



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



# FINANCIAL SECTOR AND DEPOSIT INSURANCE LEVIES BILL & ADMINISTRATION BILL

PRESENTATION TO THE SELECT  
COMMITTEE ON FINANCE

**ISMAIL MOMONIAT**

**DEPUTY DIRECTOR-  
GENERAL**

*TAX & FINANCIAL  
SECTOR POLICY*

**02 August 2022**



# Introductions

## **National Treasury**

- Ismail Momoniat: Deputy Director General: Tax and Financial Sector Policy
- Chris Axelson: Chief Director: Tax Policy
- Vukile Davidson: Chief Director: Financial Markets and Stability
- Jeannine Bednar-Giyose: Director: Financial Sector Regulation and Legislation

## **Prudential Authority**

- Dr Janet Terblanche: Divisional Head: Policy

## **Financial Sector Conduct Authority**

- Katherine Gibson: Deputy Commissioner
- Paul Kekana: Chief Financial Officer
- Retha Stander: Senior Legislation Manager
- Bellina Sebesho: Head of Department, Finance

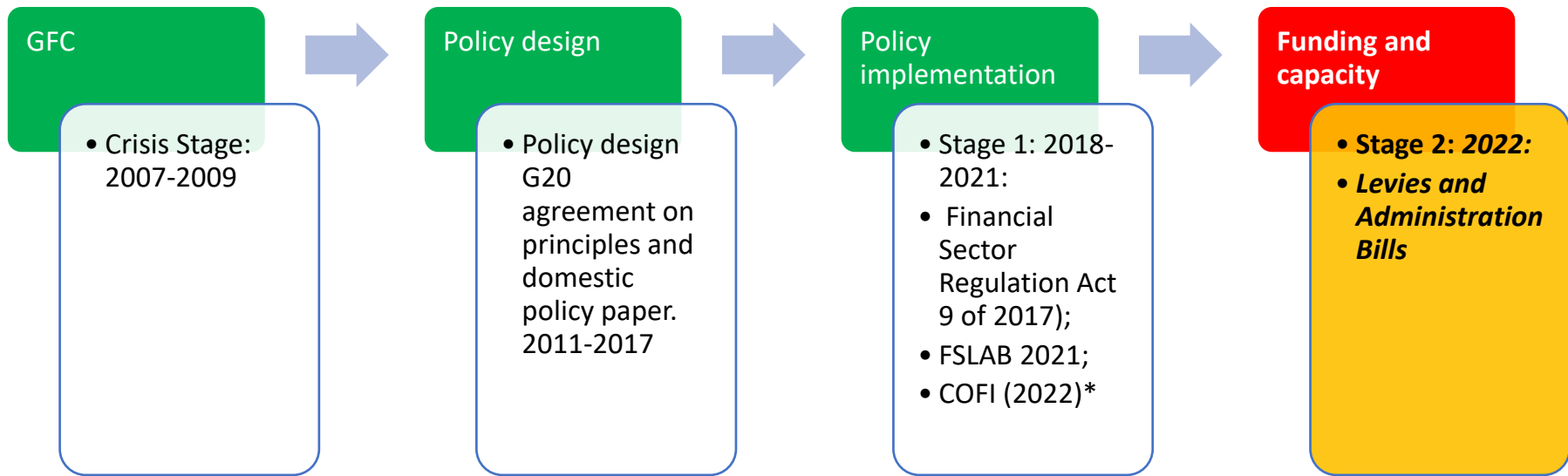
## **South African Reserve Bank**

- Dr Hendrik Nel: Interim CEO of the Corporation for Deposit Insurance
- Shoki Ralebepa: Chief Financial Officer and Head of Department Financial Services

# OBJECTIVES OF FINANCIAL SECTOR REGULATION

- Stable, inclusive and transformed financial sector is a key driver of economic growth and job creation.
- Financial sector provides financial products and services to citizens which are important for supporting economic activity.
- Efficient and effective regulation and supervision of financial institutions and markets minimises risk of market failures.
- Strong system of financial sector regulation ensures the protection of financial customers.
- Establishment of Deposit Insurance Fund (DIF) and Corporation for Deposit Insurance (CoDI) to manage the fund will ensure depositors are protected in the event of a bank failure.
- To achieve above objectives, an appropriate funding model in line with '*Twin Peaks*' system of regulation is needed to provide for cost of regulation and capacity enhancement.
- Funding of CoDI will ensure the appropriate management of the DIF.

# WHERE THE LEVIES BILL FITS IN



Following the phase of implementing more effective regulation, adequate funding and resourcing of regulators is required as the final step.

- **Policy implementation (Stage 1)**: an overhaul of the financial regulatory architecture (enabled through the Financial Sector Regulation Act 9 of 2017); and
- **Funding and capacity (Stage 2)**: capacitation with resources to match the broadened scope and increased intensity of regulation (pending through Financial Sector and Deposit Insurance Levies Bill and Financial Sector Levies and Deposit Insurance (Administration) and Deposit Insurance Premiums Bill).

# KEY SOUTH AFRICAN FINANCIAL SECTOR REFORMS

## Policy Design

- 2011 - National Treasury published policy paper '***A safer Financial Sector to serve South Africa better***' introducing major financial sector regulatory reforms to ensure ***more intensive, intrusive and effective financial regulation***.
- 2015 - National Treasury and Reserve Bank published policy paper '***Strengthening South Africa's Resolution Framework for Financial Institutions***' and 2017 discussion paper '***Designing a Deposit Insurance Scheme for South Africa***'.

## Policy Implementation

- 2017 – ***Financial Sector Regulation Act*** (FSRA) establishing Financial Sector Conduct Authority (FSCA) and Prudential Authority (PA) with Reserve Bank responsible for overall financial stability under '***Twin Peaks***' model of financial sector regulation on 1 April 2018.
- 2021 - Passing of Financial Sector Laws Amendment (FSLA) Bill establishing CoDI and DIF.

## Funding and Capacity

- 2022 – Introduction of Financial Sector and Deposit Insurance Levies Bill and Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Bill.

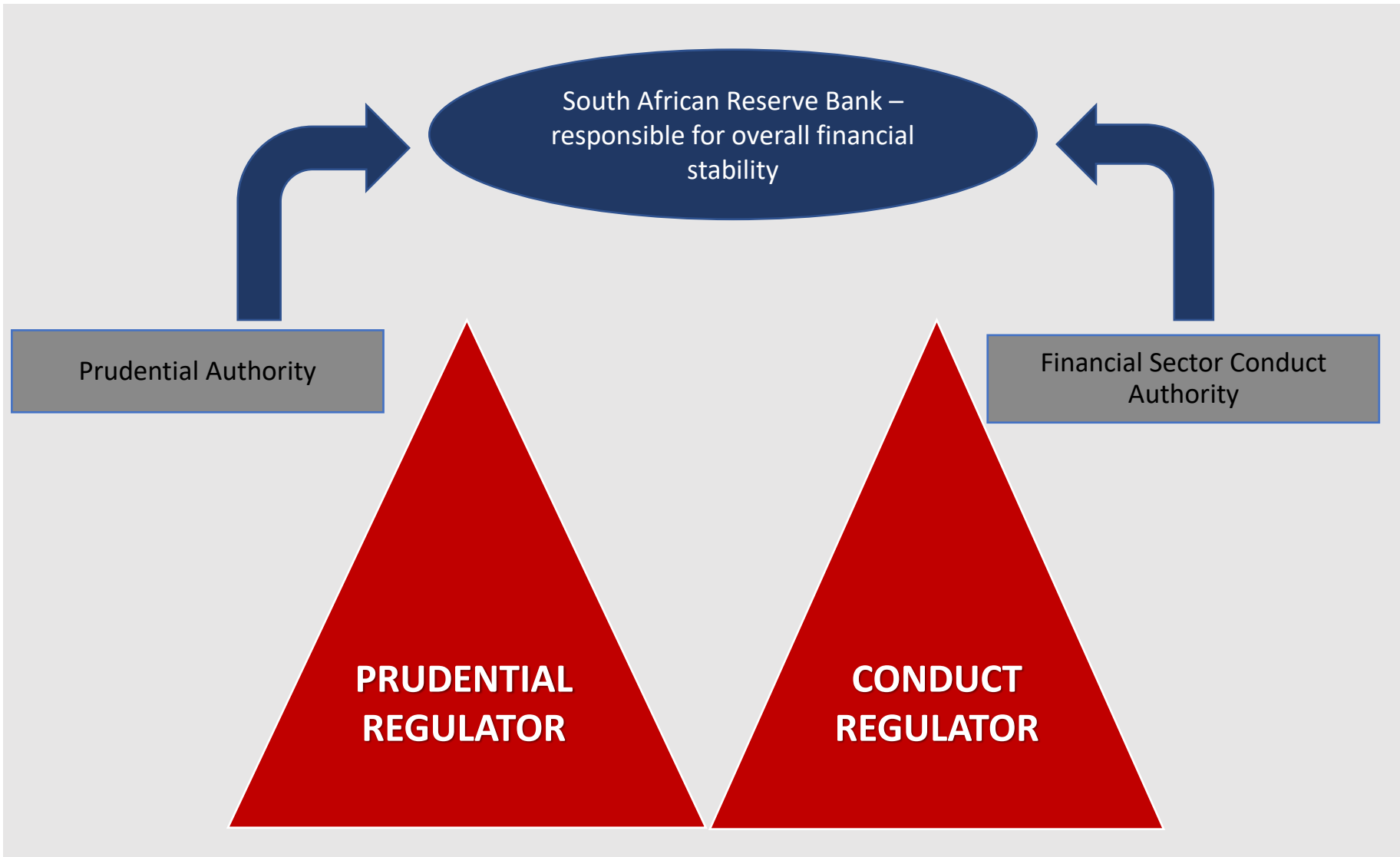
# FINANCIAL SECTOR SIZE COMPARISON

The financial sector requires regulatory resources proportional to its **centrality** (dependence the entire economy has on the sector) as well as its **size** (in relation to the economy). **Together we call this the systemic role of the financial system.**



Source: Stats SA Q3 2021 GDP Statistics

# 'TWIN PEAKS' SYSTEM OF FINANCIAL SECTOR REGULATION



# HOW GOVERNMENT APPROACHED REGULATORY REFORM OF FINANCIAL SECTOR

The *Twin Peaks* regulatory system underpinned by Financial Stability

## FSRA Regulatory Framework

### Prudential Regulation Peak

*(Reducing the likelihood of failure)*

- Better quality and more capital
- Better governance
- Simplified and more transparent operations

### Market Conduct Regulation Peak

*(Making sure customers are protected)*

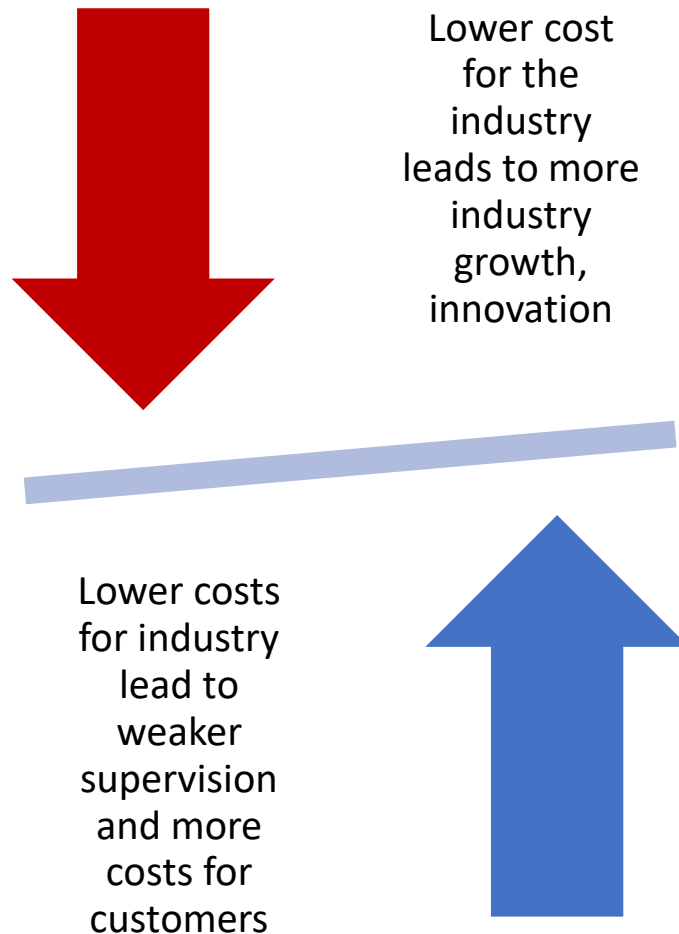
- More **effective** disclosure
- Better governance and improved customer centric culture
- Treating customers fairly

## Financial Stability

- Planning for the worst: ensuring we have plans in place to manage the broader fallout if systemic failure occurs
- Includes Deposit Insurance as financial safety net



# SEEKING TO BALANCE INDUSTRY AND CUSTOMERS



The cost imposed on the sector is a balancing act.

The costs of regulation cannot disappear, but can only be assigned to different people in the economy (business or customers).

For regulation and supervision to be effective, intensive and intrusive, the industry must pay its fair share.

If regulators are inadequately resourced, the cost is passed onto customers:

- Individually through abusive practices (mis-selling and over charging).
- Collectively through the failure of institutions (bank failures and loss of funds).

# FINANCIAL SECTOR BODIES & REGULATED FINANCIAL INSTITUTIONS

## Financial Sector Conduct Authority

Responsible for market conduct regulation and supervision. Promotes fair treatment of financial customers by financial institutions, as well as providing financial customers with financial education.

Insurers

Collective Investment Schemes

Retirement Funds

All Banks

Financial Services Providers

Market Infrastructures

Credit Rating Agencies

Friendly Societies

## Prudential Authority

Responsible for the safety and soundness of financial institutions to ensure that they are able to meet their obligations

Insurers

Banks

Mutual Banks

Co-operative Banks

Market Infrastructures

Co-operative Financial Institutions

Financial Conglomerates

## Financial Services Tribunal Ombud Council Office of the Pension Funds Adjudicator

## Office of the Omduds for Financial Services Providers

## Corporation for Deposit Insurance

Tribunal responsible for reconsideration of decisions of regulators and ombuds

Ombud Council responsible for regulation of financial ombuds

Pension Funds Adjudicator investigates complaints relating to pension funds

FAIS Ombud responsible for hearing complaints in financial services

Corporation for Deposit Insurance

# FINANCIAL SECTOR REGULATION BEFORE AND AFTER 'TWIN PEAKS'

## PRUDENTIAL AUTHORITY

TYPE OF ENTITY	PRE-TWIN PEAKS	POST-TWIN PEAKS
Commercial Banks	34	31
Mutual Banks	3	4
Co-operative Banks	3	5
Co-operative Finance Institutions	0	24
Insurers	0	150
Market Infrastructures	0	9
Over-the-counter derivative providers	0	16
<b>TOTAL</b>	<b>40</b>	<b>239</b>

498% increase in the number of supervised entities

# FINANCIAL SECTOR CONDUCT SUPERVISION

Entity	PRE-TWIN PEAKS	POST-TWIN PEAKS
Banks	0	31
Managers of collective investment schemes	<b>69</b>	<b>68</b>
• Securities		
• Participation bonds	50	49
• Property	2	2
• Hedge funds	2	2
	15	15
Foreign collective investment schemes	113	134
Cooperative banks	0	5
Credit rating agencies	3	3
Financial services providers	11 075	11 881
Friendly societies	198	198
Insurers		
• Life	150	150
• Non-life		
Market infrastructures	<b>9</b>	<b>9</b>
• Exchanges	5	5
• CSDs	2	2
• Clearing house	2	2
Mutual banks	0	4
Over-the-counter derivative providers	0	16 licensed ODPs (and 50 pending applications)
Pension fund administrators	128	128
Retirement funds (pension, provident, retirement annuity, preservation and beneficiary funds)	5118	5125 (1 454 are active funds and 3 676 are inactive)

# FUNDING OF FINANCIAL SECTOR BODIES: CHAPTER 16 of FSRA

## *Fees, Levies and Finances*

Section 237(1)(b) of FSRA provides for funding of financial sector bodies through legislation that imposes levies for purposes of funding operational requirements e.g. salaries, systems, rental and equipment.

Section 239 requires the preparation and adoption of

- budgets by financial sector bodies
- proposals for fees charged and levies to be imposed.

Section 239 & 240 provide for public consultations on levy proposals and the submission of finalised budget proposals, including levies to the Minister of Finance for approval.

Overall, Chapter 16 allows for a transparent and consultative process that will also feed into legislation imposing financial sector levies i.e. the Financial Sector and Deposit Insurance Levies Bill.

# WHAT OTHER TAXES DOES THE FINANCIAL SECTOR PAY?

The financial sector is subject to usual taxes (Personal Income, Value-Added and Corporate tax)

- In addition South African financial institutions are subject to a Securities Transfer Tax, (a type of Financial Transactions Tax).
- Securities transfer tax is levied for:
  - every transfer of any security issued by -  
a close corporation or company incorporated, established or formed inside South Africa; or
  - a company incorporated, established or formed outside South Africa and listed on an exchange
  - any re-allocation of securities from a member's bank restricted stock account or a member's unrestricted and security restricted stock account, to a member's general restricted stock account.
  - Securities tax is levied at the rate of 0,25%
- Securities transfer tax applies to the purchase and transfers of listed and unlisted securities

Other types of levies on the financial sector:

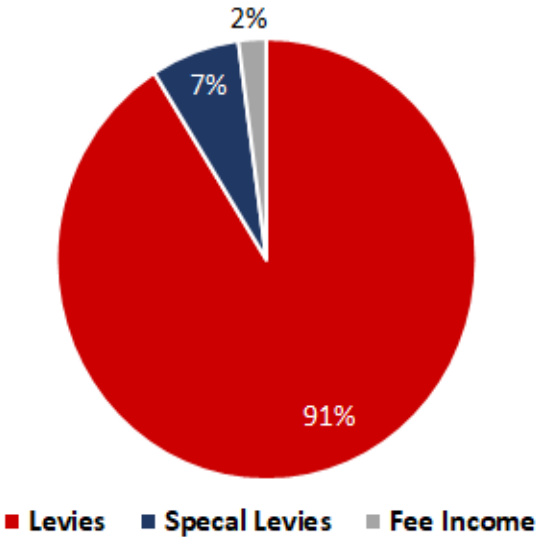
- Some jurisdictions like Brazil and India have periodically levied an additional Financial Transaction Tax as a way of disincentivising harmful capital flows, these policies are known as Capital Flow Measures with a Macroprudential purpose. The purpose of these levies is to stem inflows of capital which lead to distortions in credit, exchange rates and asset prices domestically.

# PRUDENTIAL AUTHORITY FUNDING REQUIREMENTS

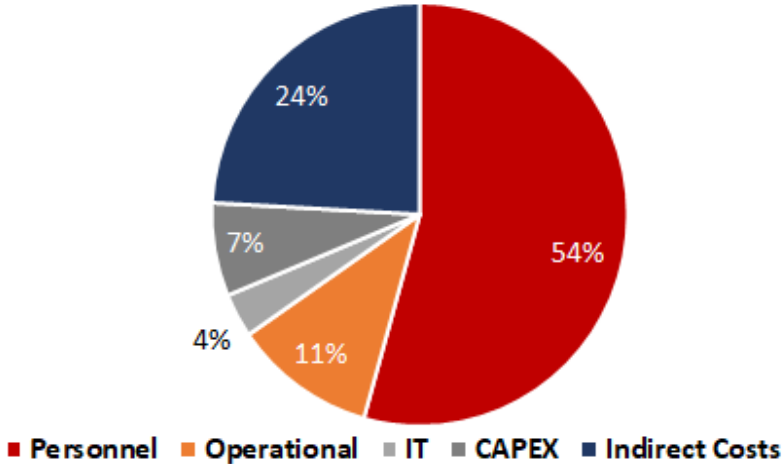
- The PA is a new entity with a new regulatory mandate of ensuring the financial soundness and efficiency of financial institutions that provide financial products, as well as, market infrastructures.
- Prior to *'Twin Peaks'*, Bank Supervision Department (BSD) at the Reserve Bank was responsible for bank supervision.
- From 1 April 2018, the PA has additionally assumed responsibility for the prudential regulation and supervision of insurers (150), financial conglomerates (3), certain market infrastructures (9), co-operative financial institutions (24), in addition to banks (31), mutual banks (4) and co-operative banks (5). Scope of entities regulated by PA has increased by a significant margin.
- R500 million (including special levy) is proposed to be collected in levies for the PA by the Reserve Bank. R11 million in fees will also be collected from industry.
- Total operating expenditure budget will be R895 million. 54 per cent (R487 million = remuneration) and R99 million is for operational costs. A further R309 million will be for indirect operational costs, IT infrastructure, and capital expenditure etc.
- Operating deficit is R385 million, however the Reserve Bank will continue to provide funding to cover shortfall.

# PRUDENTIAL AUTHORITY FORECASTED BUDGET, FEES AND LEVY PROPOSALS

2022/2023 Forecasted Revenue



2022/2023 Forecasted Operating Expenditure



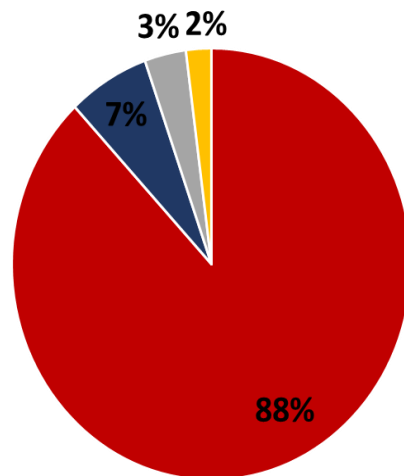


# FINANCIAL SECTOR CONDUCT AUTHORITY FUNDING REQUIREMENTS

- The FSCA was previously the Financial Services Board (FSB) before the advent of the FSRA.
- In terms of the FSRA, the FSCA is tasked with an expanded and broader mandate of having to ensure:
  - Fair treatment of financial customers;
  - Financial integrity and efficiency of financial markets;
  - Financial inclusion;
  - Consumer education;
  - Transformation objectives;
- R883 million is proposed to be collected by the FSCA in levies (including special levy), to fund its operations. An additional income of R66 million is envisaged, comprising fees, interest received and other income.
- Total operating expenditure will be R967 million, of which R617 million is for staff expenses (R530 million is for staff remuneration) and R350 million is for general expenses, such as the running of the call centre, IT infrastructure and maintenance etc. An estimated operational shortfall of about 18 million will be realised, which will be funded from reserves.

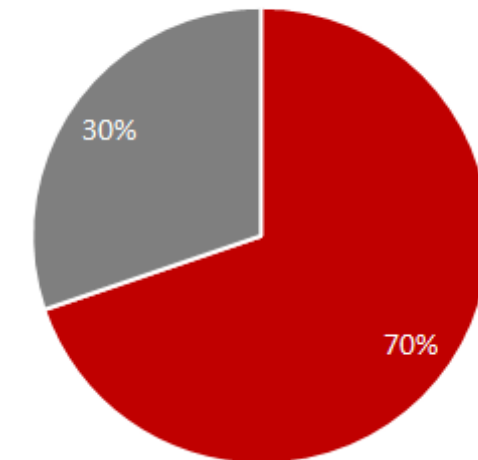
# FINANCIAL SECTOR CONDUCT AUTHORITY PROJECTED BUDGET, FEES AND LEVY PROPOSALS

## 2022/2023 Forecasted Revenue



■ Levies ■ Special Levy ■ Fees ■ Other Income

## 2022/2023 Forecasted Operating Expenditure



■ Staff Expenses ■ General Expenses

# PROPOSED LEVIES PAYABLE TO PRUDENTIAL AUTHORITY PER SECTOR

INSTITUTION	LEVY	SPECIAL LEVY (once-off)
<b>Deposit-taking institutions</b>	<b>R288,138,027</b>	<b>R21,610,352</b>
Banks	R287,952,821	R21,596,462
Mutual Banks	R176,472	R13,235
Co-operative Banks	R8,734	R655
<b>Insurance</b>	<b>R149,634,005</b>	<b>R11,222,550</b>
Life Insurance	R67,232,158	R5,042,412
Non-Life Insurance	R82,391,847	R6,179,389
Micro Insurance	R10,000	R750
<b>Other</b>	<b>R27,615,356</b>	<b>R2,071,151</b>
Co-operative Financial Institutions	Exempt	Exempt
Market Infrastructures (MIs)	R27,515,356	R2,063,652
Road Accident Fund	R100,000	R7,500
<b>TOTAL</b>	<b>R465,387,388</b>	<b>R34,904,053</b>

# PROPOSED LEVIES PAYABLE TO FINANCIAL SECTOR CONDUCT AUTHORITY PER SECTOR

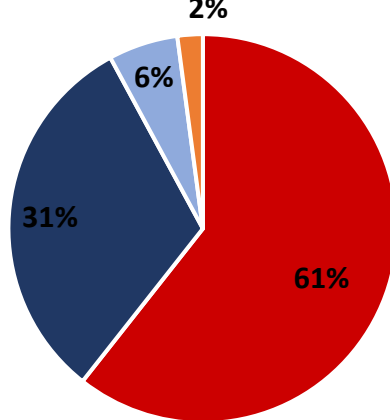
INSTITUTION	LEVY	SPECIAL LEVY (once off)
<b>Banks</b>	<b>R95,902,000</b>	<b>R7,193,000</b>
Banks	R95,850,000	R7,189,000
Mutual Banks	R43,000	R1,000
Co-operative Banks	R9,000	R3,000
<b>Insurance</b>	<b>R135,865,000</b>	<b>R10,189,000</b>
Life Insurance	R63,762,000	R4,782,000
Non-Life Insurance	R71,711,000	R5,378,000
Micro Insurance	R392,000	R29,000
<b>Market Infrastructures &amp; Other</b>	<b>R70,922,000</b>	<b>R5,319,000</b>
Exchange	R45,522,000	R3,414,000
Central Counterparty	R15,000,000	R1,125,000
Over-the-counter derivative provider	R1,300,000	R98,000
Central Securities Depository	R4,100,000	R308,000
Credit Rating Agencies	R5,000,000	R375,000

# PROPOSED LEVIES PAYABLE TO FINANCIAL SECTOR CONDUCT AUTHORITY PER SECTOR cont...

INSTITUTION	LEVY	SPECIAL LEVY (once off)
<b>Collective Investment Schemes</b>	<b>R78,303,000</b>	<b>R5,873,000</b>
Participation Bonds	R129 000	R10,000
Foreign Schemes Unit Trusts	R33,344,000	R2,501,000
Local Unit Trusts	R23,479,000	R1,761,000
Property Unit Trusts	R113,000	R8,000
Hedge Funds	R21,238,000	R1,593,000
<b>FAIS</b>	<b>R257, 383,000</b>	<b>R19,304,000</b>
Category I or IV	R118,264,000	R8,870,000
Category II, IIA and III (incl. other)	R139,119,000	R10,434,000
<b>Pensions</b>	<b>R183,508,000</b>	<b>R13,763,000</b>
Pension Funds	R170,897,000	R12,817,000
Pension Fund Administrators	R12,611,000	R946,000
<b>TOTAL</b>	<b>R821,883,000</b>	<b>R61,641,000</b>

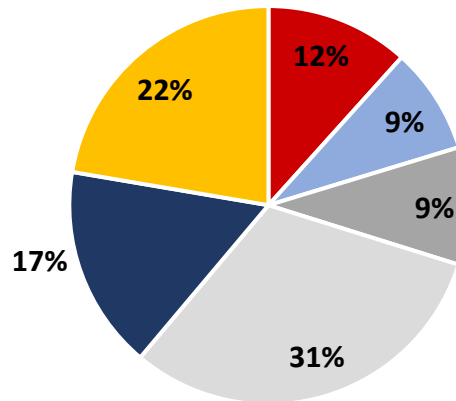
# STRUCTURE OF THE FINANCIAL SECTOR AND PROPOSED LEVIES

PA levies per sector (including Special Levy)



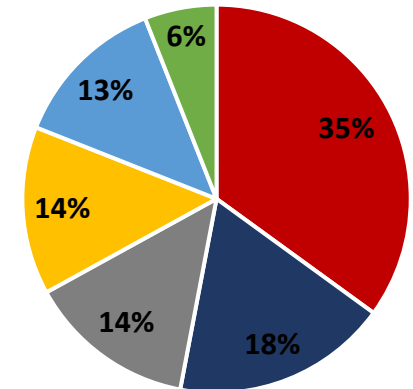
- Banking Sector
- Insurance Sector
- Market Infrastructures
- Road Accident Fund

FSCA levies per sector (including Special Levy)



- Banking Sector
- Market Infrastructures & Other
- Collective Investment Schemes
- FAIS
- Insurance Sector
- Pension Funds

Structure of financial system

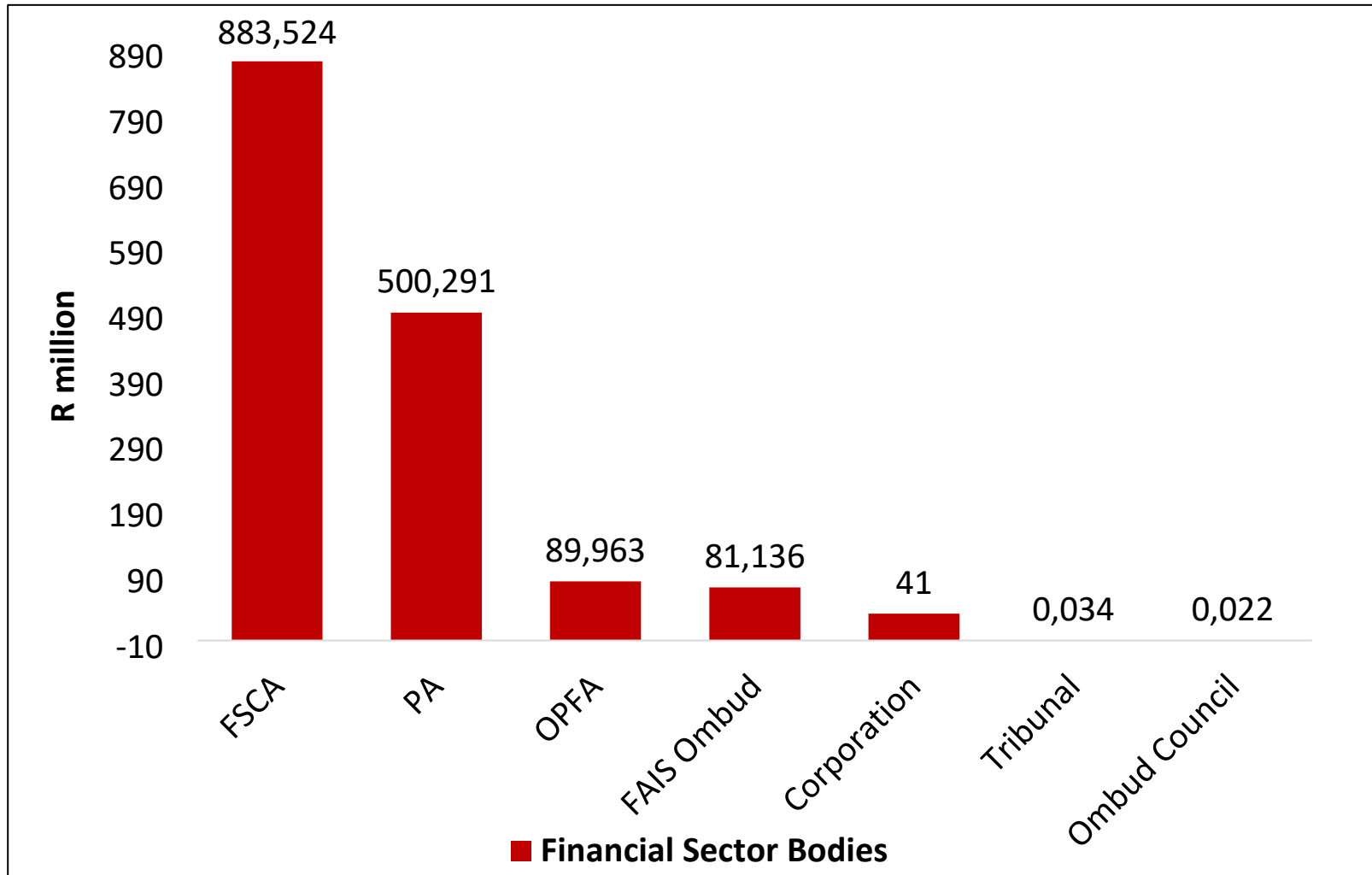


- Banking Sector
- Insurance Sector
- Collective Investment Schemes
- Pension Funds
- State-owned Financial Institutions
- SARB

# FUNDING REQUIREMENTS FOR OTHER FINANCIAL SECTOR BODIES

- FSCA will collect R90 million (including special levy), in proposed levies on behalf of the Office of the Pension Funds Adjudicator. Total operating expenditure will be R87 million.
- FSCA will collect R81 million (including special levy), in proposed levies on behalf of the FAIS Ombud. Operating expenses will comprise R46 million in staff expenses, R33 million in expenses (including CAPEX).
- FSCA will collect R34 million (including special levy), in proposed levies on behalf of the Financial Services Tribunal. The levies will be allocated towards hearings and other general expenditure and the rest will be used for remuneration and other staff expenditure, audit fees, depreciation and amortisation.
- FSCA will collect R22 million (including special levy), in proposed levies on behalf of the Ombuds Council which will be allocated towards rental expenses, remuneration and other staff expenditure, audit fees, depreciation and amortisation, as well as, expenditure on supervision and oversight activities.
- Reserve Bank will collect levies on behalf of CoDI. This will be a new entity and subsidiary of the Reserve Bank, its initial start-up costs will be absorbed by the central bank. Total cost to be levied, will be R41 million used for operational elements.

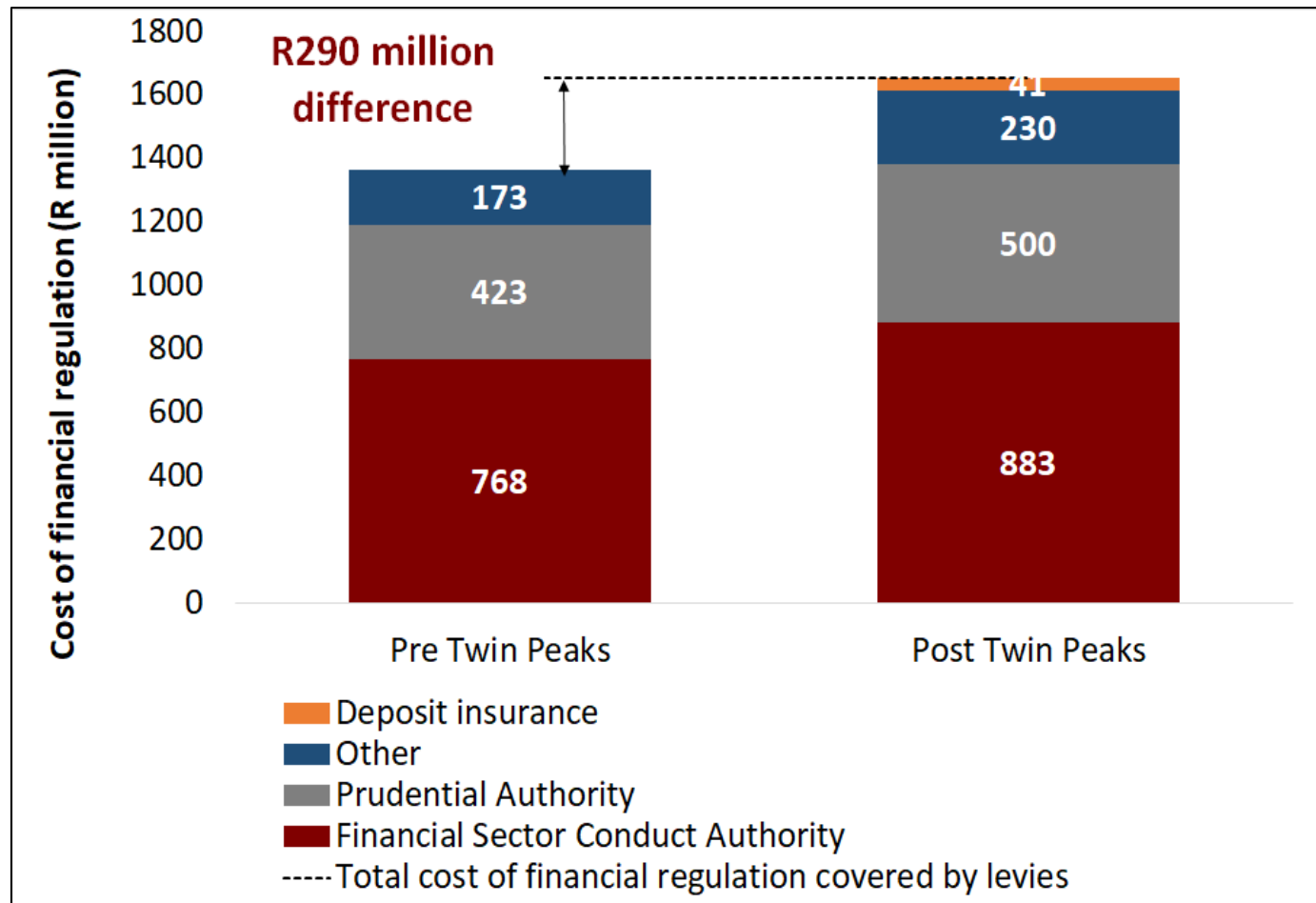
# TOTAL COST OF LEVIES PROPOSED UNDER 'TWIN PEAKS'



Total cost of proposed levies R1,6 billion (excluding the estimated R548 million proposed to be collected towards deposit insurance premiums)

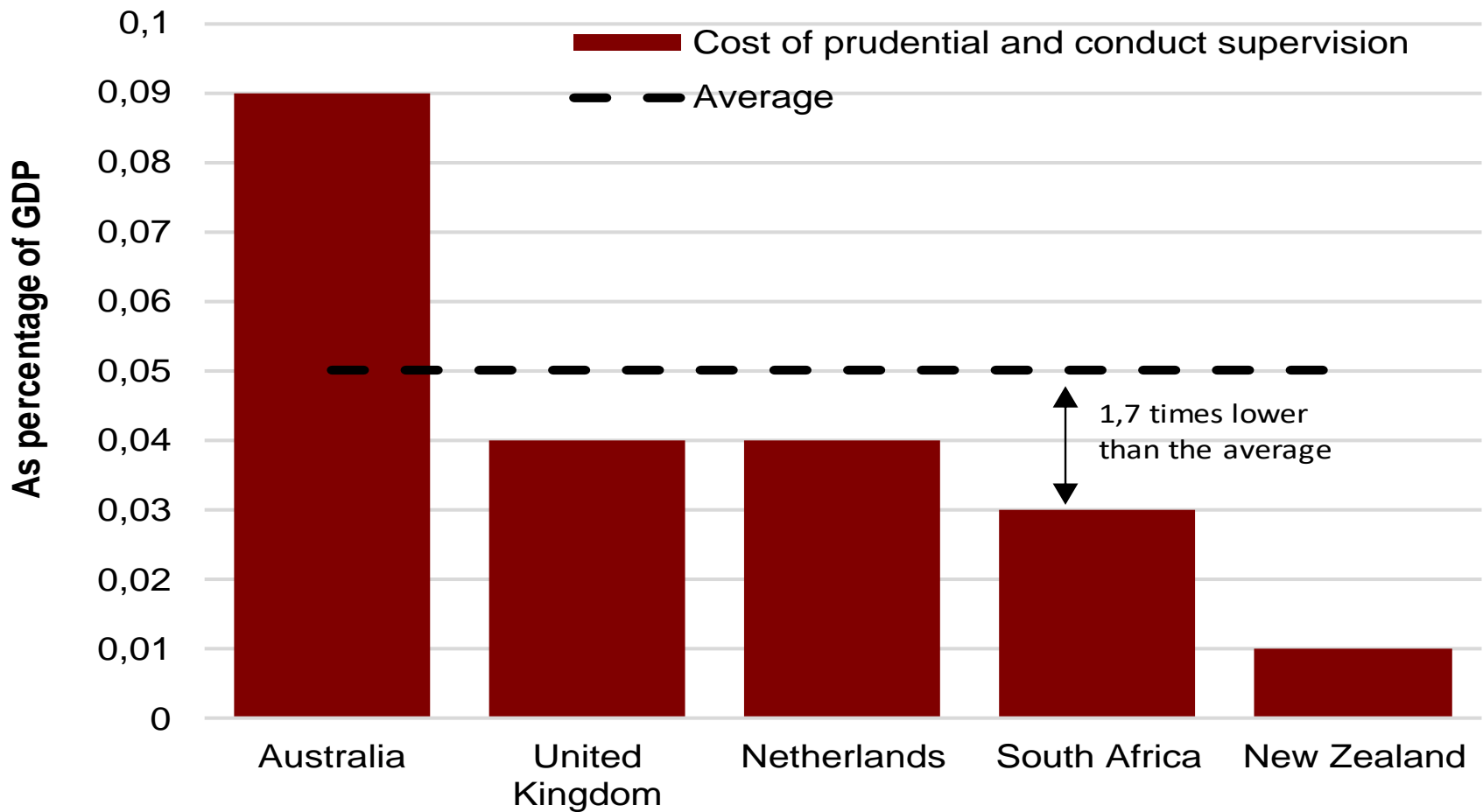


# CURRENT VS PROPOSED COST OF FINANCIAL SECTOR REGULATION



# COMPARISON WITH OTHER 'TWIN PEAKS' JURISDICTIONS

Information correct as at the 2019/2020 financial year



# FUNDING OF CORPORATION FOR DEPOSIT INSURANCE & DEPOSIT INSURANCE FUND

- The deposit insurance levy will be used for the following operation expenses:
  - CoDI permanent staff, contracted staff and board member fees.
  - Deposit insurance communication and public awareness.
  - Administrative fees for building the DIF and reimbursing depositors of a failed bank.
  - Deposit insurance memberships, onsite member visits, training.
  - SARB management fee for support services which include legal services, finance, human resources, internal audit, secretariat functions, risk management, compliance, strategic planning, office space, etc.
  - Maintenance of information technology systems.
- Premiums have not been included in the Levies Bill as this is not a tax and will be imposed in terms of the Levies (Administration) Bill.
- The Levies (Administration) Bill premiums will be 0.2% of all members' covered deposits per year, but payable monthly.
- DIF will be built up through deposit insurance premiums, which will be R548 million p.a.

# FUNDING FOR CORPORATION FOR DEPOSIT INSURANCE & DEPOSIT INSURANCE FUND cont....

A	B	C	D
Number of qualifying (A) depositors	Total covered deposits (B)	Annual Levy (C) – (B x 0.015%)	Annual premium (D) – (B x 0.2%)
43,475,591	R274,324,302,000	R41,148,645	R548,648,604

Deposit Amount	Cost of coverage	
R100	R0.22	<ul style="list-style-type: none"> <li>The <b>annual levy</b> cost per qualifying depositor (C / A) is R1</li> <li>The <b>annual premium</b> cost per qualifying depositor (D / A) is R13</li> <li>The <b>total annual levy and premium cost per qualifying depositor is R14</b></li> </ul>
R1000	R2.15	
R10 000	R21.53	
R100 000	R215.31	

These numbers are based on a 2014 survey and will be updated with the latest (2021) survey results soon

# SUMMARY OF LEVIES BILL

The Levies Bill provides for:

- **Clause 2** - the imposition of financial sector levies on supervised entities;
- **Clause 9** - the imposition of a deposit insurance levy to fund the Corporation for Deposit Insurance;
- **Clause 10** – Ministerial powers to amend Schedules subject to Parliamentary approval;
- **Clause 11** - exemption from levies under certain circumstances;
- **Clause 12** - the allocation of amounts levied to financial sector bodies;
- **Schedule 1** – calculation of levies applicable to certain supervised entities by the PA;
- **Schedule 2** – calculation of levies applicable to certain supervised entities by the FSCA;
- **Schedule 3** – calculation of levies for purposes of funding Financial Services Tribunal;
- **Schedule 4** – calculation of levies for purposes of funding the Ombud Council;
- **Schedule 5** – calculation of levies to fund OPFA and FAIS Ombud;
- **Schedule 6** – calculation of levies to fund Corporation for deposit insurance.

# SUMMARY OF LEVIES (ADMINISTRATION) BILL

## The Levies (Administration) Bill:

- Provides for the collection and administration of levies imposed in terms of the Financial Sector and Deposit Insurance Levies Bill, 2022.
- Amends the Financial Sector Regulation Act, 2017, in order to provide for the administration of levies imposed, in terms of, the Financial Sector and Deposit Insurance Levies Act, 2021.
- Provides for the imposition, collection and administration of deposit insurance premiums; and
- Amends the Pension Funds Act, 1956, the Banks Act, 1990, the Mutual Banks Act, 1993 and the Financial Advisory and Intermediary Services Act, 2002, to align same with the Financial Sector Regulation Act, 2017, in respect of the financing of financial sector bodies.

# EXAMPLE OF APPLICATION OF LEVY FORMULA: BANKS

Type of supervised entity	Number of payments per levy year	Base Amount (Rands)	Variable Amount(s) (Rands)	Description of variable	Formula	Maximum (Rands)
Bank or branch	One	50 000	0.01062% x A	A = total liabilities as at 30 June of the preceding levy year as reported in the BA100, or total liabilities as reported in the previous financial statements published in terms of the International Financial Reporting Standards (IFRS) (if first not available)	Levy = Base amount + Variable Amount	45 000 000

**Bank A** is a large bank with total liabilities amounting to R500 billion and **Bank B** is a smaller bank with assets amounting to R1 billion. The levies will be calculated using the levy formula for banks, as follows:

## Bank A levy

$$\begin{aligned}
 &= \text{Base amount} + \text{Variable cost} \\
 &= R50,000 + (0.01062\% \times R500,000,000,000) \\
 &= R50,000 + R53,100,000 \\
 &= R53,150,000
 \end{aligned}$$

**Bank A will pay R45,000,000 in levies, per year, because of the cap**

## Bank B levy

$$\begin{aligned}
 &= \text{Base amount} + \text{Variable cost} \\
 &= R50,000 + (0.01062\% \times R1,000,000,000) \\
 &= R50,000 + R106,200 \\
 &= R156,200
 \end{aligned}$$

**Bank B will pay R156,200 in levies per year**

# EXAMPLE OF APPLICATION OF LEVY FORMULA: CO-OPERATIVE BANK

Type of supervised entity	Number of payments per levy year	Base Amount (Rands)	Variable Amount(s) (Rands)	Description of variable	Formula	Maximum (Rands)
Co-operative bank	One	1 000	0.005% x A	A = total liabilities as at 30 June of the preceding levy year as reported in terms of section 22 of the Co-operative Banks Act, 2007, or total liabilities as reported in previous financial statements (if first not available)	Levy = Base amount + Variable amount  No levy is charged if A does not exceed R2 000 000	5 000

**Co-operative bank 1** has total liabilities amounting to R50 million rands and **Co-operative bank 2** is smaller with total liabilities amounting to less than R2 million. The levies will be calculated using the levy formula for co-operative banks, as follows:

**Co-operative Bank 1 levy**

$$\begin{aligned}
 &= \text{Base amount} + \text{Variable cost} \\
 &= R1,000 + (0.005\% \times R50,000,000) \\
 &= R1,000 + R2,500 \\
 &= R3,500
 \end{aligned}$$

**Co-operative bank 1 will pay R3,500 in levies per year**

**Co-operative bank 2 levy**

$$= R 0$$

**Co-operative bank 2 will not be liable to pay any levy because it has below R2 million as per the formular**



# PUBLIC SUBMISSIONS AND TREASURY RESPONSE

COMMENTATOR	COMMENT	NT RESPONSE
Financial Intermediaries Association of Southern Africa	Special levy too high at 7.5%	Special levy reduced from original 15% to 7.5% to allow regulators to cover set up costs and will apply for a period of 2 levy years before falling away.
Financial Intermediaries Association of Southern Africa	Process of application for exemptions is burdensome and consideration for general exemptions should be given.	Clause 11 amended to enable financial sector bodies to grant exemptions on own initiative. Exemptions on a case-by-case basis will be retained and no blanket exemptions will be considered.
Financial Intermediaries Association of Southern Africa	Even excluding the special levy, the increases are substantial, and far exceed inflation.	National Treasury has taken into consideration the impact cost on the smaller FSP's and made adjustments to the levy formulae in Sch2

# PUBLIC SUBMISSIONS AND TREASURY RESPONSE.....contd

COMMENTATOR	COMMENT	NT RESPONSE
South African Insurance Association	Clarity on the definition of supervised entity	Definition amended - ‘supervised entity’ means a financial institution envisaged in paragraph (a) of the definition of “supervised entity” in section 1(1) of the Financial Sector Regulation Act of the types listed in Schedules 1 to 6;
South African Insurance Association	Duplication of levy payment to FSCA and PA should be avoided. Impact cost on smaller insurers will be significant.	<p>Cost of funding regulators will be based on cost recovery and kept at a minimum. Reserve Bank will fund a portion of PA’s total costs including indirect costs estimated at 40%. There is no duplication on the costs.</p> <p>Clause 11 amended to allow for regulators to grant exemptions on own initiative.</p>
South African Insurance Association	The number of representatives will be calculated using the average total number of key individuals plus the average total number of representatives, how will these averages will be calculated and confirmed prior to invoicing?	Average number of key individuals will be calculated by adding the number of key individuals/representatives over the period 1 September – 31 August each year (according to the Authority’s system) and dividing that number by 12

# PUBLIC SUBMISSIONS AND TREASURY RESPONSE....contd

COMMENTATOR	COMMENT	NT RESPONSE
Strate	All CSD and associated clearing house levies of the PA and the FSCA be viewed collectively, as they will have to be paid by a single supervised entity.	Levies are structured such that each type of supervised entity is charged a separate levy based on the licensed activities performed. Adoption of a twin peaks approach to regulation means that there are two separate regulators which have separate regulatory responsibilities to the same supervised entities.
Strate	Strate submits that the levy for the ACH be treated similarly to that of a trade repository, with a fixed maximum of R 500 000 and R 100 000 for each of the FSCA and the PA, respectively.	The Authorities do not agree to the proposal by Strate to have a fixed amount charged on an ACH. The annual maximum for an ACH has been reduced from R5 000 000 to R2 000 000.
Strate	Given that only one entity will be prudentially reviewed, Strate is of the view that only one levy should be payable, regardless of the fact that the entity carries two licences.	Strate will be charged separate levies for its activities as a CSD and ACH and supervised accordingly. Different activities even when performed by a single entity, are licensed, regulated and supervised separately.

# OUTCOME OF STANDING COMMITTEE ON FINANCE PROCESS

## SCOF Public Hearings

- One of the sub-themes of the overall submissions was on the impact cost of the proposed levies on smaller financial intermediaries in the financial sector.
- National Treasury was instructed by the Committee to provide a comprehensive response to the submissions and explore possible resolutions on the issue of costs
- A report was submitted to the Committee highlighting -
  - Proposed amendments to alleviate the impact cost on smaller financial intermediaries;
  - Benefits of financial sector regulation for customers;
  - A high level summary of the Socio-economic Impact Assessment on the proposed levies

# SUMMARY OF KEY AMENDMENTS OF STANDING COMMITTEE ON FINANCE

Clauses	Changes made
Clause 7 (LB)- S.166BG(4)(a) (AB)	Clarification of pro rata refunds of levies & premiums paid licence was suspended or cancelled during the levy period (both Bills);
Clause 10 (LB) - S.239(7A)(b) (AB)	Proposal to amended a Schedule to be published for comment for a period of 30 days prior to tabling in Parliament (both Bills);
Clause 11 (LB)	Enabled financial sector regulators to grant exemptions on own initiative, including to types or categories of financial institutions from payment of levies (Levies Bill);
Schedule 2 -	Levy formulae adjustments to provide for alternative lesser levies for smaller FSPs (Levies Bill);

# ACCOMODATING SMALLER FSPs

	CURRENT FSCA LEVY	Money Bill	Proposed change
Base levy - CAT I	R3,792	R4,000	R3,600
Base levy - CAT II	R7,642	R8,000	R7,500
REP/KI - normal FSP	R605	R620	R520
REP/KI (CAT IV)	R250	R280	R250
Max Levy	R1,956,451	R2,000,000	R2,500,000

	CURRENT FAIS OMBUD LEVY		
Base levy	R1,172	R1,100	R1,100
REP/KI	R447	R690	R690
Max levy	R317,376	R333,275	R333,275

Levy	Current levy regime	Original proposed levy regime as per the tabled Levies Bill	Alternative levy regime supporting small FSP's
FSCA Base Levy	R3,792	R4,000	R3,600
FAIS Ombud Base Levy	R1,172	R1,100	R1,100
<b>Total</b>	<b>R4,964</b>	<b>R5,100</b>	<b>R4,700</b>
Plus:			
Financial Services Tribunal Levy	-	R100	R90
Ombud Council Levy	-	R100	R90
Special Levy	-	R398	R366
<b>Grand Total</b>	<b>R4,964</b>	<b>R5,698</b>	<b>R5,246</b>
<b>Total per month</b>	<b>R414</b>	<b>R475</b>	<b>R437</b>
<b>% change per month</b>		<b>15%</b>	<b>5.7%</b>