THE PRESIDENCY

REPUBLIC OF SOUTH AFRICA

SOCIO-ECONOMIC IMPACT ASSESSMENT SYSTEM
(SEIAS) REVISED (2020): FINAL IMPACT ASSESSMENT
TEMPLATE –PHASE 2
NAME OF THE PROPOSAL: FINANCIAL SECTOR AND DEPOSIT INSURANCE LEVIES BILL, 2021

1. Please DO NOT ALTER the template and questionnaire
2. Date must be clearly indicated

3. Draft SEIAS report should have a watermark word DRAFT indicating the version and should be accompanied by the supporting documents (draft proposal, M&E plan and pieces of research work)
4. FINAL report will be in PDF format and will be inclusive of the sign-off
5. FINAL report will have the approval stamp of the Presidency on the front cover and will include the signoff
6. Sign off forms are only valid for a period of six months.
7. Bills and Regulations that introduce permitting, licensing and registration system must be accompanied by a streamlined process map and indicate the proposed turnaround time for processing of such.

PART ONE: ANALYSIS FOR FINAL SEIAS REPORT

Please keep your answers as short as possible. Do not copy directly from any other document.

1. Conceptual Framework, Problem Statement, Aims and Theory of Change

1.1. What socio-economic problem does the proposal aim to resolve?

The Financial Sector and Deposit Insurance Levies Bill aims to ensure that financial sector bodies that are responsible for regulating the financial sector, are able to carry out their duties and functions in a manner that provides financial stability, consumer protection and financial soundness (of regulated entities). Efficient regulation of the financial sector will also ensure that there is consumer protection and that there is access to structures that provide for financial customer complaints to be appropriately processed by financial sector bodies. The second crucial aspect of the Bill is that it provides for the funding of the Corporation for Deposit Insurance ("the Corporation"). The Corporation will be responsible for administering the deposit insurance fund ("the Fund") and ensure that financial customers who have deposits in a bank including their savings, are protected. Since 2011, in the aftermath of the 2007/2008 global financial crisis, which resulted in South Africa entering into a recession, National Treasury implemented a series of reforms for the financial sector to ensure that it is appropriately regulated and made safer for the benefit of investors and financial customers. In 2017 the Financial Sector Regulation Act ("the FSR Act") was promulgated. This Act ushered the introduction of a more robust and intrusive form of financial sector regulation by establishing the Financial Sector Conduct Authority (previously the Financial Services Board) which would be responsible for protecting financial customers and the Prudential Authority (a new regulatory agency) that would be responsible for the financial soundness of financial institutions. The expansion of the scope of financial sector regulation (which is ongoing) requires appropriate funding for financial sector bodies.

1.2. What are the main root causes of the problem identified above?

In the aftermath of the global financial crisis, it was apparent that financial sector regulatory bodies were ill equipped to deal with a systemic event and to supervise financial institutions in terms of a regulatory framework that is reflective of our domestic markets. The aim of an appropriate regulatory framework is to ensure that the end user of financial products and services (i.e. financial customers) are protected.

This problem is being addressed through various financial sector reforms more specifically the introduction of the FSR Act. The introduction of additional regulatory agencies and the expansion of regulatory duties and functions requires an appropriate funding model for financial sector bodies which is currently lacking in South Africa. The lack of an appropriate funding model for the Corporation to manage the Fund also means that South African depositors continue to lack depositor protection for their deposited funds which includes savings.

What socio-economic problem does the proposal aim to resolve	What are the main roots or causes of the problem
Effective supervision of financial institutions requires regulators to have operational independence, budgetary processes and adequate resources, and is accountable for the discharge of its duties and use of its resources. Failure to have harmonised and adequate resources will compromise the regulators to effectively exercise their autonomy and independence as well as achieving global standards and principles. Currently, the socio-economic problem that persists is that in South Africa the funding for financial sector regulations is inadequate, this in turn has a negative impact on the stability and financial soundness of the financial system. Inadequately funded regulators are unable to ensure that financial customers are protected (including their deposits and savings), that financial institutions are sound and there is financial stability in the system.	Inconsistences in approach to the funding of the regulators and the need to align with the FSRA Currently, the prudential regulation of banks by the South African Reserve Bank (Reserve Bank) is funded from the general revenue of the Reserve Bank, which includes revenue generated from the unremunerated cash reserves held by commercial banks with the central bank. The funding for other financial institutions that are regulated by the Financial Services Board is funded through levies and fees which are paid to the FSB in terms of the Financial Services Board Act. The problem created by the inconsistencies highlighted above is that the current funding model is not aligned with the provisions of the Financial Sector Regulation Act and furthermore, it does not make provision for the new regulatory functions of the FSCA and PA under ‘Twin Peaks’.

	The Levies Bill seeks to provide a harmonised approach to the funding of all the regulated financial sector entities. Financial institutions are different, and provide different services e.g. banks, insurers, market infrastructures etc Therefore a fair and coherent levying framework that will allow regulators to carry out their supervisory mandate is necessary.
Lack of a Deposit Insurance Scheme and agency to manage the scheme to protect depositors when a bank fails	South Africa currently does not have a dedicated deposit insurance fund that is intended to ensure payment of depositor funds when a bank fails. Such a fund would require that an independent agency is established in order to manage the fund and administer a streamlined and efficient pay out process that would enable vulnerable depositors to have access to their funds within a reasonable period post a bank failure.

1.3. Summarise the **aims** of the proposal and **how** it will address the problem in no more than five sentences.

The Financial Sector Levies Bill (the Levies Bill) is a money Bill that provides for the imposition of a levies for the benefit of funding the operational requirements of the the Financial Sector Conduct Authority (FSCA), the Prudential Authority (PA), the Financial Services Tribunal (FST), and the Financial Ombud Schemes Council (FOSC), the Corporation for Deposit Insurance (CoDI or the Corporation), the statutory ombuds, and associated matters. The Bill provides a funding mechanism for the Twin Peaks regulatory framework that Cabinet approved in December 2014 for implementation. The Bill also includes provisions to fund the establishment of an agency that will manage South Africa's first comprehensive (industry funded) Deposit Insurance Fund (DIF or the Fund), this was approved by Cabinet in 2020. This framework will be implemented through the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) which has recently been enacted into law. The Levies Bill is a necessity for the successful implementation of the 'Twin Peaks' regulatory framework in South Africa and establishing a DIF for the protection of bank depositors. The enactment of the legislation will ensure that financial customers are protected, that the financial system is stable, that financial institutions are financially safe and sound and that there is depositor protection for deposits held with banks. Financial customers will also have their rights enforced and protected through an appropriately funded and fully functioning Ombud Scheme.

1.4. How is this proposal contributing to the following national priorities?

National Priority	Impact
1. Economic transformation and job creation	The financial sector plays a crucial role in the economy and is a key contributor to GDP growth and job creation. It also has the potential to negatively affect the economy as demonstrated during the 2007/2008 global financial crisis if it is not appropriately regulated. Therefore, a well regulated financial sector will ensure that the sector can continue to grow and play a vital role in growing the economy. Therefore, there is a need for well capacitated and well-funded financial sector regulators that can effectively regulate the financial sector in South Africa. Small banks play an important role in the South African banking sector which is very concentrated and dominated by a handful of big dominant banks. In order for the sector to transform, smaller and more diversified banks that are suited to a range of types of financial customers need to be established.

National Priority	Impact
	A deposit insurance fund would provide confidence for financial customers where smaller banks are concerned that their deposits would be safe. The introduction of a deposit insurance scheme that will be managed by the Corporation for Deposit Insurance (CoDI) will ensure that depositors are protected when a bank fails. The CoDI will ensure that the deposit insurance fund is administered properly for the benefit of financial customers. The establishment of a deposit insurance fund will ensure that the socio-economic disruption of a failing bank will be minimised. When a bank fails as evidenced by the recent failure of VBS Mutual Bank, vulnerable depositors such as pensioners are unable to withdraw their deposits and have access to their funds in that bank. Once the Financial Sector Laws Amendment Bill, 2021 is enacted, it will establish the Corporation. Once the Financial Sector and Deposit Insurance Levies Bill is enacted, the Corporation will have the necessary funding to be able to administer the Fund, assess claims from depositors in the event of a bank failure and pay out qualifying depositors in accordance with the provisions of the FSR Act.

National Priority	Impact
2. Education, skills and health	N/A
3. Consolidating the social wage through reliable and quality basic services	N/A
4. Spatial integration, human settlements and local government	N/A
5. Social cohesion and safe communities	N/A
6. Building a capable, ethical and developmental state	N/A
7. A better Africa and world.	N/A

1.5. Please describe how the problem identified could be addressed if this proposal is not adopted. At least one of the options should involve no legal or policy changes, but rather rely on changes in existing programmes or resource allocation.

Option 1.	The South African Reserve Bank (the Reserve Bank) would continue to fund the Prudential Authority and the CoDI using its own funds.

	The Financial Sector Conduct Authority would use its reserves to continue to fund itself
Option 2.	The government would fund the financial sector regulators from the fiscus

PART TWO: IMPACT ASSESSMENT

2. Policy/Legislative alignment with other departments, behaviours, consultations with stakeholders, social/economic groups affected, assessment of costs and benefits and monitoring and evaluation.

2.1. Are other government laws or regulations linked to this proposal? If so, who are the custodian departments? Add more rows if required.

Government legislative prescripts	Custodian Department	Areas of Linkages	Areas of contradiction and how will the contradictions be resolved
Financial Sector Regulation Act	National Treasury	• Establishment of the PA, FSCA, Ombuds Council, Corporation for Deposit Insurance, Deposit Insurance Fund, Financial Services Tribunal, Statutory Ombuds • Funding for financial sector regulators	None, section 237(1)(b) of the FSR Act provides the enabling provision for the imposition of levies by financial sector bodies through a money Bill which the Levies Bill seeks to do.

2.2. Proposals inevitably seek to change behaviour in order to achieve a desired outcome. Describe (a) the behaviour that must be changed, and
(b) the main mechanisms to bring about those changes. These mechanisms may include modifications in decision-making systems; changes in procedures; educational work; sanctions; and/or incentives.

a) What and whose behaviour does the proposal seek to change? How does the behaviour contribute to the socio-economic problem addressed?

The proposal seeks to ensure regulated financial institutions pay levies and fees to ensure that financial sector bodies and the CoDI carry out their statutory duties and functions adequately. Financial sector bodies that are well funded will be able to regulate the financial sector efficiently which will ensure customer protection, financial soundness of financial institutions, depositor protection and assist in maintaining financial stability. Financial institutions that are not appropriately regulated because financial sector regulators are not properly funded contribute to the instability of the financial system as they would be at risk of engaging in risky market practices that threaten their financial soundness which in turn would result in the loss of investor and customer funds as evidenced by the 2007/2008 global financial crisis. Under the proposed twin peaks regulatory approach, two separate regulators, the Prudential Authority and the Market Conduct Authority are created. The PA's objective is to promote the safety and soundness of individual financial institutions while the FSCA has a responsibility for the conduct of financial institutions by promoting the fair treatment of financial customers and promoting financial literacy. The amended Financial Sector Regulation Act will establish the Corporation which will reside within the Reserve Bank as its subsidiary. Once the Corporation is established, it will collect levies from all member banks in South Africa for purposes of establishing, administering and maintaining the Fund for the benefits of depositors (also financial customers).

- Treating customers' fairly: South Africa does not have a regulator that looks specifically at conduct issues and ensuring fair treatment of financial customers. This is one of the shortcomings that the 'twin peaks' model of financial sector regulation is seeking to address. The FSCA will have a responsibility of ensuring that financial institutions treat their customers fairly;

- Financial stability: The Financial Sector Regulation Act, 2017 (FSR Act) gives the financial stability mandate to the Reserve Bank and also sets up statutory structures to coordinate matters around financial stability;

- Appeal mechanism: The FSR Act sets up a FST and its role is to judicially review decisions of the financial sector regulators and the Ombud Regulatory Council on application of the aggrieved person. This provides a harmonised approach for judicial review of decisions taken by regulators; and

- Dispute resolution: the Financial Services Ombud Schemes Council is established under the FSR Act and its role is to assist in ensuring that financial customers have access to, and are able to use affordable, effective, independent and fair alternative dispute resolution process for complains about financial products and financial services.

Deposit Insurance: the Corporation and the Fund will be established in terms of the Financial Sector Laws Amendment Bill, 2020. In order for the Corporation to manage the Fund appropriately, it will collect levies from all registered banks as well as capital that will be deposited by the banks into the Fund in order to build up liquidity. This forms part of the administrative responsibilities of the Corporation. Any administration and maintenance costs incurred by the Corporation will be covered under the deposit insurance levy as contained in this Bill. Banks systems will have to be enhanced for reporting purposes to enable the Corporation to fulfil its core objective of paying out qualifying depositors in the event of a failure.

In order to have appropriate interventions in place to address some of the above mentioned challenges, appropriate institutions are required and they require adequate funding for them to function appropriately.

b) How does the proposal aim to bring about the desired behavioural change?

The Bill seeks to provide for the imposition of a levy on regulated entities in order to provide the necessary funding mechanism to enable the Prudential Authority, the Financial Sector Conduct Authority, the Financial Services Council, and the Financial Services Ombud Schemes Council, the Office of the Pension Fund Adjudicator, the Corporation and the Office of the Financial Services Ombud to be able to fulfil their functions in terms of the FSR Act and the other financial sector laws. The FSR Act and related Financial Sector Levies Bill will implement the Twin Peaks model for financial regulation and supervision as well as provide for the establishment of the Fund and the Corporation in line with the financial stability framework contained in the Act as well. The following behaviour can only be changed if the necessary financing framework, through the Financial Sector Levies Bill is in place.

2.3. Consultations

a) Who has been consulted inside of government and outside of it? Please identify major functional groups (e.g. business; labour; specific government departments or provinces; etc.); you can provide a list of individual entities and individuals as an annexure if you want.

Consulted Government Departments, Agencies and Other Organs of State

Department's name	**What do they see as main benefits, Implementation/ Compliance costs and risks?**	**Do they support or oppose the proposal?**	**What amendments do they propose?**	**Have these amendments been incorporated in your proposal? If yes, under which section?**
The Reserve Bank	The main benefits are seen to be an institutional framework that supports a risk-based and outcomes-focused approach to regulation, delivering a safer financial sector with better outcomes for financial customers. The main risks and costs explored in the consultation phase within government have included: potential conflicts between policy objectives and between the mandates of financial sector regulators; potential inconsistencies in implementation as a	Support	None	N/A

	result of gaps and overlaps in the regulatory framework.			

	and in legislation; and the risk of short- term disruption in the financial system during implementation of the new framework.			
Prudential Authority (PA)	The main benefits are seen to be an institutional framework that supports a risk-based and outcomes-focused approach to regulation, delivering a safer financial sector with better outcomes for financial customers. The main risks and costs explored in the consultation phase within government have included: potential conflicts between policy objectives and between the mandates of financial sector regulators; potential inconsistencies in implementation as a result of gaps and overlaps in the regulatory framework and in legislation; and the risk of short-term	Support	Proposed wording submitted to the Prudential Authority in accordance with the prescribed requirements for the year preceding the levy year."	Schedule 1 under Table A,

	disruption in the financial system during implementation of the new framework.			

CoDI	The main benefits are seen to be an institutional framework that supports a risk-based and outcomes-focused approach to regulation, delivering a safer financial sector with better outcomes for financial customers. The main risks and costs explored in the consultation phase within government have included: potential conflicts between policy objectives and between the mandates of financial sector regulators; potential inconsistencies in implementation as a result of gaps and overlaps in the regulatory framework and in legislation; and the risk of short-term	Support	Schedule 6 can be amended or replaced but cannot be withdrawn totally unless CoDI ceases to exists There are other CoDI requirements such as reporting, public awareness, etc. CoDI would like the ability to exempt local branches of foreign	No, clause 10 which affords the Minister this power is a standard clause for all Money Bills and allows the Minister to effectively exercise his constitutional powers of proposing taxes. For purposes of this particular proposal however, there is a caveat that the concurrence of the financial sector bodies will be sought before the

	disruption in the financial system during implementation of the new framework.			

			banks that are already members of a foreign DIS – that means exempting them form all CoDI's requirements, including reporting, financial contributions. We are fine keeping this provision though as long as CoDI has the discretion to approve/reject the application for exemption.	Minister exercises this power. Clause 11(1)(c) has included the exemption powers for CoDI
Financial Sector Conduct Authority	The main benefits are seen to be an institutional framework that supports a risk-based and outcomes-focused	Support	Proposal to allow the Minister to insert new	Clause 10(1)

	approach to regulation, delivering a safer financial sector with better outcomes for financial customers. The main risks and costs explored in the consultation phase within government have included: potential conflicts between policy objectives and between the mandates of financial sector regulators; potential inconsistencies in implementation as a result of gaps and overlaps in the regulatory framework and in legislation; and the risk of short-term disruption in the financial system during implementation of the new framework.		entities in the Schedules. Proposal to provide for a levy for a financial institution designated under section 2(2) or section 2(3) of the Financial Sector Regulation Act; or **Alleviation of double levy payment in respect of clearing house** A clearing house that is approved in terms of section 110(6) of	Clause 10(2)(c) Schedule 1

			the Financial Markets Act to perform the functions of a central counterparty is liable to pay the levy applicable to a central counterparty, and is not liable to pay the levy applicable to an associated clearing house or an independent clearing house Adjustments to Maximum Cap Amounts	Schedule 2, Table B

Office of the Pension Funds Adjudicator	The main benefits are seen to be an institutional framework that supports a risk-based and outcomes-focused approach to regulation, delivering a safer financial sector with better outcomes for financial customers. The main risks and costs explored in the consultation phase within government have included: potential conflicts between policy objectives and between the mandates of financial sector regulators; potential inconsistencies in implementation as a result of gaps and overlaps in the regulatory framework and in legislation; and the risk of short-term disruption in the financial system during implementation of the new	Support	None	N/A

	framework.			

Financial Advisory and Intermediary Services Ombud	The main benefits are seen to be an institutional framework that supports a risk-based and outcomes-focused approach to regulation, delivering a safer financial sector with better outcomes for financial customers. The main risks and costs explored in the consultation phase within government have included: potential conflicts between policy objectives and between the mandates of financial sector regulators; potential inconsistencies in implementation as a result of gaps and overlaps in the regulatory framework and in legislation; and the risk of short-term disruption in the financial system during implementation of the new framework.	Support	None	N/A

Financial Services Tribunal	The main benefits are seen to be an institutional framework that supports a risk-based and outcomes-focused approach to regulation, delivering a safer financial sector with better outcomes for financial customers. The main risks and costs explored in the consultation phase within government have included: potential conflicts between policy objectives and between the mandates of financial sector regulators; potential inconsistencies in implementation as a result of gaps and overlaps in the regulatory framework and in legislation; and the risk of short-term	Support	None	N/A

	disruption in the financial system during implementation of the new framework.			
Government Departments and Agencies (National Treasury, Reserve Bank and the Financial Services Board, supported by a Financial Regulatory Reform Steering Committee, Financial Intelligence Centre, Department of Health and Council for Medical Schemes)	The main benefits are seen to be an institutional framework that supports a risk-based and outcomes-focused approach to regulation, delivering a safer financial sector with better outcomes for financial customers. The main risks and costs explored in the consultation phase within government have included: potential conflicts between policy objectives and between the mandates of financial sector regulators; potential inconsistencies in implementation as a result of gaps and overlaps in the regulatory framework and in legislation; and the risk of short-term disruption in the financial system during implementation of the new framework.	The FSR Act and accompanying Financial Sector Levies Bill reflects the development of a broad consensus within government and its agencies on proposals for the implementation of a 'Twin Peaks' model as approved by Cabinet in July 2011 and the establishment of the two new regulators *as approved by*	None	N/A

		Cabinet in December 2013.		

Consulted stakeholders outside government

Name of Stakeholder	**What do they see as main <u>benefits, Implementation/ Compliance costs and risks?</u>**	**Do they <u>support</u> or <u>oppose</u> the proposal?**	**What <u>amendments</u> do they propose?**	**Have these amendments been <u>incorporated</u> in your proposal?**
Business (the financial services industry, legal experts, non-governmental organisations and individual South Africans)	The main concerns raised were around the increased regulatory burden on institutions; the risk that a "one-size-fits-all" approach to regulation might be adopted; and the apparent complexity of the framework.	Several stakeholders expressed general support for the objectives of the Bill and the shift to a Twin Peaks model	• **Drafting and Clarification**: further clarification of definitions and key phrases necessary to remove ambiguity; • **Increased costs**: the need for greater clarity on the cost structure and formulae of the new framework and the funding mechanism; clear definitions of the scope of powers and responsibilities of the regulators and the Reserve Bank; and the need for regulators to operate efficiently. • **Need for consultation**: Industry was of the opinion that there is a	• Ambiguous clauses and definitions have been amended to improve clarity and deal with the complex nature of some of the text used in the drafting of the Levies Bill. • Adjustments have been made to the formulas to ensure that the largest players pay more while the smaller players will pay less.

				• Rationalisation between the levies that will be paid across all the regulators by the regulated entities to reduce the cost burden on the regulated entities. • Preliminary breakdown of cost structures has been provided. The quantum of the levy is such that it is expected to cover the cost of regulating the regulated entities.

			greater need for the regulators to be consulted in respect of the regulators' budgets as well as well as formulation of the levies and associated formulae.	• Sections 239 and 240 of the FSR Act which requires for an extensive consultation process by the levy bodies on the budgets and determination of fees.
			None	N/A

Banking Industry	*The banking industry welcomed the establishment of the Fund as well as the revised funding model that significantly reduced the cost burden to banks.*	*The banking industry supported the proposed funding model and proposed deposit insurance levy contained in this Bill.*	*The amendments proposed by the banks mainly related to the funding model and the tax and accounting treatment of contractual deposits that they would make for purposes of building liquidity in the Fund.*	*The proposed amendments are still subject to discussion and would be discussed with the tax unit within the National Treasury for finalisation only after the Corporation and Fund achieve full legal status.*

b) Summarise and evaluate the main disagreements about the proposal arising out of discussions with stakeholders and experts inside and outside of government. Do not give details on each input, but rather group them into key points, indicating the main areas of contestation and the strength of support or opposition for each position

The main disagreement on the proposals in the Act were on the cost to industry due to the levies as well as the administration of the levies. The disagreements were largely addressed in the FSR Act itself. The FSR Act provides that for each financial year, each financial sector body must prepare and adopt a budget in accordance that includes an estimate of its expenditure and a proposal for the fees that will be charged and levies that will be imposed by the financial sector body. The budgets as well as the proposals for fees and levies that the financial sector bodies will prepare yearly are likely going to be disputed by the regulated entities. A balance between the defraying the cost of regulation as well as ensuring that the burden on the regulated entities is managed will need to be struck.

The FSR Act requires the regulators to consult on the budget, estimates of expenditure and the fees and levies proposals for the relevant financial year. This would include an explanation by the regulators of the budget, estimates of expenditure and fees and levies proposals, and of the variation of the budget, estimates of expenditure and the fees and levies proposals against the budget, estimates of expenditure and the fees and levies proposals adopted for the previous financial year. All interested stakeholders can submit comments on the budgets as well as fees and levies proposals.

As mitigation, the Act requires the regulators to take into account all submissions made in respect of the budget as well as the fees and levies proposals, which it receives from the public consultation process with all interested stakeholders. The Act also requires that the financial sector bodies must submit the finalised budget, together with the fees and levies proposals, to the Minister who is allowed a period of at least 30 days to consider the proposals and provide comments, if any. This is also another process through which any possible disputes between the regulators and the regulated entities could also be addressed. The FSR Act also makes provision for disputes concerning the actions and decisions of financial sector regulators. The Financial Services Tribunal, established by the Act, will adjudicate on applications for reviews of decisions taken by financial sector regulators or the Ombud Regulatory Council.

Since 2017 the Reserve Bank has published four discussion papers on the funding model for the deposit insurance fund. Discussions held during this period include the deposit insurance levy (as proposed in this Bill) and a deposit insurance premium (the purpose of the premium is to build up liquidity in the Fund). Furthermore, the National Treasury submitted a report to Cabinet in 2020 on the revised new funding model for the Fund which took into account the public comments from industry after the initial publication of the Financial Sector Laws Amendment Bill. Therefore, there has been ample opportunity for the banks to provide submissions on the deposit insurance levy and they are aware of its formulation and related proposed costs as contained in the Levies Bill. Some proposals from the banking industry on the Bill have been incorporated. The establishment of the Corporation will be in terms of the FSR Act and the provisions on accountability, transparency and due process mentioned above will be applicable to it as well.

2.4. Describe the groups that will benefit from the proposal, and the groups that will face a cost. These groups could be described by their role in the economy or in society. Note: NO law or regulation will benefit everyone equally so do not claim that it will. Rather indicate which groups will be expected to bear some cost as well as which will benefit. Please be as precise as possible in identifying who will win and who will lose from your proposal. Think of the vulnerable groups (disabled, youth women, SMME), but not limited to other groups.

List of beneficiaries (groups that will benefit)	How will they benefit?
Poorest households	The poorest households will benefit from improved market conduct regulation in the financial services sector. Better regulation of the financial services sector can be seen as supportive of financial inclusion efforts. Households that become included in the financial sector will be assured of better customer protection and better customer outcomes. In addition, poor households will also benefit from the enhanced stability of the financial system and this is on the premise that the poorest are vulnerable to financial instability and they are likely to bear the brunt in the event of a financial crisis.
Financial services customers	Many financial sector participants appear insufficiently focused on customer needs and interests. Financial customers are in many instances not able to hold their product providers, sales persons, and advisers accountable for poor treatment. Improved market conduct regulation, funded through the Financial Sector Levies Bill, aims to ensure that customers in the financial sector are better protected and that the financial sector delivers better outcomes for their customers. An improved market conduct framework also aims to ensure that retail financial customers are better informed about financial products and services, about their own financial needs, and what steps to take to enforce their rights, to ensure their effective and protected participation in the financial sector. The operations and functioning of the Prudential Authority, the Financial Sector Authority, the Financial Services Tribunal, and the Financial Services Ombud Schemes Council which are established in terms of the Financial Sector Regulation Bill will be funded by levies which are imposed on the financial sector, as well as through fees which may be charged in relation to specific functions or services that they may perform. In order for the regulators to be able to better hold the financial institutions to account, better funding of the regulators becomes vital hence the purpose of the Levies Bill.

Vulnerable financial customers, youth or women	Vulnerable financial, youth and women would experience indirect benefits in so far as these groups are financial customers.
Small and Emerging Enterprises	A well regulated financial service system will be in a position to play its intermediary role effectively, thus it is better placed for those with excess liquidity to save in the financial system and allow those in need of finance to borrow from the system. This important role for the financial system provides a platform for small and emerging enterprises to borrow and expand their operations. In addition,

	an improved market conduct framework will ensure that financial service providers conduct their activities in a more transparent manner and respond better to their customer needs and interests. This will include the needs and interests of small and emerging enterprises as financial customers.
Rural development	A safer financial sector will be well positioned to serve its population, including objectives such as rural development better. Better financial education and security at household level in rural areas will help in supporting rural development.
Financial Institutions	Financial institutions may face a short-term cost in funding the establishment of new regulators; however, this is not anticipated to be significantly higher than the current costs that industry already incurs in this regard. Despite the increased costs, the new regulatory architecture aims to be more efficient and effective, including in its approach to regulation and supervision. This would be of benefit to financial institutions.
Depositors	*Depositors who have their funds in a bank will benefit from the establishment of CoDI as it will ensure that if a bank fails, payment will be made to depositors within a reasonable period. The Corporation will also ensure that where a bank is liquidated immediately instead of being placed under the management of the Reserve Bank through resolution, depositors will not have to wait a long time for their deposits as creditors in liquidation.* *The Corporation will also be responsible for the management of the Fund to ensure that it is well capitalised (through the adoption of a sound investment policy) and covers enough depositors in the event of any bank failure.* *Once the Fund and Corporation are established, consumer awareness and education on the benefits of the Fund will commence through the Corporation. These responsibilities are contained in the amendments to the Financial Sector Regulation Act (through the Financial Sector Laws Amendment Bill, 2020 that is currently before Parliament).*

List of cost bearers (groups that will bear the cost)	How will they incur / bear the cost
Poorest households	There are no direct costs for poorer households.
Black people, youth or women	No direct costs to black people, youth and women. However, minor cost adjustments might be passed down from the Financial Institution to the customer.
Small and emerging enterprise	No direct costs to small and emerging enterprise. However, minor cost adjustments might be passed down from the Financial Institution to the customer.
Financial services customers	No direct costs to financial services customers. In addition, no new levies are proposed except for a once-off Twin Peaks implementation levy that will be charged on the regulated entities.
Financial institutions	"According to a funding analysis that Treasury working with the regulators conducted, it is estimated that direct cost for the financial institutions under the Twin Peaks system will amount to about R1 551 million per annum. This is a marginal increase from the current cost of about R 1 348 million (a detailed report of the cost implication is attached)" [1]

2.5. Describe the costs and benefits of implementing the proposal to each of the groups identified above, using the following chart. Please do not leave out any of the groups mentioned, but you may add more groups if desirable. Quantify the costs and benefits as far as possible and appropriate. Add more lines to the chart if required.

Note: "Implementation costs" refer to the burden of setting up new systems or other actions to comply with new legal requirements, for instance new registration or reporting requirements or by initiating changed behaviour. "Compliance costs" refers to on-going costs that may arise thereafter, for instance

[1] The difference between the estimated amount and the current cost in 2022/23(using Monetary Policy Committee Review) MPC inflation projections of 4,5 percent by 2023), is R202 million.

providing annual reports or other administrative actions. The costs and benefits from achieving the desired outcomes relate to whether the particular group is expected to gain or lose from the solution of the problem.

For instance, when the UIF was extended to domestic workers:

- *The implementation costs were that employers and the UIF had to set up new systems to register domestic workers.*
- *The compliance costs were that employers had to pay regularly through the defined systems, and the UIF had to register the payments.*
- *To understand the inherent costs requires understanding the problem being resolved. In the case of UIF for domestic workers, the main problem is that retrenchment by employers imposes costs on domestic workers and their families and on the state. The costs and benefits from the desired outcome are therefore: (a) domestic workers benefit from payments if they are retrenched, but pay part of the cost through levies; (b) employers pay for levies but benefit from greater social cohesion and reduced resistance to retrenchment since workers have a cushion; and (c) the state benefits because it does not have to pay itself for a safety net for retrenched workers and their families.*

Group	Implementation costs	Compliance costs	Costs/benefits from achieving desired outcome	Comments
Government	Limited costs to fiscus - funding mechanisms will be introduced by the Financial Sector Levies Bill.	Limited costs to fiscus - funding mechanisms will be introduced by the Financial Sector Levies Bill.	A stable and more inclusive financial sector contributes to Government's objectives on increasing investment, job creation and inclusive growth.	*N/A*
Reserve Bank	Costs of implementation of financial stability role to be covered by SARB general revenue. The cost will be R34. 4 million[2]	Operational costs of financial stability role to be covered by SARB general revenue. The cost will be R34.4 million Operational costs of the Prudential Authority to be funded through levies and SARB revenue. In terms of the 2016 impact assessment study this was R200 million for banking supervision in 2015/6. When adjusted for inflation this would be R250.62 million for 2020/2021.	Clarity in the powers and responsibilities of the Reserve Bank and other financial sector regulators will support the Bank in achieving the objective of financial stability.	*N/A*

[2] Adjusted for inflation from R29 million as per the initial impact assessment study of 2016.

Financial sector regulators	Implementation costs associated with establishing the new regulators and transferring staff and resources from existing regulators. A once-off implementation levy may be imposed to meet costs.	Operational costs of the new regulatory authorities established by the FSR Act to be funded from levies and fees. Some operational costs may arise for other financial sector regulators from the cooperation and consultation required under the FSR Act.	The mandates, powers and responsibilities of regulators and mechanisms for cooperation and consultation established by the FSR Act will better enable regulators to achieve their stated objectives.	

Business: financial institutions	A once-off implementation levy may be raised from financial institutions to cover the costs of setting up the new institutional framework. Financial institutions may need to implement new systems, training and change management processes to comply with the requirements of the new regulatory system. Estimates of costs are not yet available. A pilot study finds that financial institutions expect the overall cost of compliance functions to increase under Twin Peaks, including implementation costs.	Levies and fees will be imposed on financial institutions to cover the operational costs of the financial regulators. Financial institutions will also face internal regulatory compliance costs and additional resources may be required to ensure compliance under the new system. Estimates of net impact relative to existing costs of regulation (levies and compliance costs) are not yet available. A pilot study finds that financial institutions expect the overall cost of compliance functions to increase under Twin Peaks. The estimated cost in terms of the 2016 impact study on the total costs of financial sector regulation in terms of the Financial Sector Regulation Act was calculated at R1,033 million. Adjusted for inflation this amount would now be R1.294 million as at 2020/2021.[3]	Financial institutions will benefit from a stable financial sector underpinned by a more harmonised, consistent and risk- based regulatory framework and level playing field. Financial education and inclusion strategies should benefit those institutions that are able to serve a broader customer base. As regulated entities, financial institutions may face new challenges in complying with a more consistent, risk-based and outcomes-focused regulatory framework, especially in the area of market conduct.	N/A

[3] *Own calculations based on data provided by South African Reserve Bank and Financial Services Board.*

2. Costs associated with prudential supervision of financial market infrastructure are not included in this analysis.

3. No estimates are yet available for the costs of implementing market conduct supervision of retail banking at the FSCA. It is therefore assumed that these costs will be broadly similar to the costs of market conduct supervision of the insurance industry. This approach was used for illustration purposes by PwC in the study on "Twin Peaks Funding Options" for National Treasury in 2014.

4. The reported costs of insurance supervision at FSB have been split into prudential functions - 57% and market conduct functions - 43%. The estimated shares are based on the costs analysis in the PwC study on "Twin Peaks Funding Options" for National Treasury in 2014.

5. Costs expressed as a percentage of the gross value added (GVA) of financial corporations. GVA measures the contribution of a sector to the economy (output less intermediate consumption). Data on GVA of financial corporations is from the production, distribution and accumulation accounts in the South African Reserve Bank Quarterly Bulletin.

Other: financial customers and households	Indirect costs may arise if financial institutions pass implementation costs onto their customers.	Indirect costs may arise if financial institutions pass on the on-going costs of regulation to their customers. Estimates of the impact relative to existing indirect costs of Indirect costs may be offset to the extent that improved market conduct brings down fees and other charges for financial customers.	Financial customers will benefit from a stable financial system that provides appropriate and affordable financial products and services. Awareness, confidence and trust in the financial system should increase. The trade-off with indirect costs that may be passed on to consumers is that South African consumers will have a safer financial sector with a more intrusive regulatory approach from regulators. This will benefit financial customers and create a safer financial sector. Households benefit from the stability of the financial system as a whole, in particular poor households who are vulnerable to the effects of economic shocks.	*N/A*

Banking Industry	The Corporation will be a subsidiary of the Reserve Bank. Therefore, as it is being set up, and upon its attainment of legal status, the central bank will has undertaken to provide CoDI's start-up costs, including funding for its core systems, without requiring CoDI to repay these funds.	An annual deposit insurance levy will be applicable to all registered banks. The levy will be imposed by the Corporation. The deposit insurance levy will amount to 0.015% of covered deposits per registered bank. Where a bank does not have covered deposits for a particular reporting period, a fixed levy of R1000 will be imposed by the Corporation.	The benefit of establishing the Corporation is that once the DIF is up and running, in the event of the failure of a bank, the Corporation will be able to appropriately identify qualifying depositors as per the data collected from the banks and adequately determine the required pay-out without the depositor waiting for months for their funds. Reasonable access to deposits for depositors will be possible.	N/A

2.6 Cost to government: Describe changes that the proposal will require and identify where the affected agencies will need additional resources

a) Budgets, has it been included in the relevant Medium Term Expenditure Framework (MTEF) and

b) Staffing and organisation in the government agencies that have to implement it (including the courts and police, where relevant). Has it been included in the relevant Human Resource Plan (HRP)

There is no cost to government as the costs will be levied on financial institutions through levies, fees and premiums. The Reserve Bank will also continue to provide funding to the PA and CoDI.

Note: You MUST provide some estimate of the immediate fiscal and personnel implications of the proposal, although you can note where it might be offset by reduced costs in other areas or absorbed by existing budgets. It is assumed that existing staff are fully employed and cannot simply absorb extra work without relinquishing other tasks.

2.7 Describe how the proposal minimises implementation and compliance costs for the affected groups both inside and outside of government.

A phased approach to the introduction of the Twin Peaks regulatory system has been adopted in order to minimise disruption to the financial sector, with an extensive consultation process to identify and respond to potential risks around implementation and compliance. In the first phase, the FSR Act will allocate the relevant powers and responsibilities to the new regulators and the Reserve Bank, while existing industry-specific legislation remains in place. In later phases it is anticipated that the legal frameworks for prudential and market conduct regulation will be further developed, harmonised and strengthened.

The Financial Sector Levies Bill seeks to provide for the imposition of a levy on regulated entities in order to provide the necessary funding mechanism to enable the Prudential Authority, the Financial Sector Conduct Authority, the Financial Services Council, and the Financial Services Ombud Schemes Council, the Office of the Pension Fund Adjudicator and the Office of the Financial Services Ombud to be able to fulfil their functions in terms of the Financial Sector Regulation Act and the other financial sector laws.

Despite the ‘Twin Peaks’ commencement on 1 April 2018, for the 2018/2019 financial year, the regulators will continue to be funded in the same manner they have been funded prior to the ‘Twin Peaks’ implementation. The Reserve Bank will fund the Prudential Authority from its own revenues and the Financial Sector Conduct Authority will be funded from the levies using the current mechanism provided for under the FSB Act. The Levies Bill will possible only come into effect for the 2022/2023 financial year. This is aimed at giving the regulated entities enough time to prepare for the new funding regime once the Levies Bill comes into effect.

CoDI will be a subsidiary of the Reserve Bank and will be wholly owned by the central bank. Therefore, there will be no implementation costs that will come from the fiscus. The Financial Sector Laws Amendment Bill provides that the Reserve Bank must provide the Corporation with personnel, accommodation, assets and facilities as well as resources and other services. To reduce the amount that would be levied on banks to fund the operations of the Corporation, staff numbers have been kept at a minimum and more reliance will be placed on systems for monitoring compliance and data collection.

For groups outside of government (add more lines if required)

Group	Nature of cost (from question 2.6)	What has been done to minimise the cost?
Financial Institutions	Fees and levies	The Reserve Bank will continue to provide funding to the PA. The special levy was reduced from 15% to 7.5% which was welcomed by the industry.
Banks	Deposit Insurance Levy	The Reserve Bank will continue to provide funding to the CoDI including secondment of staff, provisions of operational facilities and systems.

For government agencies and institutions:

Agency/institution	Nature of cost (from question 2.6)	What has been done to minimise the cost?
Reserve Bank	The cost for the Reserve Bank is mainly for staff compensation, provision of resources and systems to the PA and CoDI	Once the Levies Bill becomes law, the amount of funding that the Reserve Bank provides to the PA and CoDI will be reduced until levies and fees charged cover the full costs of regulation.

FSCA	The FSCA has largely relied on its reserves since the promulgation of the	Once the Levies Bill becomes law, the amount of the FSCA will no longer have to use it's reserves and levies and fees charged will cover the full cost of regulation.

2.8 Managing Risk and Potential Dispute

a) Describe the main risks to the achievement of the desired outcomes of the proposal and/or to national aims that could arise from implementation of the proposal. Add more lines if required.

b) The main risk to the achievement of the desired outcomes is in the event that a systemic event occurs whether domestic or foreign that destabilises the financial sector and the regulatory authorities are unable to have the operational capacity to appropriately address the situation due to being inadequately funded. An unstable financial system would also have an adverse effect on the financial soundness of regulated financial institutions which in essence would mean that financial institutions would be unable to pay the levies or would have to apply for exemptions. The sooner the framework is implemented the better the industry will be regulated for the benefit of financial customers, investors and the stability of the financial sector. As mentioned above, the estimated difference between the current cost to industry for regulatory compliance and the proposal in terms of the Levies Bill is an estimated R202 million (adjusted for inflation), this implementation cost would not have an adverse socio-economic impact on the financial sector nor the financial sector reforms that National Treasury has been implementing since 2011.

Note: It is inevitable that change will always come with risks. Risks may arise from (a) unanticipated costs; (b) opposition from stakeholders; and/or (c) ineffective implementation co-ordination between state agencies. Please consider each area of risk to identify potential challenges.

c) Describe measures taken to manage the identified risks. Add more rows if necessary.

Mitigation measures means interventions designed to reduce the likelihood that the risk actually takes place.

Identified risk	Mitigation measures
Conflicts between financial sector regulators and the Reserve Bank arise in meeting different objectives and fulfilling responsibilities, leading to inconsistent application of regulation	The FSR Act establishes mechanisms for consultation, collaboration and cooperation to deal with the risk of conflicts that might arise between the regulators. The FSR Act further aims to clearly define the powers and responsibilities of each regulator and the Reserve Bank, taking into account the need for cooperation and the mandate to maintain financial stability.
Complexity of the regulatory framework creates uncertainty within the financial sector regarding changing compliance obligations in respect of the different regulatory entities and different requirements under financial sector legislation.	The public consultation process has helped to identify concerns within the financial sector regarding complexity of the framework and to clarify powers and responsibilities of the new regulators to limit uncertainty. On-going consultation will be needed as the reforms are implemented. The phased approach to implementation of the Twin Peaks regulatory framework reflects a cautious approach to limit disruption, within a long-term agenda of developing a more harmonised and consistent regulatory approach that should support regulatory certainty for the financial sector.
The new regulatory system creates a substantial increase in the compliance burden for financial institutions, raising costs for consumers and stifling the development of new financial products and services.	The FSR Act requires the Prudential Authority and FSCA to take into account the need for a risk-based and outcomes-focused approach when performing their functions. Furthermore, the FSR Act requires the Prudential Authority and the FSCA to regularly review the perimeter and scope of financial sector regulation, and take steps to mitigate risks identified to the achievement of objectives. The Act also requires a consultation process in making regulatory instruments. These requirements should take into account the compliance processes and

	costs faced by financial institutions and the implications for achieving policy objectives.
Regulatory standards fail to achieve their intended objectives in terms of prudential soundness of financial institutions and better outcomes for financial consumers.	Regular review of the perimeter and scope of financial sector regulation by the Prudential Authority and FSCA, as required under the FSR Act, should provide a mechanism for identifying and assessing gaps or weaknesses in regulatory standards. The requirement for the Reserve Bank to monitor strengths and weaknesses in the financial system should also contribute to the identification of risks to these objectives.
Mechanisms for responding to major financial shocks fail to prevent a systemic crisis.	The FSR Act sets out mechanisms and responsibilities relating to systemic events. The Reserve Bank is required to monitor the risks to financial stability, including the risk that systemic events will occur. The Financial Stability Oversight Committee and Financial Sector Contingency Forum will assist in the identification of systemic risks and the coordination of measures to mitigate those risks. These pre-emptive measures will strengthen the crisis management framework. The FSR Act sets out the intervention powers of the Reserve Bank that are triggered by a systemic event or the risk of a systemic event, requirements to consult with the Minister of Finance, and the responsibilities of the financial regulators.

Inadequacy of the deposit insurance levy amount	The purpose of the deposit insurance levy is to fund the operations of the Corporation as well as the administration and maintenance of the DIF. In the event that there are unforeseen circumstances such as a bank failure, or that additional staff are required or critical systems that need to be set up, the Reserve Bank will be able to assist the Corporation to ensure that it is adequately resourced to fulfil its objectives.

d) What kinds of dispute might arise in the course of implementing the proposal, whether (a) between government departments and government agencies/parastatals, (b) between government agencies/parastatals and non-state actors, or (c) between non-state actors? Please provide as complete a list as possible. What dispute-resolution mechanisms are expected to resolve the disputes? Please include all of the possible areas of dispute identified above. Add more lines if required.

Note: Disputes arising from regulations and legislation represent a risk to both government and non-state actors in terms of delays, capacity requirements and expenses. It is therefore important to anticipate the nature of disputes and, where possible, identify fast and low-cost mechanisms to address them.

Nature of possible dispute (from sub-section above)	**Stakeholders involved**	**Proposed Dispute-resolution mechanism**
Fees, levies proposed by financial sector bodies for a specific financial year	Financial Institutions	The FSR Act provides that for each financial year, each financial sector body must prepare and adopt a budget in accordance that includes an estimate of its expenditure and a proposal for the fees that will be charged and levies that will be imposed by the financial sector body. The budgets as well as the proposals for fees and levies that the financial sector bodies will prepare yearly are likely going to be disputed by the regulated entities. A balance between the defraying the cost of regulation as well as ensuring that the burden on the regulated entities is managed will need to be struck.

Nature of possible dispute (from sub-section above)	Stakeholders involved	Proposed Dispute-resolution mechanism
		The FSR Act requires the regulators to consult on the budget, estimates of expenditure and the fees and levies proposals for the relevant financial year. This would include an explanation by the regulators of the budget, estimates of expenditure and fees and levies proposals, and of the variation of the budget, estimates of expenditure and the fees and levies proposals against the budget, estimates of expenditure and the fees and levies proposals adopted for the previous financial year. All interested stakeholders can submit comments on the budgets as well as fees and levies proposals. As mitigation, the Act requires the regulators to take into account all submissions made in respect of the budget as well as the fees and levies proposals, which it receives from the public consultation process with all interested stakeholders. The Act also requires that the financial sector bodies must submit the finalised budget, together with the fees and levies proposals, to the Minister who is allowed a period of at least 30 days to consider the proposals and provide comments, if any. This is also another process through which any possible disputes between the regulators and the regulated entities could also be addressed. The FSR Act also makes provision for disputes concerning the actions and decisions of financial sector regulators. The Financial Services Tribunal, established by the Act, will adjudicate on applications for reviews of decisions taken by financial sector regulators or the Ombud Regulatory Council.
Banks may object to proposed levies by the CoDI to fund its operations and administration of the Deposit Insurance Fund	Banking Industry	Since 2017 the Reserve Bank has published 4 discussion papers on the funding model for the deposit insurance fund. Discussions held during this period include

Nature of possible dispute (from sub-section above)	Stakeholders involved	Proposed Dispute-resolution mechanism
		the deposit insurance levy (as proposed in this Bill) and a deposit insurance premium (the purpose of the premium is to build up liquidity in the Fund). Furthermore, the National Treasury submitted a report to Cabinet in 2020 on the revised new funding model for the Fund which took into account the public comments from industry after the initial publication of the Financial Sector Laws Amendment Bill. Therefore, there has been ample opportunity for the banks to provide submissions on the deposit insurance levy and they are aware of its formulation and related proposed costs as contained in the Levies Bill. Some proposals from the banking industry on the Bill have been incorporated. The establishment of the Corporation will be in terms of the FSR Act and the provisions on accountability, transparency and due process mentioned above will be applicable to it as well.

2.9 Monitoring and Evaluation

The Financial Sector and Deposit Insurance Levies Bill is a Money Bill and forms part of the tax proposals announced by the Minister of Finance during the 2021 Budget Speech. Therefore, a proposed date of 1 April 2022 should mark the beginning of a period whereby the financial sector regulators will be able to collect levies that will be imposed on regulated financial sector entities in terms of the levy formulae outlined in the Schedules of the Bill. Thereafter Chapter 16 of the FSR Act will become operational (by determination of the Minister) in terms of which a specific budgetary process will be followed annually for the charging of fees and levies. The process entails that each financial sector body must prepare and adopt a budget, publish expected fees and levies to be charged and projected estimates of expenditure. This will ensure that unnecessary, unsubstantiated and irrelevant fees and levies are not charged on the industry and every fee and levy that will be proposed will be against a clear budget that the industry can see. The FSR Act provides that the financial sector and the Minister of Finance will be permitted to engage with the regulators and make submissions *vis-a-vis* the proposed budgets and estimates of expenditure that will be published by each financial sector bodies.

the monitoring and evaluation of the new regulatory system is built into the FSR Act. The Reserve Bank is required to monitor the strengths and weaknesses of the financial system and take steps to mitigate any risks to financial stability. Similarly, the Prudential Authority and FSCA are required to regularly review the perimeter and scope of financial regulation and take steps to mitigate any risks to achieving objectives. These monitoring functions should provide mechanisms for identifying any weaknesses or gaps in the regulatory framework that create risks to financial stability. In addition, the mechanisms for consultation and cooperation between financial sector regulators and the Reserve Bank should assist in identifying and resolving instances where regulatory actions aimed at one policy objective create risks for objectives in other areas. Requirements in the FSR Act for the regulatory authorities to provide information to the Minister and National Assembly provide further mechanisms for monitoring the implementation of the regulatory framework.

The FSR Act provides for flexibility to respond to the dynamic nature of the financial sector, through establishing the institutional framework and empowering the Reserve Bank and financial sector regulators to act (subject to any required consultation) in line with their mandated responsibilities. For example, this would include the ability of regulators to set standards and issue directives, which should provide for rapid intervention as risks emerge.

The phased approach to implementation of the 'Twin Peaks' model further provides a transitional period following the establishment of the new regulators to identify the necessary changes to legislation required to move towards a more harmonised and consistent regulatory framework.

The Corporation will be required by law to keep proper account of all its financial transactions, assets and liabilities. It will be a legal requirement that the Corporation prepares audited annual financial statements and transmits them to the Minister of Finance. Once the audited financial statements are compiled together with the annual report of the Corporation, the Minister of Finance will be legally required to table these in Parliament on an annual basis.

In the event that there is a need to make adjustments to the levying formula in the Schedule to the Financial Sector Levies Bill, these changes would be subject to extensive consultation and approval processes like any other tax proposal.

Note: Sound implementation of policy and legislation is due to seamless monitoring and evaluation integration during the policy development phase. Policies and legislation that are proficiently written yet unable to report on implementation outcomes are often a result of the absence of an M&E framework at the policy and legislative planning phase. It is therefore imperative to state what guides your policy or legislation implementation monitoring.

2.9.1 Develop a detailed Monitoring and Evaluation Plan, in collaboration with your departmental M&E unit which should include among others the following:

2.9.1.1 Provide clear and measurable policy or legislative objectives

2.9.1.2 Provide a Theory of Change clearly describing the following components:

- Impact: the organisational, community, social and systemic changes that result from the policy or legislation;
- Outcomes: the specific changes in participants (i.e. beneficiaries) behaviour, knowledge, skills, status and capacity;
- Outputs: the amount, type of degree of service(s) the policy or legislation provides to its beneficiaries;
- Activities: the identified actions to be implemented
- Input: departmental resources used in order to achieve policy or legislative goals i.e. personnel, time, funds, etc.
- External conditions: the current environment in which there's an aspiration to achieve impact. This includes the factors beyond control of the policy or legislation (economic, political, social, cultural, etc.) that will influence results and outcomes.
- Assumptions: the facts, state of affairs and situations that are assumed and will be necessary considerations in achieving success

2.9.1.3 Provide a comprehensive Logical Framework (LogFrame) aligned to the policy or legislative objectives and the Theory of Change. The LogFrame should contain the following components:

- Results (Impact, Outcomes and Output)
- Activities and Input
- Indicators (A measure designed to assess the performance of an intervention. It is a quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a development actor)
- Baseline (the situation before the policy or legislation is implemented)
- Targets (a specified objective that indicates the number, timing and location of that which is to be realised)

2.9.1.4 Provide an overview of the planned Evaluation, briefly describing the following:

- Timeframe: when it the evaluation be conducted
- Type: What type of evaluation is planned (formative, implementation or summative) – the selection of evaluation type is informed by the policy owners objective (what it is you want to know about your policy or legislation.

2.9.1.5 Provide a straightforward Communication Plan (Note: a common assumption is that the target group will be aware of, and understand how to comply with a policy or legislation come implementation. However, increases in the complexity and volume of new or amendment policy or legislation render this assumption false. Hence, the need for a communication plan to guide information and awareness campaigns to ensure that all stakeholders (including beneficiaries) are informed.

2.10 Please identify areas where additional research would improve understanding of then costs, benefit and/or of the legislation.

Extensive research and consultation since 2017 to date, has informed the development of the FSR Act and all associated Bills including the Financial Sector Laws Amendment Bill which will establish CoDI and the deposit insurance fund. Further implementation for levying members of the deposit insurance corporation will be effected through regulatory standards. The process for charging fees and levies going forward will be in terms of Chapter 16 of the FSR Act which provides that financial sector regulators must publish their budgets, estimates of expenditure and proposed fees and levies for each financial year for purposes of public scrutiny and transparency. The Act further requires that financial sector regulators must take into account submissions made in respect of the budget as well as the fees and levies proposed. The Minister of Finance is allowed to scrutinise the levying proposals from financial sector regulators and provide comments. The process of the approval of the levies and fees to be charged by financial sector regulators will be a continuously engaging exercise that will be transparent and flexible.

PART THREE: SUMMARY AND CONCLUSIONS

1. Briefly summarise the proposal in terms of (a) the problem being addressed and its main causes and (b) the measures proposed to resolve the problem.

The problem that the Bills seek to address is the funding of financial sector bodies that provide a regulatory function in the financial sector. After the introduction of the twin peaks system of financial sector regulation that was adopted via the promulgation of the FSR Act in 2017, it became necessary to ensure that the PA and FSCA are well resourced and capacitated in order to fulfil their regulatory functions adequately. This necessity was made all the more urgent in the aftermath of the 2007/2008 global financial crisis that resulted in South Africa entering a recession and the need for a more robust and intrusive approach to financial sector regulation in South Africa to make the sector safer for financial customers and stable. South Africa is in the process of establishing its first ever deposit insurance fund. In order for the fund to be managed effectively, it will be necessary to establish a public entity to administer the fund. The Financial Sector and Deposit Insurance Levies Bill, will address the gaps in the financial sector for the funding of financial sector bodies as well as CoDI.

2. Identify the social groups that would benefit and those that would bear a cost, and describe how they would be affected. Add rows if required.

Groups	How they would be affected
Beneficiaries	
1. Financial customers	A financial sector which works in the interests of customers which will also be well regulated
2. Financial institutions	There will be a more harmonised and consistent approach to financial regulation and supervision to maintain financial stability and provide a competitive playing field based on sound standards of conduct and integrity.
3. Reserve Bank	The proposed Levies Bill provides for a mechanism that will allow the PA and the Corporation to recover these levies from the financial institutions that will be regulated including banks as members of the Fund. The Reserve Bank will not have to provide funding to these entities in the long term
4. Financial Sector Conduct Authority	The proposed Levies Bill provides for a mechanism that will allow the Financial Sector Conduct Authority (FSCA) to recover these levies from the financial institutions that it will regulate
Cost bearers	
1. Financial Institutions	Financial Institutions will have to pay fees and levies to financial sector bodies that will be responsible for regulating them in terms of the FSR Act
2. Banks	Banks will have to pay a deposit insurance levy to the CoDI which will enable the entity to cover its operational costs as well as cost of administration for running the deposit insurance fund

3. Reserve Bank	The Reserve Bank will continue to provide funding to the PA and CoDI in the short term

3. What are the main risks from the proposal in terms of (a) undesired costs, (b) opposition by specified social groups, and (b) inadequate coordination between state agencies?

   There is no risk from the perspective of undesired costs as government will not incur any costs as a result of the Levies Bill. Financial institutions have been consulted on various versions of the Bill since 2018 and a number of cost reduction exercises were undertaken to take into consideration their opposition e.g. the special levy was reduced from 15% to 7.5% and the Reserve Bank has undertaken to bear some of the funding costs for CoDI and the PA. The National Treasury and the regulators have worked very well on the provisions of the Bill including some of the refinements that are contained in the 2021 version. All area of disagreement have been resolved.

4. Summarise the cost to government in terms of (a) budgetary outlays and (b) institutional capacity.

   There are no budgetary costs to government as the financial sector will bear most of the funding requirements for the regulators and the Reserve Bank will also continue to fund the PA and CoDI in the short term.

5. Given the assessment of the costs, benefits and risks in the proposal, why should it be adopted?
   The proposal should be adopted because if the regulators are unable to regulate the financial sector efficiently and more effectively, it will be far easier for systemic events to occur that can cripple not just individual financial institutions but the economy as well. Furthermore, financial customers will be vulnerable and together with their funds, held at financial institutions as well.

Please provide two other options for resolving the problems identified if this proposal were not adopted.

Option 1.	Funding from government and disbanding some of the financial sector regulators

Option 2.	The Reserve Bank continues to fund the PA and CoDI and the FSCA continues to fund itself using its reserves

6. What measures are proposed to reduce the costs, maximise the benefits, and mitigate the risks associated with the legislation?

- Further harmonisation of financial sector legislation in the second phase of the Twin Peaks reforms is seen as an important component of maximising the benefits of the new institutional framework set out in the FSR Act.
- Continued consultation with stakeholders on further regulatory reforms (prudential and market conduct) will be needed to support the intended outcomes of the FSR Act, taking into account the impact of regulatory change on financial institutions.
- Monitoring and evaluation at the new regulatory authorities and within the various forums for collaboration should assist in identifying any legislative changes needed to further clarify powers and responsibilities, especially during the implementation phase.
- Existing regulatory staff who will move into the new regulatory authorities may require training and support to successfully transition to the new institutional framework and the associated risk-based and outcomes-focused approach to regulation (a change management process).
- Financial institutions and consumers will need to be fully informed of their rights and obligations under the new regulatory framework.
- The Bill should be approved by Cabinet and Parliament as soon as possible in order to ensure that the Corporation is up and running and able to collect levies from the banking industry to manage the Fund in order to make sure that depositor's savings are covered in the event of a bank failure which would reduce costs on the fiscus and industry. Once the Corporation is established, it will also be able to raise consumer awareness campaigns on the new protections for depositors in connection with their deposited funds.

7. Is the proposal (mark one; answer all questions)

	Yes	No
a. Constitutional?	Yes	
b. Necessary to achieve the priorities of the state?	Yes	
c. As cost-effective as possible?	Yes	
d. Agreed and supported by the affected departments?	Yes	

8. What is the impact of the Proposal to the following National Priorities?

National Priority	Impact
1. Economic transformation and job creation	The financial sector plays a crucial role in the economy and is a key contributor to GDP growth and job creation. It also has the potential to negatively affect the economy as demonstrated during the 2007/2008 global financial crisis if it is not appropriately regulated. Therefore, a well regulated financial sector will ensure that the sector can continue to grow and play a vital role in growing the economy. Therefore, there is a need for well capacitated and well-funded financial sector regulators that can effectively regulate the financial sector in South Africa. Small banks play an important role in the South African banking sector which is very concentrated and dominated by a handful of big dominant banks. In order for the sector to transform, smaller and more diversified banks that are suited to a range of types of financial customers need to be *established.* A deposit insurance fund would provide confidence for financial customers where smaller banks are concerned that their deposits would be safe.

	The introduction of a deposit insurance scheme that will be managed by the Corporation for Deposit Insurance (CoDI) will ensure that depositors are protected when a bank fails. The CoDI will ensure that the deposit insurance fund is administered properly for the benefit of financial customers. The establishment of a deposit insurance fund will ensure that the socio-economic disruption of a failing bank will be minimised.

National Priority	Impact
2. Education, skills and health	N/A
3. Consolidating the social wage through reliable and quality basic services	N/A
4. Spatial integration, human settlements and local government	N/A
5. Social cohesion and safe communities	N/A
6. Building a capable, ethical and developmental state	N/A
7. A better Africa and world.	N/A

National Priority	Impact

For the purpose of building a SEIAS body of knowledge please complete the following:

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