 938
P Mogase, CIO	2 531 250	259 000	-	-	2 790 250
FM Mabaso, DE: Licensing	2 986 875	432 000	-	-	3 418 875
K Dikokwe, DE: Conduct Business Supervision (appointed 01 July 2019)	1 830 000	200 000	115 989	24 000	2 169 989
BR Topham, DE: Investigation and Enforcement	3 710 434	432 000	-	-	4 142 434
**KL Gibson	2 976 200	-	-	-	2 976 200
	45 019 739	**5 260 000**	**1 013 927**	**72 000**	**51 365 666**

**Member of the Transitional Management Committee (TMC)

Subsequent to the financial year-end, the Commissioner, Mr A Sithole resigned from FSCA effective from 31 July 2020.

Financial Sector Conduct Authority
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Notes to the Annual Financial Statements for the year ended 31 March 2020

25. Related parties (continued)

31 March 2019

	Basic salary	Incentive Bonus	Leave Commutation	Long service award	Total
Name					
**DP Tshidi, Executive Head	5 936 811	1 264 569	356 216	-	7 557 596
**JA Boyd, DE: Markert Intergrity	3 648 515	837 093	-	-	4 485 608
**CD Da Silva, DE: Regulatory Policy	3 586 685	768 923	-	6 000	4 361 608
**MM Du Toit, DE: Specialitst Support	3 527 211	723 922	-	-	4 251 133
**O Makhubela, DE: Retirement Funds Supervision (appointed 01 November 2018)	2 936 800	608 950	-	-	3 545 750
R Harichunder, CRO	2 535 156	66 765	-	-	2 601 921
**LP kekana, CFO	3 150 418	802 570	172 824	-	4 125 812
JJR Hlalethoa, DE: Corporate Center (appointed 01 February 2019)	612 771	183 831	-	-	796 602
SE Mmakau, CIO (appointed 1 April 2018, resigned 30 November 2018)	2 000 000	-	149 589	-	2 149 589
P Mogase, CIO (appointed 02 November 2018)	1 022 260	87 500	-	-	1 109 760
FM Mabaso, DE: Licensing (appointed 01 February 2019)	491 667	147 500	-	-	639 167
F Badat, DE: Conduct of Business Supervision (appointed 01 February 2019)	336 376	100 912	-	-	437 288
BR Topham, DE: Investigation and Enforcement	610 771	-	-	-	610 771
**KL Gibson (appointed 01 April 2018)	2 717 400	89 286	-	-	2 806 686
	33 112 841	**5 681 821**	**678 629**	**6 000**	**39 479 291**

**Member of the Transitional Management Committee (TMC)

Salaries for Ms CD Da Silva and Mr J Boyd included acting allowances of R59 473 and R60 499, respectively.

26. Auditors' remuneration

	2020	2019
Current year-interim fee	1 431 976	311 000
Prior year audit fees	2 279 487	2 422 010
	3 711 463	**2 733 010**

27. Other operating expenses

	2020	2019
Travelling costs	9 391 034	12 965 760
Telephone and data lines	7 464 223	6 081 299
Advertising and publication	31 109 884	16 982 885
Computer support, maintenance and licensing costs	25 265 851	23 729 879
Insurance	2 556 331	2 548 807
Operational costs	18 847 476	15 828 508
	94 634 799	**78 137 138**

Notes to the Annual Financial Statements for the year ended 31 March 2020

Amounts in Rand	2020	2019

28. Provision for credit losses

Provision for credit losses for the year is stated after accounting for the following:		
Current year provision	2 044 147	3 299 836
Reversal of prior year provision	(541 371)	(570 484)
	1 502 776	**2 729 352**

29. Reconciliation of net surplus before interest and cash

Surplus for the year	25 039 748	44 498 278
Adjustments for: Depreciation and amortisation	20 857 254	19 657 958
Loss on sale of assets	54 919	198 361
Fair value adjustment	14 119 146	(2 841 941)
Provision for credit losses	1 502 776	2 729 352
Finance costs	26 822	125 800
Movements in operating lease assets and accruals	4 316 252	8 194 284
Movements in post-retirement medical expenses	(4 854 613)	(267 059)
Changes in working capital:		
(Increase)/Decrease in receivables	(146 721 626)	(12 667 287)
(Increase)/Decrease in prepayments	(7 797 433)	(842 690)
Increase/(Decrease) in payables	162 954 979	31 504 374
Increase/(Decrease) in levies and fees received in advance	6 619 631	2 883 288
Increase/(Decrease) in provisions	984 716	6 304 601
	77 102 571	**99 477 319**

30. Taxation

The FSCA is exempt from income tax in terms of section 10(1) (cA)(i)(bb) of the Income Tax Act, 1962 (Act No. 58 of 1962).

31. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	14 030 392	17 955 838

Not yet contracted for

• Property, plant and equipment	10 194 000	48 109 000
• Intangible assets	173 070 000	167 520 000
	183 264 000	215 629 000

Total capital commitments		
Already contracted for but not provided for	14 030 392	17 955 838
Not yet contracted for	183 264 000	215 629 000
	197 294 392	**233 584 838**

Financial Sector Conduct Authority
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Notes to the Annual Financial Statements for the year ended 31 March 2020

Amounts in Rand	2020	2019

31. Commitments (continued)

Operating lease commitments

Building lease

The FSCA leases its office accommodation at Riverwalk Office Park Block B and C. The operating lease rentals exclude charges for operational costs, electricity, rates and taxes. Escalations of 8% have been included in the lease agreements.

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

	2020	2019
Minimum lease payments due for Block B		
- within one year	37 820 952	35 009 442
- in second to fifth year inclusive	112 038 741	149 953 273
	149 859 693	**184 962 715**
Minimum lease payments due for Block C - 2nd floor		
- within one year	4 798 590	4 443 139
- in second to fifth year inclusive	14 191 962	18 990 552
	18 990 552	**23 433 691**
Minimum lease payments due for Block C Ground & 1st floor		
- within one year	10 969 859	10 157 277
- in second to fifth year inclusive	32 520 325	43 490 184
	43 490 184	**53 647 461**
Minimum lease payments due for Block C 3rd floor		
- within one year	3 382 138	-
- in second to fifth year inclusive	10 101 776	-
	13 483 914	**-**

Office equipment leases

The FSCA leases some of its office equipment through National Treasury's transversal contract. The period of the lease is 36 months with no escalations attached to the lease agreement.

	2020	2019
Minimum lease payments due		
- within one year	603 778	432 676
- in second to fifth year inclusive	871 917	372 445
	1 475 695	**805 121**

32. Contingent liabilities

The FSCA has no contingent liabilities.

Notes to the Annual Financial Statements for the year ended 31 March 2020

33. Assets administered on behalf of third parties

In terms of section 82(4) of the Financial Markets Act 19 of 2012, amounts recovered by the FSCA 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 FSCA. The balance of the Insider Trading account at the end of the year was R1 522 367 (2019: R1 351 352).

34. Change in estimate

Impact of changes in accounting estimates	2020	2019
Increase in net surplus	834 875	1 971 960
Decrease in depreciation on property, plant and equipment	(752 065)	(1 878 424)
Decrease in amortisation on intangilbe assets	(82 810)	(93 536)
	-	-

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 depreciationand amortisation charges in the current period and increased the depreciation and the amortisation charges for future periods by R752 065 (2019: R1 878 424) and R82 810 (2019: R93 536) respectively.

35. Comparative figures

Management has included the disclosure of the financial lease liability as part of the Financial Liability note in accordance with the disclosure requirements of GRAP 104. Management has also included the disclosure of the Financial Services Tribunal hearing costs as part of the related party transaction note in accordance with the disclosure requirements of GRAP 20. These disclosures are aimed to improve and achieve fair presentation. There is no impact on the statement of financial position, the statement of fiancial performance and the cash flow statement.

36. Services received in-kind

The FSCA receives services in-kind in the form of free training from various organisations which are not significant to operations.

37. Subsequent events

The Accounting Authority has recognised the impact of the COVID-19 crisis and the resultant restrictions on the local economy and the ability of some regulated entities to fulfil their financial obligations .

At this stage, the impact on our operations has not been significant. We will continue to follow the various government policies and advice to ensure the health and safety of our stakeholders and at the same time preserving our resources, performing financial scenarios and liquidity stress testing in order to remain sustainable.

Financial Sector Conduct Authority
Annual Financial Statements for the year ended 31 March 2020

Notes to the Annual Financial Statements for the year ended 31 March 2020

Amounts in Rand	2020	2019

38. Irregular expenditure

Irregular Expenditure - current year	1 005 613	-

Due to exceptional circumstances, irregular expenditure was incurred on a 12-month contract extension for ICT services. The 12 months contract extension was to allow the finalisation of the procurement process to appoint a new service provider. National Treasury approval was subsequently obtained for the remainder of the four months contract extension.

39. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

Operating activities		
Actual amount as presented in the budget statement	(146 783 790)	(131 363 695)
Timing differences	223 886 361	230 841 014
Net cash flows from operating activities	**77 102 571**	**99 477 319**
Investing activities		
Actual amount as presented in the budget statement	(215 629 437)	(126 817 480)
Timing differences	200 335 253	103 120 904
Net cash flows from investing activities	**(15 294 184)**	**(23 696 576)**
Financing activities		
Actual amount as presented in the budget statement	(1 175 880)	(721 287)
Timing differences	636 961	(31 701)
Net cash flows from financing activities	**(538 919)**	**(752 988)**
Net cash generated from operating, investing and financing activities	**61 269 468**	**75 027 755**

40. Budget differences

Material differences between budget and actual amounts

The budgetary basis and classification adopted are the same as those applied in the preparation of the financial statements. The approved budget covers the period from 1 April 2019 to 31 March 2020. Included in the budget are contributions made towards the funding of the Offices of the Ombud of the Financial Services Providers and Pension Funds Adjudicator.

Revenue from exchange transactions

The favourable variance to budget is mainly as a result of interest from investments, post-retirement funds and other income not budgeted for.

Fair value adjustment

The fair value adjustment relates to the portfolio earmarked for the post-retirement medical aid fund liability which is not budgeted for due to unpredictable changes in the market.

Notes to the Annual Financial Statements for the year ended 31 March 2020

40. Budget differences (continued)

Advisory and other committee fees

The favourable variance is due to fewer number of enforcement hearings and appeal matters.

Depreciation and amortisation

The favourable variance is due to the delayed procurement of budgeted assets and changes in useful life estimates.

Internal audit fees

The unfavorable variance is due to more audits completed in the current year in line with the audit plan.

Legal fees

The unfavorable variance is mainly due to the number of cases being higher than budgeted.

Other operating expenses

The favourable variance is mainly as a result of delayed spend on advertising and recruitment due to the moratotium placed on filling of positions. The balance is attributable to various cost saving initiatives.

Professional and consulting fees

The favourable variance is due to lesser outsourcing on investigations.

Provision for credit losses

Provision for credit losses are 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.

Salaries, staff benefits, training and other staff expenses

The favourable variance is due to the moratorium placed on staff movements/replacements.

Executive management remuneration

The favourable variance is due to the lag in appointments.

Non-executive board members fees

The favourable variance is due to the reorganisation of the FSCA governance structures.

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Facebook: @TheFSCA
Twitter: @FSCA_ZA
LinkedIn: @FSCA_ZA
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FSCA

Financial Sector
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