ANNUAL REPORT

FSB
FINANCIAL SERVICES BOARD

FSCA
Financial Sector Conduct Authority

FINANCIAL SERVICES BOARD

FINANCIAL SERVICES BOARD: 27 YEARS OF EXCELLENCE

THE BEGINNING

The dramatic collapse of the large short-term insurer AA Mutual in 1986 triggered a series of actions that eventually led to the founding of the Financial Services Board (FSB).

A Commission of Enquiry, appointed to investigate the collapse and make recommendations on how to avoid similar collapses in the future, recommended that a separate regulatory entity be established.

The Financial Services Board Act, 97 of 1990 was eventually promulgated, creating the FSB.

GROWTH YEARS

The FSB began operating on 01 April 1991.

Throughout the years, the South African financial services sector continued growing and so too the FSB. Its mandate widened and its staff establishment increased from 70 positions in March 1992 to 625 in March 2018. During the 27 year period, the FSB operated under the following leadership:

CHAIRPERSON OF THE BOARD	EXECUTIVE OFFICER
Judge D.A. Melamet (Oct 1990 – Jun 1993)	Mr P. Badenhorst (Apr 1991 – March 1996)
Dr C.J. de Swardt (Jul 1993 – Jun 1999)	Mr R.G. Cottrell (Apr 1996 – Jun 2000)
Ms G. Marcus (Jul 1999 – Feb 2004)	Mr J. van Rooyen (Jul 2000 – Jun 2005)
Dr C.D.R. Rustomjee (March 2004 – Jan 2009)	Mr R. Barrow (Jul 2005 – Jun 2008)
Mr A. Sithole (Feb 2009 – March 2018)	Mr D.P. Tshidi (Jul 2008 – March 2018)

KEY ACHIEVEMENTS

Retirement Funds and Friendly Societies

1996 Members get more say in the management of pension funds: boards of management are made compulsory and members must elect 50% or more, of trustees.

1998 Members get alternative recourse: the statutory office of the Pension Funds Adjudicator is established to investigate and decide complaints.

2001 Minimum benefit requirement: Surplus legislation is effected from 07 December, leading to the apportionment of R50bn surplus to relevant stakeholders. Thousands of people benefit from allocations.

2002 FSB creates deputy registrar position: new executive area is dedicated to service the retirement fund sector.

2005 Illegal bulking is uncovered: Administrators are forced to return illegally obtained benefits.

2008 Pension Funds Act is amended after the Fidentia scandal: amendment requires that beneficiary funds be registered and introduces definition of unclaimed benefits.

2017 FSB launches unclaimed retirement benefits search engine: people can find retirement benefits due to them. As at 31 March 2018, 1 141 funds have approximately R42bn unclaimed benefits.

2018 Number of registered funds stand at 5 118 funds, of which 1 608 are active: these funds have assets amounting to R2, 431bn (an increase from R1 27.3bn in 1991) assets on behalf of 14,7 million (an increase from 6 555 456 in 1991) members.

FAIS and Consumer Education

2002 FSB launches department dedicated to consumer education: amendment to the Financial Services Board Act, 1990, extended the legal functions of the FSB to include the promotion of consumer financial awareness and education.

2002 The Financial Advisory and Intermediary Services ("FAIS") Act is enacted: makes way for regulation and supervision of financial intermediaries, including advisors.

2004 Licensing of advisors and intermediaries starts: between 2002 and 2004, subordinate legislative requirements are put in place and from 30 September 2004, FAIS licence is mandatory. Over the years, number of categories of advisors and intermediaries grows from three to five.

2005 FSB establishes the Consumer Education Foundation with external trustees: foundation to assist with funding of consumer awareness and education projects.

FSB creates executive position responsible for FAIS and Consumer Education.

2008 Compulsory regulatory exam is introduced as part of the fit and proper requirements: this serves to professionalise the advisory and intermediary community.

Capital Markets

1991 FSB starts regulating the Johannesburg Stock Exchange (JSE) and the South African Futures Exchange (SAFEX): turnover in shares on JSE grows from R22.7bn (1991) to R5 790bn (2017).

From **1991** up until recently, the FSB contributed to South Africa being ranked first (for regulation of securities exchanges) in the World Economic Forum's Global Competitiveness Survey.

1996 FSB broadens scope: Informal Bond Market Association is licensed as the third exchange, the Bond Exchange of South Africa (BESA).

1999 FSB licenses STRATE: the central securities depository for equities. 2003, STRATE merges with UNEXCor, which results in bond settlements being integrated into STRATE operations.

2003 alternative exchange (ALTx) is launched for small and mid-sized listings.

2005 YIELDx launched for interest rate and currency instruments.

2005 JSE is demutualised and in **2006** became a public company listed on itself.

2005 FSB oversight of market abuse activities is enhanced through the Directorate of Market Abuse: Insider Trading Act becomes effective in 1999 and in 2005 is incorporated into the Securities Services Act, 2004, thus enhancing FSB's oversight. FSB creates own department focusing on market abuse.

2009 JSE merges with BESA.

2012 Credit Rating Services Act, 2012, is enacted and 4 agencies registered during 2013 and 2014: this was in response to G20 request for worldwide regulation of the agencies, following the 2008 financial crisis.

2013 to **2018** Since enactment of Financial Markets Act, 2012, the following companies were licensed as exchanges: ZARX (2016); 4AX (2016); A2X (2017); EESE (2017) and Granite (2017) as a central securities depository.

FINANCIAL SERVICES BOARD

FINANCIAL SERVICES BOARD: 27 YEARS OF EXCELLENCE

Insurance

1991 to 2018 FSB successfully oversees growing insurance industry: a comparison between 1991 and 2018 illustrates this growth.

1991	vs	2018
53 registered short-term insurers with total nett premium income amounting to R8bn		41 registered long-term or life insurers with total assets of R 171 623m.
96 registered short-term insurers with total nett premium income (excluding Sasria) R86.8bn (unaudited 2017).		78 long-term insurers administering R2 914.5bn in assets.

2010 to 2018 FSB revisits the policy protection rules (PPR's) regularly: focus is on treating customers fairly and enhancing market conduct regulation. FSB also increases supervision on insurance and micro-insurance companies.

2010 FSB introduces sophisticated asset management tool, namely the Solvency Assessment and Management (SAM): it is based on the principles of the solvency tool directive adopted by the European Parliament.

2012 FSB commenced process of aligning and revising the registration conditions of cell captive insurers: to enable informed decisions in respect of this alignment and revision, a detailed assessment is undertaken resulting in a discussion paper released in 2013.

Collective Investment Schemes

1991 to 2018 Collective investment schemes sector (formerly known as unit trusts) grows exponentially: due to a) collective investments' popularity for wealth creation; b) due to 1995/96 introduction of bulking platforms (known as linked investment service providers); and c) advent of 'white label' or 3rd party funds during 1999.

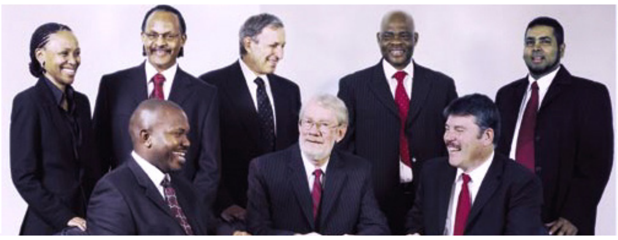
1991	vs	2018
20 management companies with 41 securities portfolios [gross value of investments R11 387m] and 60 property share portfolios [gross value of investments R4 879m] 35 participation bond schemes registered		50 management companies in securities, other than property, with 1 601 portfolios [gross value of investments R2.18 trillion]. For collective schemes in property the comparable figures are R8,3 billion.

1999 FSB starts regulating linked investment service providers (LISPS).

2002 Collective Investment Schemes Control Act, 2002, replaces Unit Trust Control Act, 1981: South Africa comes in line with international development.

2015 Regulated hedge funds are introduced as part of the collective investment scheme boutique: assets under management on 31 March 2018 amounted to R91bn; 15 management companies.





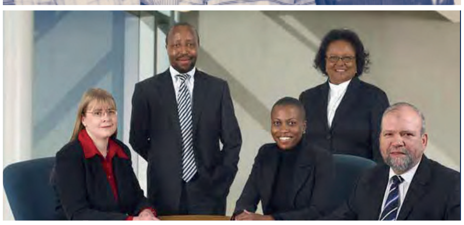

CONCLUSION

Over the 27 years of its existence, the FSB contributed significantly to ensuring that the South African financial services industry ranked amongst the best regulated in the world. This ensured international confidence and enhanced the inflow of direct foreign investment into our economy.

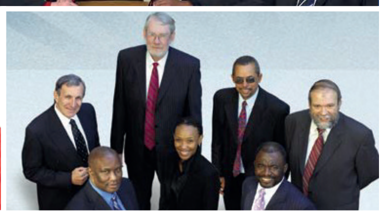
While our regulatory system served us well, the financial crisis and global economic meltdown in 2007/08 led National Treasury to adopt the Twin Peaks model of financial regulation, which led to the end of the FSB and the establishment of the Financial Sector Conduct Authority (FSCA).
A new era begins.










ABOUT THE FINANCIAL SERVICES BOARD

WHO WE ARE

The Financial Services Board (FSB) was an independent institution that operated between 1991 and 31 March 2018 to oversee the South African non-banking financial services industry. Its mission and vision were to promote and maintain a sound financial investment environment in South Africa for the benefit of the public. The institution officially became the Financial Sector Conduct Authority (FSCA) on 1 April 2018 in line with the Twin Peaks financial sector regulatory reforms.

WHAT WE DO

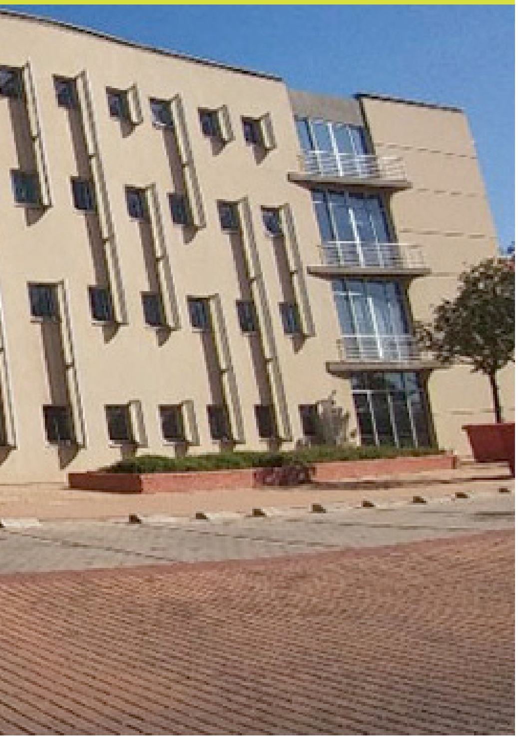
The FSB existed to ensure that all South Africans were treated fairly by financial services providers and could enjoy a safe investment environment.

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

This report is the last annual report of the FSB and covers the last year of its operations, namely the period between 1 April 2017 and 31 March 2018.

The FSB ceased to exist on 31 March 2018. It was replaced by the FSCA on 1 April 2018.

CONTENTS



PART A

GENERAL INFORMATION

SCOPE OF REPORT

In this report the Financial Services Board (FSB) presents a balanced view of its financial and non-financial performance for the year ended 31 March 2018. It follows the annual report for the year to 31 March 2017.

In this report the FSB presents a balanced view of its financial and non-financial performance for the year ended 31 March 2018. It follows the annual report for the year to 31 March 2017.

The FSB was a public entity, mandated by the South African Government to supervise and enforce compliance with specific laws regulating financial institutions and to promote financial education and awareness about related products, institutions and services. Its broad jurisdiction is detailed on page 7. As a public entity, its financial statements were prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the Public Finance Management Act (PFMA as amended by Act 29 of 1999). Non-financial disclosure was guided by the King IV Report on Corporate Governance for South Africa 2016 and the framework of the International Integrated Reporting Council (IIRC).

While the scope of this report covers all the FSB activities, forward-looking disclosures are limited because of regulatory reforms. With the enactment of the Financial Sector Regulation Act in August 2017 and subsequent gazetting of the commencement of the Act on 1 April 2018, the FSB ceased to exist on 31 March 2018 and the FSCA was established as a dedicated market conduct regulator as envisaged by the Twin Peaks model which aims to introduce a new approach to financial regulation in South Africa to create a more resilient and stable financial system and ensure consumer protection and appropriate market conduct in the financial services sector.

As a public entity, the FSB was stringently monitored. The Auditor-General conducted a comprehensive audit of our financial and non-financial performance against targets and benchmarks, with the FSB receiving a clean audit report for the past three financial years and an unqualified audit opinion for the past 27 years.

Statement of responsibility and confirmation of accuracy for the Annual Report

To the best of our knowledge we confirm the following:

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

In our opinion, the annual report fairly reflects the operations, performance information, human resources information and financial affairs of the FSB for the year ended 31 March 2018.

Mr AM Sithole
Chairperson of the Board

LIST OF ABBREVIATIONS/ACRONYMS

AA	Affirmative Action
AAISA	Association of African Insurance Supervisory Authorities
AFS	Annual Financial Statements
AIO	African Insurance Organisation
ASB	Accounting Standards Board
ASSA	Actuarial Society of South Africa
BATSETA	Council of Retirement Funds for South Africa
BBBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BESA	Bond Exchange of South Africa
CCI	Consumer Credit Insurance
CCP	Central Counterparty
CED	Consumer Education Department
CIS	Collective Investment Schemes
CISCA	Collective Investment Schemes Control Act
CISNA	Committee of Insurance, Securities and Non-banking Financial Authorities
CPD	Corporation for Public Deposits
CPR	Comprehensive Parallel Run
CRA	Credit Rating Agency
CRSD	Credit Rating Services Department
CSD	Central Securities Depositories
DAC	Department of Arts and Culture
DMA	Directorate of Market Abuse
DPW	Department of Public Works
dti	Department of Trade and Industry
EC	Enforcement Committee
EPWP	Expanded Public Works Programme

ERP	Enterprise Resource Planning
ESMA	European Securities and Markets Authority
ETP	Electronic Trading Platform
EU	European Union
EWP	Employee Wellness Programme
Exco	Executive Committee
FAIS	Financial Advisory and Intermediary Services
FCIS	Foreign Collective Investment Schemes (in securities)
FICA	Financial Intelligence Centre Act
FSAP	Financial Sector Assessment Programme
FSCA	Financial Sector Conduct Authority
FSP	Financial Services Provider
FSRA	Financial Sector Regulation Act
GLEIF	Global Legal Entity Identifier Foundation
GRAP	Generally Recognised Accounting Practice
HoD	Head of Department
HSRC	Human Sciences Research Council
IAA	International Actuarial Association
IAIS	International Association of Insurance Supervisors
ICT	Information and Communications Technology
IIRC	International Integrated Reporting Council
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IRBA	Independent Regulatory Board for Auditors
ISAS	International Standards on Auditing
IT	Information Technology
JSE	Johannesburg Stock Exchange

LEI	Legal Entity Identifier
LISPs	Linked Investment Service Providers
LOU	Local operating unit
NLRD	National Learner Records Database
ORSA	Own-Risk and Solvency Assessment
OTC	Over-the-counter
PAA	Public Audit Act
PBSS	Pension Benefits and Social Security
PFA	Pension Funds Adjudicator
PF Act	Pension Funds Act
PFMA	Public Finance Management Act
PPE	Property, Plant and Equipment
PPR	Policyholder Protection Rules
RDR	Retail Distribution Review
RE	Regulatory Examinations
RSC	Regulatory Strategy Committee
SAICA	South African Institute of Chartered Accountants
SADC	Southern African Development Community
SAM	Solvency Assessment and Management
SARB	South African Reserve Bank
SASAS	South African Social Attitude Survey
SCOF	Standing Committee on Finance
SWOT	Strengths, Weaknesses, Opportunities and Threats
TCF	Treating Customers Fairly
TCS	Terminology Coordination Services
TMS	Terminology Management System
TTK	Trustee Training Toolkit
UOLA	Use of Official Languages Act

CREATING VALUE FOR ALL STAKEHOLDERS

LONG-TERM FINANCIAL STABILITY

Learning and growth

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

FINANCIAL SERVICES INDUSTRY

Regulated entities

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

INTERNAL PROCESS

Operational effectiveness

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

Partnership management

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

Regulatory confidence

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

FINANCIAL SERVICES BOARD IN PERSPECTIVE

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

ROLE AND PURPOSE

The FSB goal was to ensure that consumers of financial services were treated fairly by financial services providers, and could enjoy a safe investment environment.

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

After more than 26 years of regulating the non-banking sector of South Africa's financial services industry, the FSB was acknowledged as a reputable authority in this field, locally and internationally. Over the years, it contributed to the stability of this industry while meeting its mandate of protecting consumers of financial products and services.

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

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

FINANCIAL SERVICES BOARD IN PERSPECTIVE

KEY MILESTONES

1991
FSB established as an independent body to supervise and regulate the non-banking financial services industry in the public interest. Mandated to ensure regulated entities comply with legislation and capital adequacy requirements. By promoting the financial soundness of these entities, we protect the broader investing community.

1996
FSB approved application to formalise a bond exchange (BESA), the first in the world. BESA converted to a public company in 2007 and merged with the JSE in 2009.

1998
South Africa's two largest insurers demutualised.

1999
New acts for long and short term insurance introduced more stringent controls.

2001
The Financial Intelligence Centre Act (FICA) added another dimension to our jurisdiction by incorporating relevant aspects into our regulatory framework. Pension Funds Second Amendment Act 2001 (surplus legislation) promulgated.

2004
The Financial Advisory and Intermediary Services Act (FAIS Act) expanded our mandate to include aspects of market conduct in the banking industry, excluding retail banking. Approved application to develop a sophisticated central securities depository structure and clearing house (Strate).

2005
Approved application to demutualise the Johannesburg Stock Exchange, leading to its successful listing.

2009
Work started on new risk-based solvency regime for the South African insurance industry, with implementation targeted for 2016.

ACTS ADMINISTERED BY THE FINANCIAL SERVICES BOARD

- Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002)
- Credit Rating Services Act, 2012 (Act No. 24 of 2012)
- Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002)
- Financial Institutions (Protection of Funds) Act, 2001 (Act No. 28 of 2001)
- Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001)
- Financial Markets Act, 2012 (Act No. 19 of 2012)

2011

Treating Customers Fairly (TCF) concept introduced, and incrementally embedded in regulatory and supervisory frameworks. Work started on Twin Peaks model to separate oversight into market conduct and prudential regulation, while aligning South Africa with global best practice.

2014

Release of Financial Sector Regulation (FSR) Bill, providing legislative framework for new Twin Peaks model and establishment of a Prudential Authority (in the South African Reserve Bank - SARB) and a Financial Sector Conduct Authority (the new FSB).

2015

Results of our retail distribution review released for discussion, with broad reforms proposed for the regulatory framework for distributing retail financial products. Hedge funds were declared by the Minister of Finance as Collective Investment Schemes, following which the Registrar of Collective Investment Schemes determined the regulations for hedge funds, with an effective date of 1 April 2015.

2016

The FSR Bill and the Market Conduct Policy Framework document – the two key documents necessary for the Twin Peaks model – were approved by Cabinet and are set to be tabled in Parliament.

2017

The FSR Bill has been passed by Parliament. This marks significant progress towards the implementation of the Twin Peaks model.

2018

Preparations for regulatory reforms gains pace. Retail Distribution Review (RDR) is launched. FSR Act passed in August 2017. After 27 years of providing regulatory oversight, the tenure of the FSB ends on 31 March 2018.

- Financial Services Board Act, 1990 (Act No. 97 of 1990)
- Financial Services Ombud Schemes Act, 2004 (Act No. 37 of 2004)
- Financial Supervision of the Road Accident Fund Act, 1993 (Act No. 8 of 1993)
- Friendly Societies Act, 1956 (Act No. 25 of 1956)
- Inspection of Financial Institutions Act, 1998 (Act No. 80 of 1998)
- Long-term Insurance Act, 1998 (Act No. 52 of 1998)
- Pension Funds Act, 1956 (Act No. 24 of 1956)
- Securities Services Act, 2004 (Act No. 36 of 2004)
- Short-term Insurance Act, 1998 (Act No. 53 of 1998)

FOREWORD BY THE MINISTER OF FINANCE

After 27 years of supervising and enforcing compliance with laws regulating non-banking financial institutions and providers of financial services in South Africa, the tenure of the Financial Services Board came to an end on 31 March 2018 with the formal adoption of the Twin Peaks approach to financial regulation.

The Twin Peaks approach to regulation is characterised by separate prudential and market conduct regulators. The Financial Sector Regulation Act was implemented on 1 April 2018, thus creating the Prudential Authority as well as the Financial Sector Conduct Authority.

On 1 April 2018, the Financial Sector Conduct Authority (FSCA) took over the operations of the Financial Services Board (FSB) in line with its mandate to regulate market conduct in the financial sector.

The journey to strengthen the South African financial regulatory environment commenced in 2011, in the aftermath of the 2007/8 global financial crisis. The financial sector reforms took into account lessons arising from the crisis and also broader policy objectives of maintaining financial sector stability, protecting customers of financial services and ensuring affordable, efficient and effective financial services were accessible to all.

Given the need for economic growth and job creation, it became imperative that the South African financial system be made safer through regulation that follows global best practice. It is envisaged that the enactment of the Financial Sector Regulation Act – and the forthcoming Conduct of Financial Institutions Act – will provide the necessary legal platform to underpin a more intrusive and proactive approach to the regulation of the financial sector thereby enhancing confidence in our financial markets, both to our citizens and to international investors.

"I am mindful that the financial services industry in our country remains largely untransformed and the majority of our people remain excluded from it. The FSCA has a critical role to help transform this industry. Financial inclusion and the formulation and implementation of strategies for financial education for the public are stated objectives of the financial sector reforms."

I would like to express my gratitude to the Executive Officer, Adv Dube Tshidi, for his leadership of the FSB, in particular for ensuring that service delivery by the FSB was not impacted by the enormous amount of work that went into preparing for readiness to transition to the FSCA. I would also like to express my gratitude to the Executive Committee and staff of the FSB for their dedication, commitment and hard work over the years in ensuring a sound and trusted financial services and investment environment in our country.

Mr Nhlanhla Nene, MP

Minister of Finance

30 June 2018

CHAIRPERSON'S REPORT

"The importance of financial regulation continues to preoccupy our financial sector both here at home and abroad. The Twin Peaks regulatory model, which aims to strengthen the financial sector, has begun to yield positive results in most of the countries where it has been adopted."

South Africa is the first country on the African continent to pioneer this approach to the regulation of the financial sector. We are confident that this is the most appropriate intervention for our South African environment to manage the financial stability and ensure that customers of financial services are fairly treated, thereby ensuring confidence in this sector.

As the Chairperson of the former Financial Services Board (FSB), I can confirm that we exercised the role of a central oversight over the activities of the former FSB, ensuring that it delivered effectively on its legislative mandate to regulate the non-banking financial sector. The Board exercised the highest standards of corporate governance and ensured that the institution's operations were conducted ethically, within prudent risk parameters and in pursuit of the best financial outcomes for the industry.

CHARTING A NEW PATH

One of the key highlights of this transitional journey has been the establishment of the Financial Sector Conduct Authority (FSCA) in April 2018 with a mandate different from that of the erstwhile FSB. It marked the dawn of a new era that will require all hands on deck. To this end, the former FSB Executive Committee together with Ms Gibson and myself, empowered by the Financial Sector Regulation Act (FSRA), have been managing the transition to the new regulator and ensuring that regulatory activities continued uninterrupted while the Executive Committee of the FSCA is being put into place.

Oversight during the transitional period is being provided by a Transitional Management Committee which is temporarily headed by me as the Acting Commissioner, while a permanent incumbent is being sourced.

The objective of the FSCA is to enhance and support the efficiency and integrity of the financial system and protect financial customers. As a market conduct regulator, the FSCA has particular focus on the most vulnerable customers, namely retail clients or consumers.

Consumers often lack the sophistication and information necessary to protect them from fraud or market abuse and rely on financial institutions and their representatives to look after their interests. The outcomes-focused market conduct regulatory and supervisory approach seeks to protect consumers by ensuring that financial institutions demonstrate that they consistently treat their customers fairly in their provision of financial products and services.

In its ongoing supervision of regulated entities, the FSB pursued a risk-based approach. This approach considers a number of options (including but not limited to size, turnover, and nature of activities) in determining the intensity of supervisory oversight. This approach will be further enhanced under the FSCA, with a particular requirement on the regulator to be pre-emptive and proactive in dealing with potential risks to customer outcomes before they become problems.

IMPORTANCE OF FINANCIAL EDUCATION

The low levels of financial literacy in our country is one of the reasons why consumers of financial services and products continue to be exploited and/or make wrong financial decisions. The FSRA places particular emphasis on financial education to raise financial literacy and through our Consumer Education Department, we will continue to partner with strategic stakeholders from both the public and private sectors to deal with this challenge. Over 45 000 consumers were reached through various platforms during 2017/18 financial year. We hope to significantly increase this number as the FSCA, going forward.

While the term of the FSB Board came to an end with the disestablishment of the FSB on 31 March 2018, the legislation establishing the FSCA provided for the Board to continue to oversee the approval and finalisation of the FSB annual reporting for the financial year ended on that date. The board meeting to approve the annual financial statements of the FSB for the year ended on 31 March 2018 was therefore the last meeting of the FSB board. As already mentioned, during the transition period and until the Commissioner and deputy Commissioners are appointed by the Minister, governance oversight will be provided by the Transitional Management Committee.

I wish to thank the staff of the FSB, now transferred to the FSCA and the Prudential Authority, for their exemplary service to the institution over the years and in particular Advocate Dube Tshidi, for his exemplary leadership as Executive Officer of the FSB; the National Treasury for providing stewardship and guidance; as well as the departing Board members for their selfless service.

Abel Sithole

Chairman of the former FSB Board

EXECUTIVE OFFICER'S REPORT

"This time last year, we reported on the promulgation of the Financial Sector Regulation (FSR) Act, the legislation that underpins the Twin Peaks model of financial regulation and establishes the Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA). Both entities were established on 1 April 2018 and have been formally launched to external stakeholders."

TRANSITION TO THE FSCA

During the year under review, a great deal of time and effort was spent preparing the FSB for its transition towards becoming the new market conduct regulator.

With the tenure of the FSB ending on 31 March 2018, significant focus was put on ensuring a smooth transition and designing an appropriate operating structure for the new entity which will enable it to deliver effectively on its regulatory mandate. I will touch on the more significant matters dealt with during the year.

In terms of the FSR Act, the prudential regulatory oversight previously performed by the FSB over the long and short term insurance industry was transferred to the Prudential Authority, the FSB was disestablished and the FSCA was established as the market conduct regulator mandated to take over the remaining business operations of the FSB. Following the transfer of the prudential regulatory oversight of short and long term insurers, the affected FSB departments including 55 staff members which were responsible for this function, were relocated to the Prudential Authority.

In terms of the FSR Act the objectives of the FSCA may be summarised as:

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

While the FSB regulated the non-banking financial services sector, the regulatory scope of the FSCA is more extensive in that conduct of retail banks now falls within its regulatory net. The regulation of market conduct of retail banks is a new area and we are currently recruiting the requisite skills to make us effective regulators in this space. Given the uncertainty these changes have created among the staff of the FSB, due to careful change management, we were able to allay staff fears and I am happy to report there were no losses of experienced staff or institutional knowledge during the year.

The business and operating structure of the FSB was based on the sectoral laws it oversaw. Inevitably, a large part of the business operated in silos and certain similar functions were duplicated. After careful consideration, it was decided that the existing operating structure of the FSB was inappropriate. We needed a structure that eliminated current inefficiencies and duplications that would enable the FSCA to deliver effectively on its mandate. Therefore, an activity based operational and organisational structure has been designed for the FSCA which is currently being implemented incrementally.

We have invested more than three years in planning and preparing for the FSCA and I'm confident that we haven't left anything to chance. We are well prepared for the new challenge.

LEGISLATION

CoFI Bill

The Conduct of Financial Institutions (CoFI) Act will be the second piece of legislation in the Twin Peaks regulatory architecture. The CoFI Bill is currently going through the necessary consultative processes. Once enacted, the Bill will repeal the current sectoral financial laws and will provide a comprehensive market conduct framework for financial institutions and service providers. This will ensure a consistent and complete approach to regulating market conduct across the financial sector. During the period under review, the FSB actively participated towards the drafting of this law.

Insurance Act

The Insurance Act, 2017 (Act No. 18 of 2017) was enacted on 18 January 2018. The effective date is 1 July 2018. This piece of legislation addresses the prudential requirements of insurers and will fall under the responsibility of the PA. The Insurance Act also repealed prudential sections of the Long and Short Term Insurance Acts leaving these acts to focus on market conduct only and these will fall under the FSCA, until the CoFI Act comes into effect. The Insurance Act introduced a proactive and risk-sensitive approach to prudential supervision of insurers and insurance groups; it also introduced a microinsurance framework and very importantly, set the precedent for enabling transformation in the financial sector.

OPERATIONAL HIGHLIGHTS

The FSB, during the year under review continued to perform against its set business targets whilst, as mentioned above, also preparing the ground work for the establishment of and transition to the FSCA. We kept our eyes firmly on the ball to ensure that our regulatory responsibilities did not suffer, while we prepared for the change in our mandate.

During the reporting period, a total of 1 116 new applications for financial service providers (FSPs) were authorised, with 90% of the applicants being authorised as category I FSPs, and the remainder for financial services in categories II and IIA. We continued to warn the public against the use of unscrupulous and unregistered financial service providers. Further details are provided on page 56 of this report.

The Hedge Funds Department conducted a series of post-registration reviews during 2017/18. The objective was to ensure that managers understood their obligations under the new regulations and that they implemented their business plans and structures as had been approved by the Registrar. The reviews placed emphasis on governance structures, management reporting, and risk management.

Since the launch of the Unclaimed Benefits search engine on the FSB website in August 2017, 31 235 claims have been logged. Of these, nearly 6 000 were possible matches. The FSB assisted these claimants to locate the relevant fund where their monies could be found. To continuously and accurately measure the success of the unclaimed benefits project, funds are now requested to provide the FSCA with updated information quarterly. This will go a long way in ensuring that we get more beneficiaries to receive their monies.

APPRECIATION

Going forward, we embrace our new mandate including renewed efforts to transform the financial services sector and ensure that it is inclusive.

I would like to extend my heartfelt gratitude to the Executive Committee, management and staff of the FSB for their support and contribution during what has been an exciting and challenging year. I would also like to thank the outgoing Board of the FSB for their guidance and support. Change is never a simple process, but with the necessary support, it can be most beneficial.

Adv Dube Tshidi
Executive Officer


FSB

STRATEGIC OVERVIEW

The Financial Services Board (FSB) operated in a dynamic environment, externally and internally. Combined with the changing needs of our stakeholders, it was imperative that our strategy be equally dynamic to remain relevant and effective, and that our strategic objectives and performance measures remain appropriate. We regularly reviewed our strategy to:

- identify critical strategic focus areas;
- use these areas to develop detailed business plans;
- develop measures to support new strategic focus areas.

In line with the evolution of the South African financial regulatory landscape to Twin Peaks, a particular strategic focus area was the seamless transition from the FSB to the FSCA. This included full readiness for the transition with minimum disruption to the FSB ongoing functions, development of a recommended regulatory strategy for the FSCA and recommended organisational design to support the organisational readiness for the transition.

In designing our strategy, we considered the expectations and needs of our direct external and internal stakeholders to create sustainable value. We also considered factors in the financial services environment and resources available to our organisation. We thoroughly evaluated our business performance against strategic objectives in each planning cycle to ensure we maintained relevant objectives while striving to ensure our regulatory and supervisory frameworks met policy objectives and appropriately complied with international standards. At all times, we were guided by our vision and mission, while living up to our values.

VISION

The Financial Services Board vision was to promote and maintain a sound financial investment environment in South Africa.

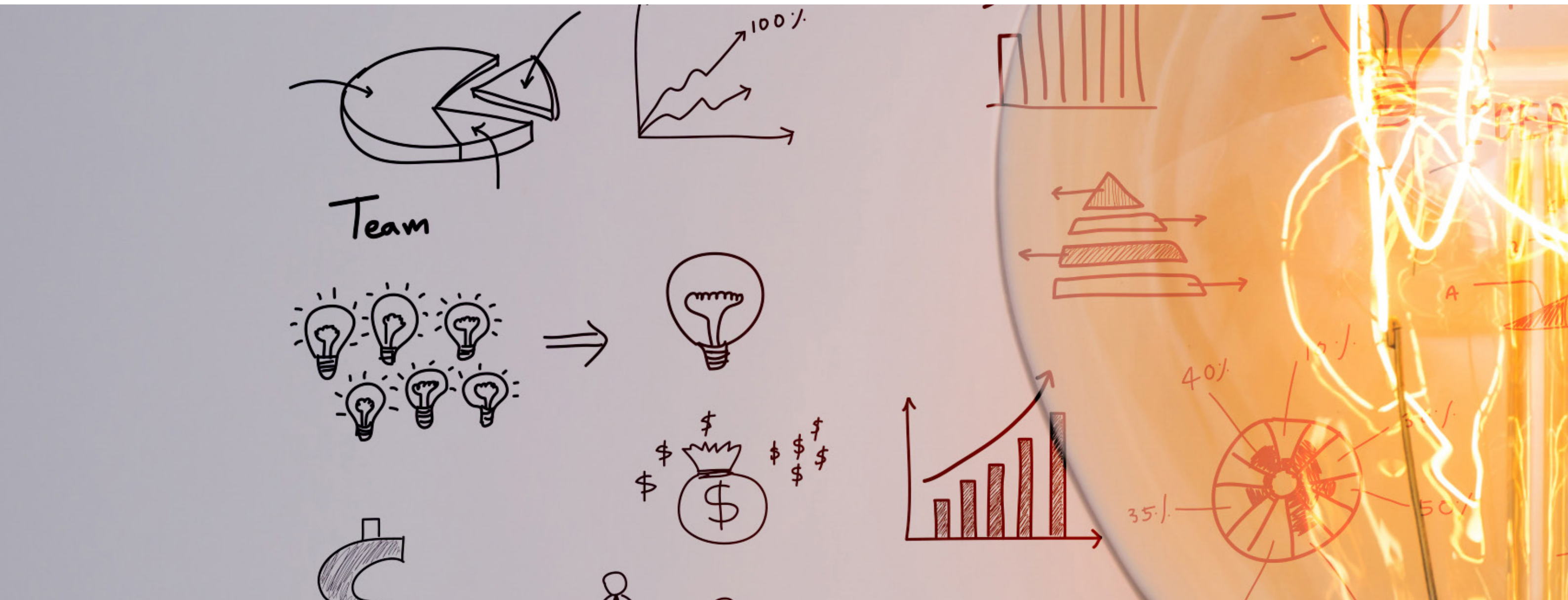
MISSION

The mission of the FSB was to promote:

- fair treatment of consumers of financial services and products;
- financial soundness of financial institutions;
- systemic stability of financial services industries;
- integrity of financial markets and institutions;
- consumer financial education.

STRATEGIC INTENT

Our strategy was anchored on five pillars that addressed specific objectives. These pillars formed the basis for developing performance and operational plans. Our performance against these objectives is detailed in the table that follows.



Five pillars that address specific objectives

Pillar	Key Institutional Objectives	Key Performance Indicators
Empowered consumers	• Promote financial education to consumers of financial services and products • Promote transformation in the industries regulated by the FSB • Promote financial inclusion in the industries regulated by the FSB	• Interventions to provide and promote financial education • Transformation strategy and plan • Microinsurance regulatory framework
Proactive stakeholder management	• Maintain an effective communication, brand, reputation and stakeholder management strategy during the transition to FSCA	• Marketing and brand awareness campaigns • Stakeholder outreach plans
Sound financial institutions	• Ensure regulatory framework in line with international standards • Effective supervision of financial service providers • Enforce compliance with legislation	• Ongoing review of framework to identify gaps • Implemented risk-based supervisory plans • Effective enforcement of legislative compliance
Improved internal policies and processes	• Adequately resourced FSB to deliver on strategic plan • Effective systems and processes	• Align departmental requirements with available financial and human resources • Implementation of approved projects and adherence with Information Communication Technology (ICT) service level agreement
Effective transition to market conduct regulator	• Full readiness for transition with minimal disruption to FSB's ongoing operations • Recommended regulatory strategy for FSCA developed to support strategic readiness for transition to the FSCA • Recommended organisational design for the FSCA developed to support organisational readiness for transition to FSCA	• Targets in service level agreements are met • Transition project plans prepared and approved • Hand-over report with final recommendations on regulatory strategy and organization design for the FSCA

Regulatory Strategy Committee

One of the key strategic objectives of the FSB for 2017/18 was to ensure an effective transition to its new mandate as a dedicated market conduct regulator in the Twin Peaks regulatory model. The Regulatory Strategy Committee (RSC), a committee of the FSB Executive Committee, was established in 2015 with a mandate to support the Executive Committee in facilitating this transition smoothly.

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

Primary activities of the Regulatory Strategy Committee during the year under review, focused on the following:

- Progressing with the overarching project plan for the FSB's transition to the FSCA. As part of the overarching transition plan, a number of sub-projects were identified. Work also continued on defining business processes and protocols and functional roles and responsibilities for the future FSCA.
- Working on the development of a proposed regulatory strategy of the FSCA, in preparation for the future statutory requirement (under the Financial Sector Regulation Act) for the new authority to develop and publish such a strategy.
- Working on the development of a recommended organisational design for the future FSCA that will be fit for purpose in light of the FSCA's intended overarching, activity focused approach to delivering on its future mandate.
- Ongoing engagement with and detailed input to the National Treasury on the Regulations to the Financial Sector Regulation Act as well as the Conduct of Financial Institutions Bill where development progressed well.

The Market Conduct Regulatory Framework Steering Committee, a multi-stakeholder consultation forum established in 2015, continued to operate as an overarching stakeholder engagement forum on conduct of business related regulatory initiatives.

Strategic risks: policy and framework

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

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

Key risks

The top five key risks of the FSB, directly related to its strategic objectives, are summarised in the table that follows.

No	Key business objective(s)	Risk	Consequence(s) of risk	Likelihood	Measures implemented by management
1	Proactive stakeholder management. Improved internal policies, processes and procedures	Excessive litigation exposure. Litigation arising from regulatory mandate.	• Financial exposure • Reputational damage • Loss of regulatory focus • Professional time	Almost certain	• Availability of appropriate legal skills in the FSB • Strong internal and external legal support • Regular consultation • Reputation management • Strong internal quality control
2	Improved internal policies, processes and procedures	Cyber-crime – access to information (internal and external). Inappropriate internal/ external access to information and ineffective firewalls.	• Loss of data • Reputation compromised • Contravention of security legislation • Corruption of data • Financial loss • Loss of physical assets • Unauthorised disclosure of information • Unauthorised access to all FSB information	Almost certain	• Firewalls • Security backups • Shredding documents • Using scanner equipment • Perimeter controls • Logical access/ system access controls linked to job level/descriptions across the FSB • Implementation of acceptable use policy, encryption • Secondary network perimeter firewall • Mobile device management • Implementation of revised ICT security strategy – data-in-motion (e-mail encryption) • Database security

No	Key business objective(s)	Risk	Consequence(s) of risk	Likelihood	Measures implemented by management
3	Improved internal policies, processes and procedures	Data integrity. Inaccurate/ unreliable management information.	• Uninformed regulator • Incorrect rulings • Avoidable legal challenges • Damage to reputation • Not meeting FSB legislative mandate	Likely	• Adopting sound policies and procedures • Regular management meetings • Scheduled ICT steering committee meetings • Sharing information • Sound governance structures • Sound internal accounting controls • Systems validation • Malware protection controls • Backups and disaster-recovery testing
4	Improved internal policies, processes and procedures. Empowered consumers of financial services and products.	Recruiting and retaining skilled staff. Failure to attract and retain employees with the right skills.	• Inability to deliver on mandate • Ineffective regulator • Loss of respect and trust by regulated entities • Compromised reputation • Ineffective implementation of legislative mandate • Lack of skills to keep up with business demands • Lack of skills to implement RDR	Likely	• Sound HR policies • Training • Seconding staff • Bursaries for scarce skills • Improved recruitment strategies • Talent management
5	Proactive stakeholder management	Integrity and credibility of the FSB. Risk of loss of confidence by stakeholders in the FSB.	• Inability to enforce mandate • Unable to maintain stakeholder and industry confidence • Consumers cease reporting cases due to resulting lack of confidence	Likely	• Communication strategy to enhance the visibility of the FSB • Formal and informal interaction with industry associations • Proactive engagement with the media • Fraud and integrity confidential hotline • Use of technology to build brand

STAKEHOLDER RELATIONS

Stakeholders that do not fully understand the mandate and the legislative framework under which the regulator operates present the key risk to the Financial Services Board (FSB). Accordingly, and in light of the transition to the Twin Peaks model, the FSB focused on strengthening relationships with all its stakeholders. Work also continued on increasing media interaction and stakeholder communication, as well as improved visibility of the FSB/FSCA representatives on public platforms.

Summary of the rationale and methods of engaging critical stakeholders of the FSB

Our key stakeholders, their importance to our sustainability and key issues raised, are summarised in our supplementary report on our website. The table below summarises the rationale and methods of engaging critical stakeholders of the FSB.

The rationale and methods of engaging critical stakeholders

Stakeholder	Why?	What we need from them	What they need from us	Risks if needs are not met	How we engage/ frequency
Consumers of financial products	Mobilise and change behaviour for more informed decisions	• Active engagement • Participation • Confidence	• Financial education • Protection • Adhering to mandate • Constant communication	• Unprotected and uneducated consumers • Lack of trust in FSB and financial sector	• Quarterly FSB Bulletin • FSB website • Media, eg cautionary notices • Call Centre • Education initiatives
Staff	Consistent service orientation	• Pride in the organisation • Active engagement • Brand ambassadors	• Ongoing communication and consultation • Ability to raise concerns and expectations	• No commitment to FSB mandate • Lack of productivity • Deliberate sabotage	• Quarterly FSB Buzz from the Board • Ad hoc newsletter • Intranet • Meetings arranged by HR • Messaging on screens and poster boards
Business leaders Financial markets and other sectors	Help the FSB achieve its mandate through buy-in and commitment to regulatory objectives	Clear understanding of what the FSB does	• Consultation • Information • Partnerships	• Lack of support • Negative perception of the FSB	• Individual meetings • Quarterly FSB Bulletin • Media releases • FSB website

Stakeholder	Why?	What we need from them	What they need from us	Risks if needs are not met	How we engage/ frequency
Executive/ legislative authority (Government, National Treasury, Parliament) National Prosecuting Authority	Provides legislative oversight, guidance and direction to the FSB Criminal prosecution of financial offences on referral by the FSB	• Support & buy-in • Effective criminal prosecution of cases and collaboration	• Adhering to mandate • Proposing and implementing relevant policy initiatives • Support • Brand and reputation management • Consumer protection	• Proposed legislation not accepted • Instability in financial regulation systems in South Africa • Ineffective regulation	Annual report on FSB performance and outlook
Regulated entities (Insurers, retirement funds, collective investment schemes, credit rating agencies, financial advisers and intermediaries and financial market infrastructure)	Help the FSB achieve its mandate through buy-in and commitment to regulatory objectives	• Comply with FSB regulations • Relationship building • Support & buy-in	• Consultation • Guidance • Relevant regulations • Certainty and clarity on where they stand with • FSB Quick turnaround times • Consistent application of legislation	• Non-compliance • Ineffective financial regulations • Industry non-cooperation • Erosion of credibility	• Quarterly FSB Bulletin • FSB website (updated daily) • Media releases Conferences • Consultative meetings • Consultation on draft regulations • Bi-weekly meetings with JSE market surveillance and issuer regulation departments
Media (Local & international media)	• Help the FSB achieve its mandate through consumer awareness and education • Assist in brand building	• Partnerships • Relationship building • Awareness and understanding of issues within FSB	• Transparency • Proactive communication on matters in the public interest • Accessibility	• Inaccurate information being reported • Brand reputation challenges	• Individual information-sharing sessions • Roundtable discussions • Quarterly FSB Bulletin • Media advisories (as needed) • Press releases

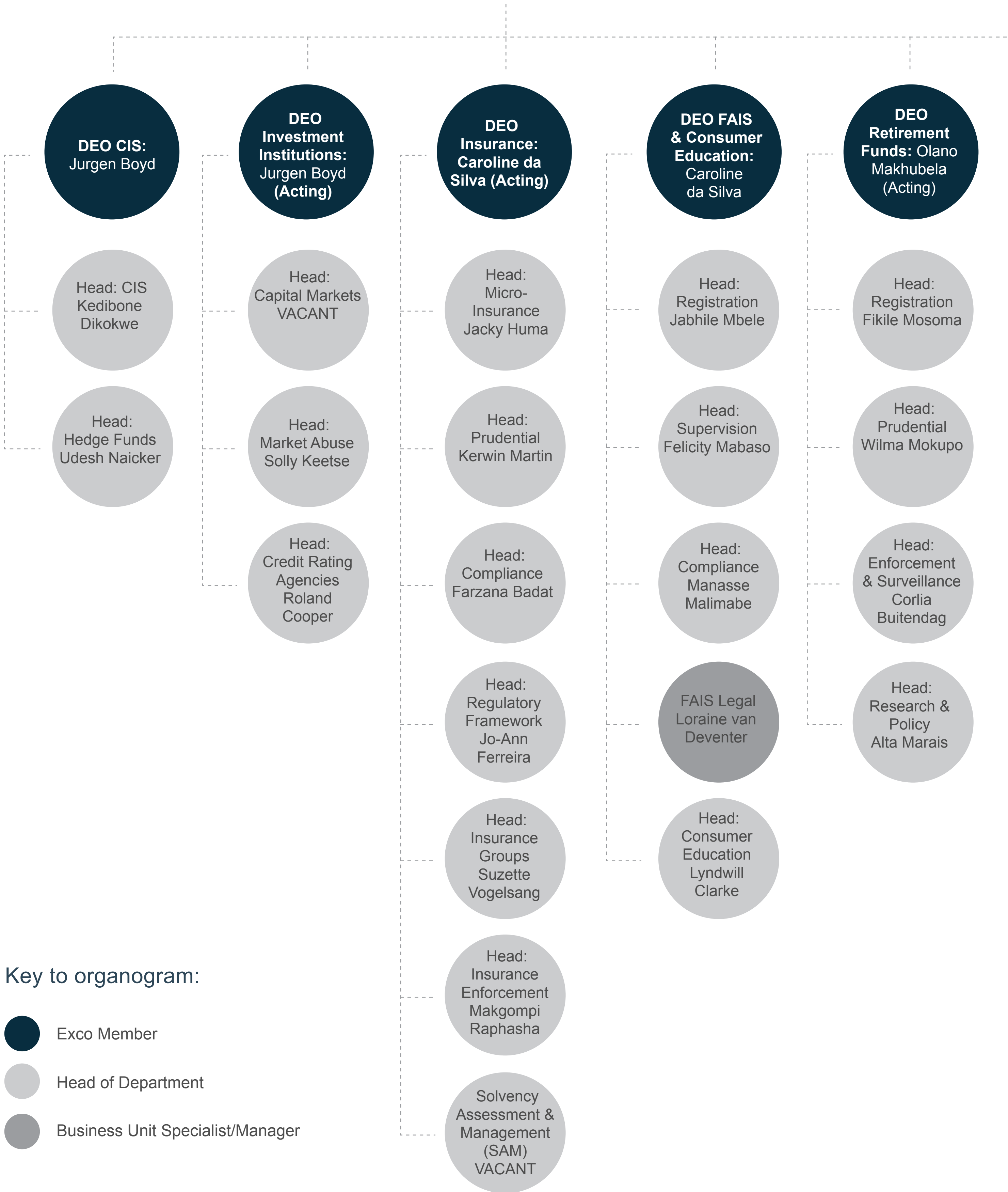
Stakeholder	Why?	What we need from them	What they need from us	Risks if needs are not met	How we engage/ frequency
FSB departments Local and international regulators*	Help the FSB achieve its mandate through benchmarking and cooperation	• Partnerships • Cooperation	• Partnerships • Cooperation	• Consumer confusion • Consumers prejudiced by unscrupulous financial services providers • Not keeping abreast of regulatory developments • Weak regulatory reforms • Lack of cross-border cooperation and assistance • Non-compliance with international standards • Reputational risks	• Consultative documents such as surveys • Conferences • Arranging and attending meetings of international standard-setting bodies

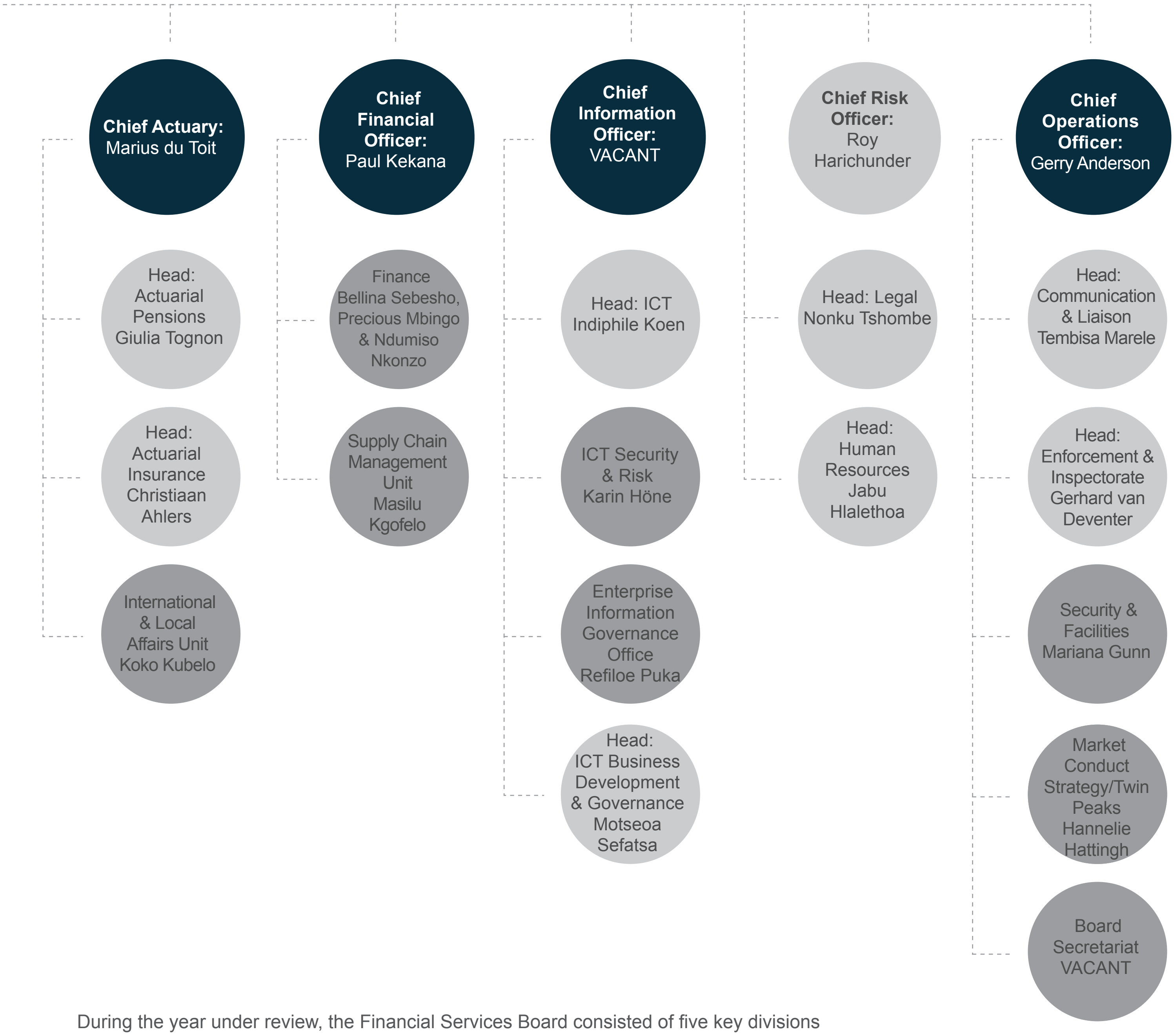
To stay abreast of international regulatory developments and to benchmark its regulatory structures against best-practice standards, the FSB participated in the activities of international and regional bodies, including:

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

ORGANISATIONAL STRUCTURE

EXECUTIVE OFFICER DUBE TSHIDI





During the year under review, the Financial Services Board consisted of five key divisions with their various subordinate departments, and 14 support departments. Please see PART B: PERFORMANCE INFORMATION for more detail on the function, structure and performance of the key divisions.

Insurance: Jonathan Dixon until August 2017 - Caroline da Silva from August 2017
Retirement Funds: Olano Makhubela from October 2017

SUPPORT DEPARTMENTS

The 14 support departments of the Financial Services Board (FSB) provided services to the FSB key divisions, the FSB Board and its committees. PART B: PERFORMANCE INFORMATION contains a summary of the support departments, their function and performance during the year under review.

ACTUARIAL

The Actuarial Department was assigned specific regulatory functions by the FSB's Retirement Funds Division. In addition, the Actuarial Department provides broader support and advice where required. Issues of mutual concern are covered in the respective divisional sections.

The department considered applications for the transfer of business involving a pension fund under section 14 of the Pension Funds Act (Act 24 of 1956) (PF Act). During the reporting period, 3 439 new applications were submitted.

Over the same period, the department completed 3 977 transfer applications, while 503 cases remained pending as at 31 March 2018. Completed cases included those submitted in preceding periods.

INTERNATIONAL AND LOCAL AFFAIRS

The mandate of the International and Local Affairs Unit was to manage relations with internal and external stakeholders by monitoring local and international developments in the financial sector, and by liaising with other regulators (local and foreign) mainly on the basis of the memorandums of understanding entered into between the FSB and other regulators. It also monitored developments within the Southern African Development Community (SADC) and similar bodies. The unit also served as the secretariat for the Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA), a committee of SADC.

INFORMATION COMMUNICATION TECHNOLOGY

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

In preparation for the readiness of the transition from the (FSB) to the (FSCA), various initiatives and projects were embarked upon during the review period which required dual mode of operation. The ICT governance framework was revised to accommodate the two modes of operation in preparation for the transition.

INSPECTORATE AND ENFORCEMENT

Under the Inspection of Financial Institutions Act, 1998 (Act No. 80 of 1998) (Inspection Act), the Registrar appointed inspectors and instructed inspections into the affairs of financial institutions, associated institutions, and unregistered operators. Inspections were also conducted after implementation of any agreement, communique or memorandum of understanding by regulated institutions (section 3A of the Inspection Act). From 1 April 2018, these functions will be performed under different provisions in the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act).

The FSB Inspectorate Department conducted inspections on behalf of the Registrar and in terms of the investigative powers provided for in the Inspection Act. During the review period, 15 inspections were finalised. Of these, two were requests for assistance (in terms of section 3A-foreign regulators). The balance related to contraventions of the FAIS Act (five), Security Services Act (one), Collective Investment Schemes Act (one), Long-term and Short-term insurance Acts (three) and Pension Funds Act (three).

In November 2008, the FSB Enforcement Committee was established in terms of an amendment to the Financial Institutions (Protection of Funds) Act, 2001 (Act No. 28 of 2001), replacing the capital markets enforcement committee. The Enforcement Committee was an administrative tribunal with jurisdiction to impose penalties, compensation orders and cost orders against those who contravene any FSB law. This process was used by the Registrar and the DMA to deal with the majority of contraventions and non-compliance with FSB legislation by the industry and members of the public.

In total, penalties of R2, 482 million were imposed on the 14 respondents:

- FAIS Act in five cases;
- Long-Term Insurance Act in three cases;
- Financial Markets Act in three cases; and
- Collective Investment Schemes Control Act in three cases

MARKET CONDUCT STRATEGY

The focus of the Market Conduct Strategy Unit was to support the FSB Regulatory Strategy Committee and various departments in developing new regulatory and supervisory frameworks for the FSB's dedicated market conduct mandate in the pending Twin Peaks model of regulation. As highlighted in the National Treasury's December 2014 document Treating Customers Fairly (TCF) In the Financial Sector: A Draft Framework for Market Conduct Policy in South Africa, the TCF approach will underpin the new market conduct authority's approach to supervision.

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

HUMAN RESOURCES

The HR Department played a significant role in facilitating the understanding and ongoing practice of the FSB values and culture.

During the year under review, the department worked at creating an attractive work environment for the recruiting, developing, rewarding and retaining high-potential people through a complete HR service offering, and partnering with FSB departments.

LEGAL

The Legal Department provided on-going legal support services to the entire FSB. Legal services are mainly available in-house, especially in the areas of drafting of legislation, litigation processes, litigation management and general corporate legal advice.

Where necessary, the department engaged external professionals (attorneys, counsel) to provide the requisite legal services – particularly for litigation. The Legal Department also provided on-going secretariat services to the FSB Appeal Board.

The Legal Department was responsible for:

- Minimising the FSB's exposure to external and internal legal risk;
- Providing legal support in litigation;
- Managing the FSB Appeal Board processes in an impartial and efficient manner;
- Facilitating on-going legislative review in order to enable line departments to deal with any regulatory gaps that may exist, with a view to submit to National Treasury to include to its annual legislative programme.

The department substantially achieved its objectives and targets for the year.

COMMUNICATION AND LIAISON

The Communications and Liaison department enabled the FSB's vision and mandate by increasing the reputational capital of the FSB through the strategic management of key relationships with internal and external stakeholders. The ultimate aim is to make a contribution towards the achievement of the FSB's vision and mandate – that of promoting and maintaining a sound financial investment environment in South Africa. The department has been a critical pillar in assisting the organisation and its stakeholders to get ready for the financial sector reforms contained in the Financial Sector Regulation Act (FSRA)

Highlights include the development and approval of a comprehensive Corporate Identity for the FSCA.The new brand position captures the mandate of the conduct authority, that of defending the financial sector and its customers while also promoting and facilitating prosperity of all our stakeholders..

Other initiatives and platforms include:

- Media roundtables
- Media releases
- Broadcast interviews
- Client management system
- Outsourced FSB call centre, which handles all queries received via our own toll-free number (0800 202 087/0800 110 443) and the FAIS ombudsman share-call number, 0860 FAISOM (324 766).

LANGUAGE BUSINESS UNIT

The Language Business Unit was established in compliance with the Use of Official Languages Act, 2012 (Act No. 12 of 2012) (UOLA). This act requires that each national government department, national public entity and national public enterprise should develop a language policy and establish a language unit.

The responsibility of the unit is to guide and monitor the use of official languages by the Financial Services Board (FSB), both internally (staff members) and externally (interaction with members of the public), and advising the Executive Committee on the different activities regarding the language policy provisions.

SECURITY AND FACILITIES

The Security and Facilities Business Unit oversaw the operations of the two buildings in the Riverwalk Office Park, as well as the maintenance and upgrades of existing buildings and equipment.

An additional 3 000m^2 of office space was leased during 2017/18. The Security and Facilities Business Unit ensured that the FSB had a suitable, safe and secure working environment for its employees, visitors and their activities.

PART B

PERFORMANCE INFORMATION

CHIEF FINANCIAL OFFICER'S OVERVIEW

" This is our last report on the financial performance of the Financial Services Board (FSB), as we have transitioned to the newly established Financial Sector Conduct Authority (FSCA) effective from 01 April 2018. We are proud of the fact that we have consistently achieved clean audit reports over the years. These clean audit reports provide a solid financial reporting base as we go forward into the FSCA. "

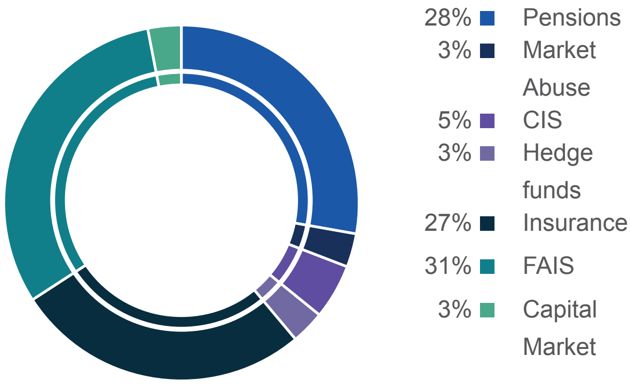
OVERVIEW

During the past few years, our country's economic growth and performance has been sluggish and has impacted negatively on the industry in which we operate. Despite these challenges, our strategies for continuous improvement and cost containment have resulted in below inflation annual levy increases for the industry sectors we regulate.

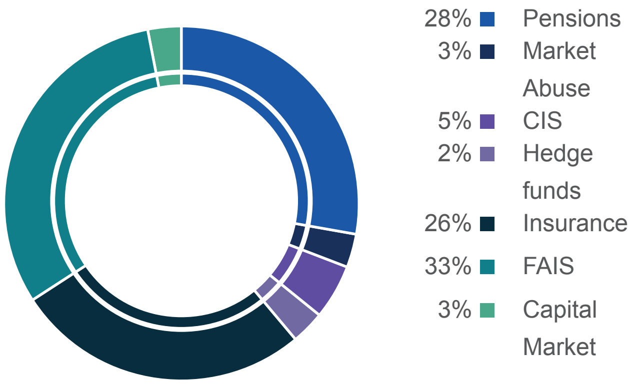
We remain financially sound with total net assets improving from R359 million (2017) to R395 million and cash and cash equivalents from R361 million (2017) to R406 million for the financial year under review. The working capital ratio remains favourable at 3.7:1 (2017: 4.6:1) enabling us to meet our financial obligations.

LEVIES BY INDUSTRY

2018 LEVY CONTRIBUTION R707 MILLION



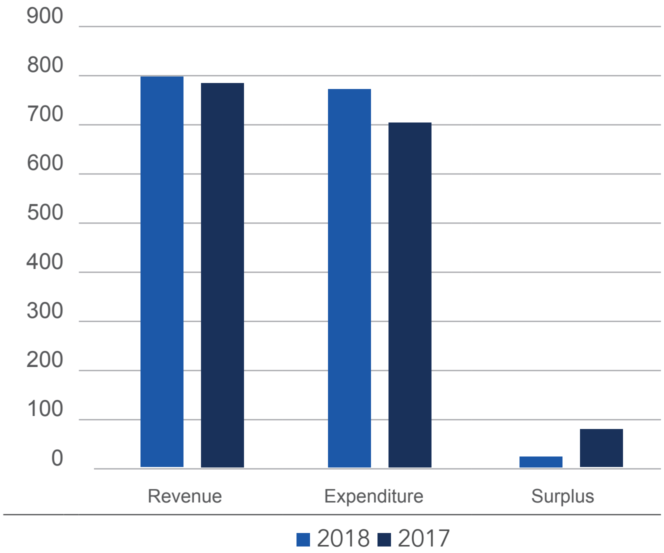
2017 LEVY CONTRIBUTION R676 MILLION



The financial advisory and intermediary services (FAIS), pensions and insurance industries are the major contributors to the levy income, accounting for 86% and 87% for the 2018 and 2017 financial years respectively.

FINANCIAL PERFORMANCE

Overview of the Financial Performance (R million)



Revenue

The FSB recorded revenue of R802 million for the year (2017: R783 million) against a budget of R765 million. The favourable variance is due to penalty income amounting to R6 million (which by its nature is not budgeted for); fee income of R14 million due to increased volumes (higher than budgeted for); and higher investment income of R17 million due to higher interest rates. The balance of the variance consists of other income and recoveries.

Operating costs

The FSB recorded operating costs of R766 million for the year (2017: R705 million) against a budget of R817 million. The favourable variance is as a result of cost management measures and delayed FSCA establishment expenses.

The FSB contribution to the funding of the offices of the FAIS Ombud for FSPs and the Pension Fund Adjudicator amounted to 6.5% and 7.7%, respectively, of the total operating costs.

Surplus

The FSB recorded a surplus of R36 million for the year (2017: R78 million) against a budgeted deficit of R52 million. The surplus is as a result of the delayed spending on Twin Peaks related transitional costs. We expect that these costs will be incurred in the 2018/19 financial year. Accumulated surplus increased to R287 million (2017: R255 million) and contingency and discretionary reserves to R108 million (2017: R104 million). In terms of section 53(3) of the Public Finance Management Act (PFMA), the FSB will request approval from National Treasury to retain the surplus funds for the establishment of the FSCA.

The FSB has approval to maintain two reserve accounts: the contingency and discretionary reserves accounts, currently at R75 million (2017: R73 million) and R32 million (2017: R32 million) respectively. The contingency reserve is maintained at a maximum of 10% of levy and fee income which is held to protect the FSB against the risk of unforeseen events. The discretionary reserve is a depository for fines and penalty income and is used to fund expenses related to consumer education.

In line with the Financial Sector Regulation (FSR) Act, effective from 01 April 2018, all penalty receipts recovered by the FSCA will be paid to the National Treasury Revenue Fund.

CAPITAL INVESTMENTS

Capital investments comprise property, plant and equipment (PPE) and intangible assets. The PPE carrying value improved to R81 million from R49 million recorded in the previous financial year, mainly as a result of ICT infrastructure upgrades. These investments are managed through an asset management policy that is applied uniformly throughout the FSB as prescribed by the PFMA and National Treasury regulations.

WORKING CAPITAL MANAGEMENT

The FSB manages working capital effectively and ensures availability of sufficient cash to meet financial obligations when they fall due. Cash flow is closely managed and surplus funds are invested in the Corporation for Public Deposits with the South African Reserve Bank (SARB). The net current assets maintained for the financial year remained favourable at R318 million (2017: R306 million).

Trade and other payables

The FSB targets to settle trade payables within thirty (30) days of receiving suppliers' invoices in line with National Treasury regulations. In this regard, we have achieved an average of twenty-two (22) payment days for the year (2017: 12 days) which is well within the thirty (30) days prescribed by National Treasury. As at the financial year end, trade payables amounted to R33 million (2017: R11 million).

Trade receivables

As at the financial year end, the levy trade receivables amounted to R14 million (2017: R12 million), representing

2.04% of the levies income (2017: 1.7 %). Levy trade receivables collection improved for the year as a result of good cooperation of the industry.

The penalty and inspection receivables decreased to R28 million (2017: R35 million), partly as a result of improved collection efforts. Penalty and inspection debtors collection remains a challenge as these debts by their nature are not planned for and are often appealed, resulting in collection uncertainties and delays.

FINANCIAL OUTLOOK

In terms of the FSR Act, effective from 01 April 2018, certain prudential regulatory oversight functions, which were previously performed by the FSB, were transferred to the Prudential Authority (PA) located at the South African Reserve Bank (SARB). The market conduct regulatory oversight mandate of the FSCA was expanded to include market conduct of retail banks, which will result in a refined operating model.

The FSCA will continue to carry out its legislative mandate with funding from levies and fees charged to the industry, as was the case with the FSB. The Money Bill, expected to be enacted and operational in the 2019/20 financial year, introduces a new levying model which includes banking supervision.

Our operating environment is dynamic, more especially as a result of the disruptive technologies brought about by the fourth industrial revolution. As per the FSR Act, the FSB reserves were transferred to the FSCA effective from 01 April 2018 to enable us to fund the necessary capital requirements to optimally deploy the resources to fulfil our mandate.

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

Paul Kekana
Chief Financial Officer

SITUATIONAL ANALYSIS

PERFORMANCE DELIVERY ENVIRONMENT

A great deal of the focus during the year under review was on the establishment of the Financial Sector Conduct Authority (FSCA) and the orderly transition of the Financial Services Board (FSB) from its current regulatory responsibilities to a market conduct regulator as envisaged by the Twin Peaks regulatory model. The ongoing supervision of regulated entities, in terms of the Financial Services Board (FSB) legislative mandate, continued during this process throughout the year.

In order to reconfirm the performance environment and the influences thereon, an assessment of strengths, weaknesses, opportunities, and threats (SWOT) was completed. The consolidated assessment is reflected below:

Strengths	Weaknesses
• Adherence to mandate • Collaborative and consultative regulator • Committed and professional staff • Compliance with regulations applicable to the FSB • Regulatory framework in line with international best practice • Sound financial management • Willingness to confront regulatory issues (supervising without fear or favour) • Good standing with domestic and international bodies • Caring organisation • Institutional knowledge and understanding of industries • Strong business and ICT alignment through ICT governance • Appetite for change	• Gaps in the regulatory framework • Inability to respond to financial innovation in a timely manner • Litigation against the FSB • Unavailability and immobility of scarce skills to feed the organisation • The length of timelines involved in the criminal justice system process • Overlaps and gaps in the legislative mandates • Cyber attacks
Opportunities	**Threats**
• New responsibilities arising from the Twin Peaks regulatory model • Opportunities presented by changes in the FSB's organisational design, to harmonise and improve regulatory and supervisory standards, break down the silos that impede effective supervision, and promote the FSCA as an employer of choice for highly skilled and experienced professionals as well as young professionals seeking opportunities for learning and development while serving the country • Opportunity to improve the profile of the FSB due to its broader recognition and buy-in into financial regulations/stronger political backing/expanded scope of financial regulation • Support National Treasury on financial inclusion through consumer protection and financial education • Expansion and strengthening of stakeholder relationships • Strengthening collaboration with other relevant regulatory bodies • Responding to financial innovation	• Gaps in the regulatory framework • Inability to respond to financial innovation in a timely manner • Litigation against the FSB • Non-availability and mobility of scarce skills to feed the organisation • The length of timelines involved in the criminal justice system process • Overlaps and gaps in the legislative mandates • Cyber attacks

ORGANISATIONAL ENVIRONMENT

With the move to the Twin Peaks model for financial regulation, the Financial Services Board (FSB) ceased to exist in its current form. It became a market conduct regulator as envisaged by the Twin Peaks regulatory model. The timing of these changes depended on the enactment of the enabling legislation, and the regulations giving effect to the establishment of the FSCA on 1 April 2018 were gazetted on 27 March 2018.

The organisational structure of the FSB catered for its various divisions, in line with the sector-specific legislation it oversaw. These divisions ceased to exist on 31 March 2018 and were replaced by a functional activity based organisational structure in line with the new regulatory mandate of the FSCA. It is envisaged that the transition from the FSB to the FSCA will be effected over a six-month period commencing on 1 April 2018.

During the transition period, the FSCA will continue to maintain the FSB's technology, processes, and resources to enable it to effectively fulfil its mandate, ensuring that our regulatory and supervisory approach remains robust and relevant.

KEY POLICY DEVELOPMENTS AND LEGISLATIVE CHANGES

As previously mentioned, the FSB became a market conduct regulator on 1 April 2018.

The table below sets out the strategic objectives, performance indicators and planned targets as specified in the FSB Annual Performance Plan for 2017/18, and actual performance for the year. The objectives, indicators and targets have been stated using the SMART principle (specific, measurable, achievable, relevant, time-bound) as recommended by National Treasury.

The FSB was comprised of five divisions that exercised regulatory oversight over the non-banking financial services industry. Each division was comprised of separate departments that provided regulatory oversight over components of these industries, for example, the Insurance Division had separate departments for long term insurance, short term insurance, and micro insurance.

In addition, the FSB mandate included ensuring that the existing regulatory legislation was up to date, developing new legislation in conjunction with the National Treasury and kept abreast with international developments in the regulatory environment. The strategic objectives, performance indicators and targets in the annual performance plan were rolled out to all divisions and departments and found expression at departmental level in detailed annual business plans. The achievements for 2017/18, as reported, are a consolidation of the departmental business plans for the financial year.

PROGRESS AGAINST STRATEGIC GOALS

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 1 – INFORMED AND PROTECTED CONSUMERS						
Goal statement: Empowered consumers of financial products and services						
Promote and provide financial education to consumers of financial services and products.	Number of interventions to promote and provide financial education.	465 workshops	200 workshops	395 workshops	195 workshops	Target exceeded due to extra demand for workshops by the EPWP and additional industrial theatre projects.
		27 exhibitions	25 exhibitions	28 exhibitions	3 exhibitions	Target was exceeded due to purchase of the rural outreach mobile unit.
		378 web content uploads/edits	4 reports on web content upload	4 reports on web content upload	n/a	
		162 media activities	35 media activities	35 media activities	n/a	
			5 CE resources	5 CE resources	n/a	
Promote transformation in the industries regulated by the FSB.	Number of interventions to promote transformation.	13 workshops with emerging financial services providers (FSPs).	FAIS division will develop a transformation driven policy/ strategy for granting exemptions to small and emerging FSPs.	The Policy was approved by EXCO on 7 December 2017.	n/a	
			Amend the FAIS Code of Conduct to promote enterprise development of Black brokers.	The code has been amended and published for public comment.	n/a	The date of public comments closed on 28 Feb 2018. After consideration of comments received, the code will be revised and finalised. The timing of completion is outside the control of FSB.

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 1 – INFORMED AND PROTECTED CONSUMERS						
Goal statement: Empowered consumers of financial products and services						
Promote transformation in the industries regulated by the FSB.	Number of interventions to promote transformation.	13 workshops with emerging financial services providers (FSPs).	4 specialised training workshops for African candidates to equip them to pass the FAIS exams.	5 workshops	1 workshop	The additional workshop was held in response to demand.
			Amend the FAIS licence application form to include information on the race of applicants to track transformation in the financial sector.	The FAIS licence application form has been amended.	n/a	The amended licence application forms and online systems are developed and finalized. “Fit and Proper” requirements in the form are applicable from 1 April 2018.
			2 training workshops for FSB staff to succeed in the FAIS exams thereby increasing technical financial knowledge of staff.	3 training workshop	1 workshop	The additional workshop was held in response to demand.
			8 workshops with small and emerging FSPs (Funeral parlours).	17 workshops with emerging financial services providers FSPs (funeral parlours).	9 workshop	Greater demand for the workshops than anticipated from funeral parlours.
			Promote the “Trustee Tool Kit” training amongst Black trustees and report quarterly on the training (4 reports).	4 reports	n/a	

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 1 – INFORMED AND PROTECTED CONSUMERS						
Goal statement: Empowered consumers of financial products and services						
Promote transformation in the industries regulated by the FSB.	Number of interventions to promote transformation.	13 workshops with emerging financial services providers (FSPs).	Provide learnership training to 10 unemployed graduates to enhance their opportunities for employment in the financial sector.	10 graduates in the learnership programme	n/a	

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 2 – STAKEHOLDER MANAGEMENT						
Goal statement: Proactive stakeholder management						
An effective communication, brand, reputation and stakeholder management strategy during the transition to FSCA.	Percentage achievement of targets in the stakeholder outreach plans for the year.	Achieved average of 97% for the FSB.	Achieve 90% of the targets for stakeholder outreach as set out in the business plans of CIS, FAIS, Investment Institutions, Insurance and Pensions divisions.	Achieved average of 92% for the FSB.	2%	More effective use of resources and meeting additional request from industry.
			Communications and Liaison Department will hold 4 meetings with line departments.	4 coordinating meetings.	n/a	
	Number of media engagements.	15 interviews in National Radio stations	12 interviews in National radio stations	32 interviews in National Radio stations	20 interviews	The target was exceeded due to receiving additional requests for interviews.
		4 media round table discussions	4 media round table discussions	4 media round table discussions	n/a	

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 2 – STAKEHOLDER MANAGEMENT						
Goal statement: Proactive stakeholder management						
	Number of media engagements	12 reports on news relating to the FSB.	4 reports on news relating to the FSB.	12 reports on news relating to the FSB.	8 reports	A report was prepared for each month.
		1 media lunch	1 media lunch	1 media lunch	n/a	
	Number and achievement of internal communications, industry and public communications targets.	2 FSB Bulletins	4 FSB Bulletins	4 FSB Bulletin published	n/a	
		4 Buzz from the Board	4 Buzz from the Board	4 Buzz from the Board	n/a	
		5 FSB exhibitions	4 FSB exhibitions	4 FSB exhibitions	n/a	
			1 CEO breakfast	Not achieved	Refer to comment	Target was not achieved due to unavailability of the speakers.
			1 industry workshop	Not achieved	Refer to comment	
			1 FSB commemorative "Coffee table book"	Not achieved	Refer to comment	The initiative has been moved to 2018/2019 financial period.

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 3 – SOUND FINANCIAL INSTITUTIONS						
Goal statement: Sound financial institutions that treat their customers fairly						
Regulatory framework principles in line with international standards. 80% of principles partly, broadly or fully implemented.	Number of progress reports of implementation of findings and recommendations of peer review considered by the FSB Exco.	4 reports on progress of implementation of findings and recommendations of international peer review bodies.	4 reports on progress of implementation of findings and recommendations of international peer review bodies.	4 reports on progress of implementation of findings and recommendations of international peer review bodies.	n/a	
	Adherence to the legislative review deadline for the year.	Legislative review programme submitted to National Treasury on 29 September 2016.	Submit legislative review programme to National Treasury by 30 September 2017.	Legislative review programme submitted to National Treasury by 30 September 2017.	n/a	
Conduct risk based supervision to monitor and improve financial investment environment.	Percentage achievement of targets set out in risk based supervision plans.	Achieved average of 92% for the FSB.	Achieve 80% of targets set out in risk based supervision plans.	Achieved average of 97% for the FSB.	17%	Target exceeded due to greater efficiencies.

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 3 – SOUND FINANCIAL INSTITUTIONS						
Goal statement: Sound financial institutions that treat their customers fairly						
Effective enforcement of compliance with legislation.	Percentage achievement of commitment time lines in the service level agreement/ commitment (Inspectorate and Enforcement)	Achieved 95%	80% achievement of commitment time lines in the service level agreement.	Achieved average of 93% for the FSB.	13%	Target exceeded due to greater efficiencies.
	Percentage compliance with timelines set out in each division's SLCs.	Achieved average of 90% for the FSB.	Achieve the turnaround times set in each of the core division's SLCs with regard to licensing, registrations and other applications or submissions for at least 90% of the cases received. (Where all information necessary for the processing has been provided.)	Achieved average of 94% for the FSB.	4%	Target exceeded due to greater efficiencies.

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 4 – SOUND INTERNAL POLICIES, PROCESSES AND PROCEDURES						
Goal statement: Sound internal policies, processes and procedures						
Internal policy framework updated annually.	Annual review and updating of policies relating to: Human Resources, Finance, ICT, Supply Chain, Security and Risk Management.	Policies relating to Human Resources, Finance, ICT and Risk Management were reviewed and updated during the year.	Annual review and updating of policies relating to: Human Resources, Finance, Supply Chain, ICT, Security and Risk Management.	Policies relating to Human Resources, Finance, Supply Chain, ICT, Security and Risk Management were reviewed and updated during the year.	n/a	

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 4 – SOUND INTERNAL POLICIES, PROCESSES AND PROCEDURES						
Goal statement: Sound internal policies, processes and procedures						
Effective and efficient systems, processes and procedures.	Percentage of implementation of approved projects and percentage of ICT SLC met.	99% implementation of all approved projects with business sign-off.	90% implementation of all approved projects with business sign-off.	93% implementation of all approved projects with business sign-off.	3%	Target exceeded due to greater efficiencies.
		98% of SLC met.	90% of ICT SLC met.	96% of SLC met.	6%	Target exceeded due to greater efficiencies.

Strategic objective	Performance indicator	Achievement 2016/17	Target for 2017/18	Achievement 2017/18	Variance	Comment / Reason for variance
STRATEGIC OUTCOME 5 – EFFECTIVE TRANSITION TO THE MARKET CONDUCT REGULATOR						
Goal statement: effective transition to the market conduct regulator						
Full readiness for transition to the FSCA, with minimum disruption to the FSB's on-going functions.	Percentage achievement of targets set out in the FSCA transition plan.	The overarching project program and key sub-project activities for the transition from the FSB to the FSCA were approved on 3 March 2016.	90% achievement of targets relative to the transition plan.	100% achievement of targets relative to the transition plan.	10%	All project plans were approved.
		Uncertainties in relation to the timing of the legislative process and the subsequent enactment of the Financial Sector Regulation Act means that sub-projects are not yet due to be implemented.				
Handover Report with final recommendations on the Regulatory Strategy and Organisational Design for the FSCA approved by FSB Exco.	Date of approval of Handover Report.		FSB Exco approves handover report by 30 September 2017.	The FSB Exco approved the handover report on 7 December 2017.		Due to the uncertainty around the date of establishment of the FSCA and the RSC continuing with the transition process the FSB Exco resolved that the deadline for approval of the report be moved to December 2017

PERFORMANCE INFORMATION BY KEY DIVISION

During the year under review, the Financial Services Board (FSB) consisted of five key divisions, namely Retirement Funds, Insurance, Financial Advisory and Intermediary Services, Collective Investment Schemes, and Investment Institutions Divisions.

Retirement Funds

ABOUT

The mission of the Retirement Funds Division was to meet the obligations of all stakeholders through commitment, professionalism, and teamwork – in order to promote a safe and stable environment for members of retirement funds. The Retirement Funds Division of the FSB was mandated by the Pension Funds Act, 1956 (Act No. 24 of 1956) (PF Act) to license and supervise retirement funds, beneficiary funds, pension fund benefits administrators, and related persons and entities. There are however, a few funds that are not subject to regulation and supervision in terms of the PF Act, as they were established in terms of specific provisions in other statutes and elected not to be subject to the PF Act. These funds include the Government Employees Pension Fund, Associated Institutions Pension Fund, and the Transnet Pension Fund.

There are over 5 000 registered retirement funds (with only around 32% of retirement funds regularly receiving contributions and/or paying benefits). The combined value of their assets is over R4 trillion.

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

	Department	Responsibilities
1	Licensing and Registration Department	Registering rules and amendments to the rules of funds and friendly societies Granting or refusing approval to pension fund administrators to conduct related business
2	Prudential Supervision Department	Analysing annual financial statements Overseeing the liquidation process of retirement funds
3	Surveillance and Enforcement Department	Conducting on-site visits and managing risk-based supervision Overseeing enquiries and complaints submitted to the FSB
4	Research and Policy Department	Researching trends to prepare proposals for new regulatory instruments and supervision strategies for retirement funds

Significant industry issues

LITIGATION

Ms RT Hunter, a former senior official of the FSB, submitted an application for leave to appeal to the Constitutional Court in respect of the cancellation of a funds project.

UNCLAIMED BENEFITS

The aggregate value of unclaimed benefits reported by retirement funds regulated and supervised under the PF Act as at 31 March 2018 was as follows:

Unclaimed benefits at 31 March 2018

	No. of funds	Aggregate amount of unclaimed benefits (R'm)	Number of beneficiaries for whom unclaimed benefits are held
Occupational retirement funds (both stand-alone and umbrella, underwritten and not)	1 086	34 001	3 665 247
Beneficiary funds	8	79	1 295
Unclaimed benefits funds	47	8 078	881 488
Total	**1 141**	**42 158**	**4 548 030**

The Retirement Funds Division implemented an unclaimed retirement benefit search engine to enable members of the public to establish if there are unclaimed retirement fund benefits due to them from any fund of which they were previously a member or to beneficiaries of members that remained unclaimed since the member passed away.

Unclaimed retirement benefit data was obtained from the majority of retirement funds and is housed on a secure central database, which the FSB passed on to the FSCA. The information regarding the unclaimed benefits as well as details of enquirers is protected and cannot be accessed by any person, and only selected information is provided to a retirement fund or administrator when a possible match is found in respect of an enquirer with his/her consent.

To make the search engine facility available to the general public at no or very little cost, it has been designed to provide for the following ways in which a person can establish whether there are unclaimed benefits due to him/her:

- **Online searches**
  A person will be required to capture as much information as possible in the required fields, for the search engine to determine as accurately as possible if there is a successful match. Should there be a possible match identified, the enquirer will be sent a notification of such, and be provided with the contact details of the fund and/or administrator to enquire about the unclaimed benefit in question. A similar notification will be sent to the fund and/or administrator responsible for the administration of the fund, providing them with the details of the enquirer.
- **E-mail enquiries for search on ID number only**
  A person can enter his/her ID number as the subject in an email to a dedicated email address, then receive an automated response stating whether or not there is a possible match on the ID number provided.
- **E-mail enquiries – general requests**
  A person can provide as much information as possible to determine if there is a possible match. This general e-mail request will be processed manually and if a possible match is identified, the enquirer will be sent an e-mail response with the contact details of the relevant fund or administrator.
- **SMS enquiries – ID number**
  A person can enter his/her ID number in the body of an SMS sent to a dedicated number to enquire if there are any unclaimed benefits due to him/her. The enquirer will receive an automated response informing him/her if there is a possible match based on the ID number provided, including the contact details of the relevant fund or administrator. This SMS facility will be free of charge, as all costs relating to the SMS messages will be carried by the FSCA.
- **SMS enquiries – general request**
  A person may provide as much information as possible to determine if there is a possible match. This general SMS enquiry will be processed manually and should a possible match be identified, the enquirer will be sent an SMS response providing him/her with the contact details of the fund or administrator. This SMS facility will be free of charge, as all costs relating to the SMS messages will be carried by the FSCA.
- **Facsimile (fax) submissions**
  A person may send a fax to a dedicated fax number providing as much as possible of his/her data to establish if there are any unclaimed benefits due to him/her. This general fax enquiry will be processed manually and should a possible match be identified, the enquirer will be provided with a fax providing him/her with the contact details of the fund or administrator.
- **Telephone enquiries**
  Enquiries may be made by telephone and the enquirer must provide as much information as possible to enable the possibility of a match. Telephone enquiries are processed manually and responses will be sent in the medium requested by the enquirer. This facility will enable the public to enquire by telephone, free of charge.
- **Walk-in clients**
  Any person may enquire at the FSCA during office hours to establish if there are any unclaimed retirement fund benefits due to them.
- **Written enquiries**
  Any person may send written correspondence to the FSCA to enquire as to whether there are any unclaimed retirement fund benefits due to them.

Since the implementation of the unclaimed benefits search engine, 7 980 possible matches have been identified, with asset value amounting to approximately R1,9 billion.

Prudential supervision matters

Clarification is being obtained in respect of liquidators who are no longer able to perform their duties as liquidators or have passed away. The intention is for the PF Act be amended to provide clarity to the relevant provisions in section 28 of the Act. Discussions have been held with liquidators to finalise long-outstanding liquidations.

The timely submission of financial returns is important in supporting proactive and preemptive supervision. The financials, if properly audited and analysed, provide the members, trustees, and the supervisor with invaluable information and early warnings by flagging irregularities in financial flows as well as deteriorating financial positions.

The Registrar will be requesting funds in order to submit cashflow statements regularly, and for all annual financial statements to be audited annually – irrespective of the size of the fund. In addition, the current reporting system that provides for funds to submit their financial returns to be submitted six months after the financial year-end of the fund is also being reviewed, with the aim of shortening the lag to three or four months. This will bring alignment with the other reporting entities and provide up-to-date statistics.

Penalties have been issued for the late or non-existent submission of annual financial statements. Funds that default, along with their service providers, will be named and shamed as of 2018/19.

Conduct supervision matters

The Registrar took a more active, intrusive, and intensive approach in assessing the conduct of trustees and administrators.

Acting under section 25 of the PF Act and the Retirement Fund Division's risk-based supervisory plan, 162 on-site visits were conducted on funds and administrators. Significant supervisory issues were identified during the conduct of these on-site visits in respect of the following:

- Boards not properly constituted in terms of section 7A of the PF Act and/or fund rules.
- Administrators not adhering to their responsibilities as outlined in the administration agreement.
- Failure by boards to monitor compliance with provisions of the PF Act, specifically section 13A and Regulation 33.
- Expenses and remuneration of board members that are very high.
- Funds being managed in terms of unregistered rules.
- Failure by boards to timeously reapply for section 7B exemptions prior to the expiration of the exemption.
- Failure by boards to timeously submit annual financial statements and valuation reports.

CURATORSHIP

Three funds and one administrator were placed under curatorship during the period under review.

Litigation matters

The number of new appeals against the Registrar's decisions in the review period decreased from the previous year. Nine new appeals were received in the 2017/18 reporting period, compared to 17 in the previous period. We do not anticipate that appeals to the Financial Services Tribunal in the new authority will be significantly different to current trends.

Ten appeals were pending at the beginning of the review period, and nine new appeals were received. Eight appeals were settled or withdrawn after the Registrar supplied reasons for his decisions, and six appeals were decided by the Appeal Board. Of the remaining five Appeal Board cases, four cases are pending, awaiting finalisation of cases in the High Courts, and one appeal was received in the final month of the reporting period and will be ready for hearing in the next reporting period.

The pending cases await the outcome of applications in the High Court for orders setting aside PF Act Regulation 35(4), as promulgated by the Minister of Finance in 2003. It requires funds that have been allocated to special-purpose 'contingency reserve accounts' shares of surplus allocated to former members (section 15B of the PF Act) to provide in full for the face values of their liabilities for these shares of surplus even if, despite taking all reasonable steps to trace and pay entitled recipients, they have been unable to do so.

The Registrar enforced compliance with this regulation by rejecting reports on the statutory actuarial valuation of funds in which provision for such shares of surplus is lower than the full aggregate face values of the associated liabilities.

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

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

International engagements

The Retirement Funds Division fulfilled its role in the activities of the International Organisation of Pension Supervisors (IOPS), the OECD Working Party on Private Pensions, and SADC's Committee of Insurance, Securities, and Non-banking Financial Authorities (CISNA). We hosted several delegations of regulators, representatives of governments, and parliaments from other African countries during the year.

Policy and regulation matters

AMENDMENTS TO THE PENSION FUNDS ACT

Submissions will be made to National Treasury for amendments to the PF Act.

DIRECTIVES

Directive PF No. 8 regarding the prohibition on the acceptance of gratification was issued during the period.

NOTICES

- Notice No. 1 of 2017 was issued, granting exemptions from the provisions of items 2.1(c)(i), (ii), and (iii) of Table 1 of Regulation 28 in respect of debt instruments issued or guaranteed by a South African bank.
- Notice No. 2 of 2017 was issued determining the rate of interest for purposes of section 19(5)(b)(iii).
- Notice No. 1 of 2018 prescribes the maximum penalty in terms of section 37(2) of the PF Act to be an amount not exceeding R4 000 per day.

GUIDANCE AND INFORMATION CIRCULARS

- Information Circular No. 2 of 2017 provided clarity on the requirements for the cancellation of registration of a fund in terms of section 27(1), and the termination of participation of a participating employer in an umbrella fund.
- Information Circular No. 3 of 2017 provided clarity on the requirements for the appointment of persons to the Board of management of a fund (Board) by the Registrar in terms of section 26(2) of the PF Act.
- Information Circular No. 4 of 2017 provided temporary exemption from compliance with the prescribed periods determined in sections 14(2)(b) and 14(8).
- Information Circular No. 5 of 2017 requested funds to submit information to the Registrar regarding investments in and exposure to Steinhoff International Holdings, Steinhoff Investment Holdings and subsidiaries, following the collapse of its share price.
- Information Circular No. 1 of 2018 provided clarity on the reports to be submitted in terms of sections 7A(4), 8(6), 9(4), 9A(2), and 13B, as well as the disclosures to be submitted in terms of section 9B of the PF Act.
- Information Circular No. 2 of 2018 informed funds and administrators of the Registrar's intention to:
  - o withdraw the audit exemption granted in Board Notice No. 77 of 2014;
  - o make a proposal to the National Treasury for the amendment of section 15 to reduce the period in which funds are required to submit their annual financial statements to the Registrar from six months to three months;
  - o require funds to change their accounting basis to accrual accounting.
- Information Circular No. 3 of 2018 informed funds of the increase in the maximum allowable foreign investment as determined by the SARB.
- Information Circular No. 4 of 2018 was issued wherein the Registrar provided clarity on the effective date of Directive PF No. 8.

Industry overview

As at 31 March 2018, there were 5 118 (31 March 2017: 5 119) registered retirement funds in South Africa of which 1 647 (31 March 2017: 1 758) funds are active (a fund with members for whom it receives contributions and/or pays benefits).

The financial information below includes GEPF, Transnet and Telkom funds, which had the highest aggregate value of assets for the year ended 31 December 2016, according to reports submitted to the Registrar.

Regulated entities supervised at 31 March 2018

Retirement funds	2018
Privately administered (with assets other than policies of insurance)	2 953
Wholly underwritten (only assets being policies of insurance)	2 165
Subtotal	5 118
Pension fund administrators	170
Total	**5 288**

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

Statistics of retirement funds

RETIREMENT FUNDS: FINANCIAL YEAR ENDING 31 DECEMBER 2016						
Financial year ending	**2014**	**Change %**	**2015**	**Change %**	**2016**	**Change %**
Number of funds	5 150	0.1	5 143	(0.1)	5 144	0.0
Membership ('000)	15 943	4.5	16 439	3.1	16 644	1.2
Contributions (R'm)	195 384	11.8	212 908	8.9	227 024	6.6
Benefits paid (R'm)	234 115	23.9	286 968	22.5	325 918	13.57
Assets (R'm)	3 677 244	14.5	4 035 825	9.7	4 146 048	2.7

Supervision

The supervisory activities that took place during the period under review are summarised in the table that follows.

Summary of supervisory activities between 1 April 2017 and 31 March 2018

Activity	Number
Registrations of new funds	17
Umbrella schemes:	
Recording new participating employers and registration of revised special rules	4 811
Recording of termination of participation of employers	2 388
On-site visits	162
Approving rule amendments, revised or consolidated rules	475
Approving schemes to transfer assets and/or liabilities between funds and other entities	3 977
Supervising fund liquidation and cancellation of registration	31
Approvals under section 13B to administrators to conduct retirement fund administration business	1
Withdrawals of section 13B approvals	1
Complaints	498

Note: The table excludes applications received, but not yet finalised

Number of retirement funds by administrator at 31 March 2018

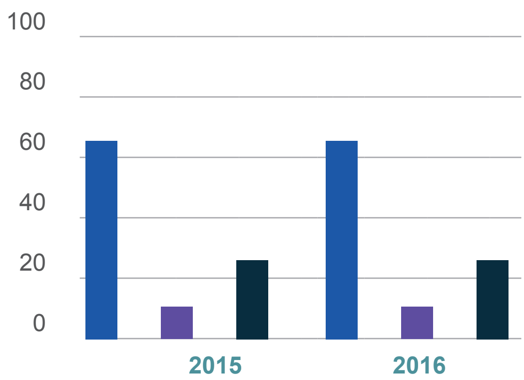
Administrator	Active funds	Other funds*	Total funds
Liberty Group	132	958	1 090
MMI Group	72	728	800
Alexander Forbes Financial Services	294	465	759
Sanlam Life Insurance	113	217	330
Absa Consultants & Actuaries	135	158	293
Old Mutual Life Assurance Company (South Africa)	27	160	187
NBC Fund Administration Services	81	54	135
NMG Consultants and Actuaries Administrators	67	50	117
Own administrator	41	62	103
All other administrators	685	619	1 304
Total	**1 647**	**3 471**	**5 118**

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

MEMBERSHIP

Total membership of retirement funds in South Africa at 31 December 2016 stood at 16 643 722, of whom 11 069 963 were active members and 5 573 759 were pensioners, deferred pensioners, dependants and unclaimed benefit members. Some double-counting is unavoidable, as some individuals are members of more than one fund.

Membership (%)

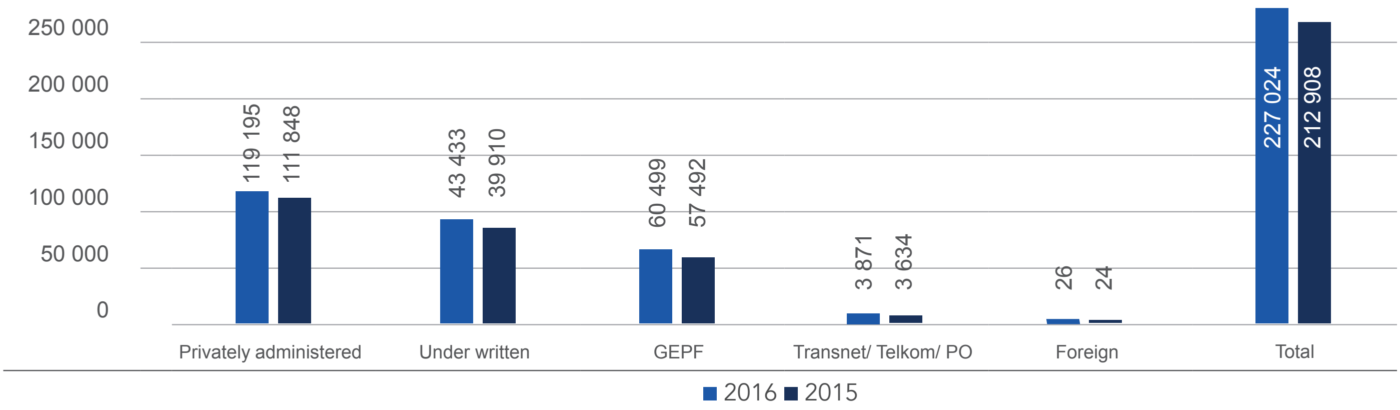


	Privately-administered	Foreign	GEPF	Transnet/ Telkom/ PO	Under-written
2015	64,7	0,0	10,1	0,9	24,3
2016	64,5	0,0	10,2	0,9	24,5

CONTRIBUTIONS

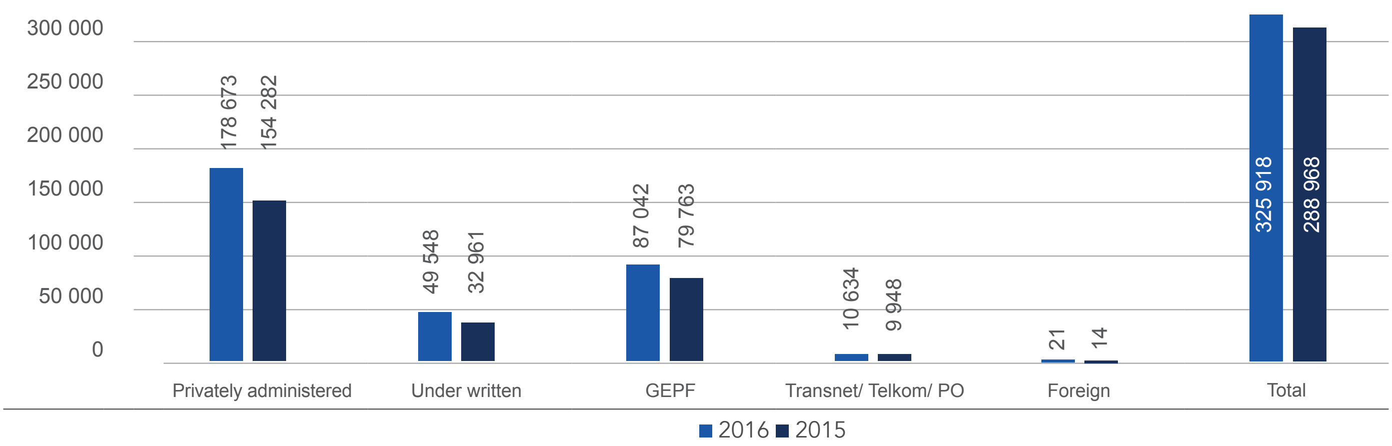
Total contributions received by retirement funds in South Africa increased by 6.6% from R212, 9 billion in 2015 to R227 billion in 2016.

CONTRIBUTIONS (R million) Benefits



Total benefits paid by retirement funds in South Africa, which includes pensions, lump sums on retirement, and death and resignation benefits, increased by 13.6%, from R287 billion in 2015 to R326 billion in 2016.

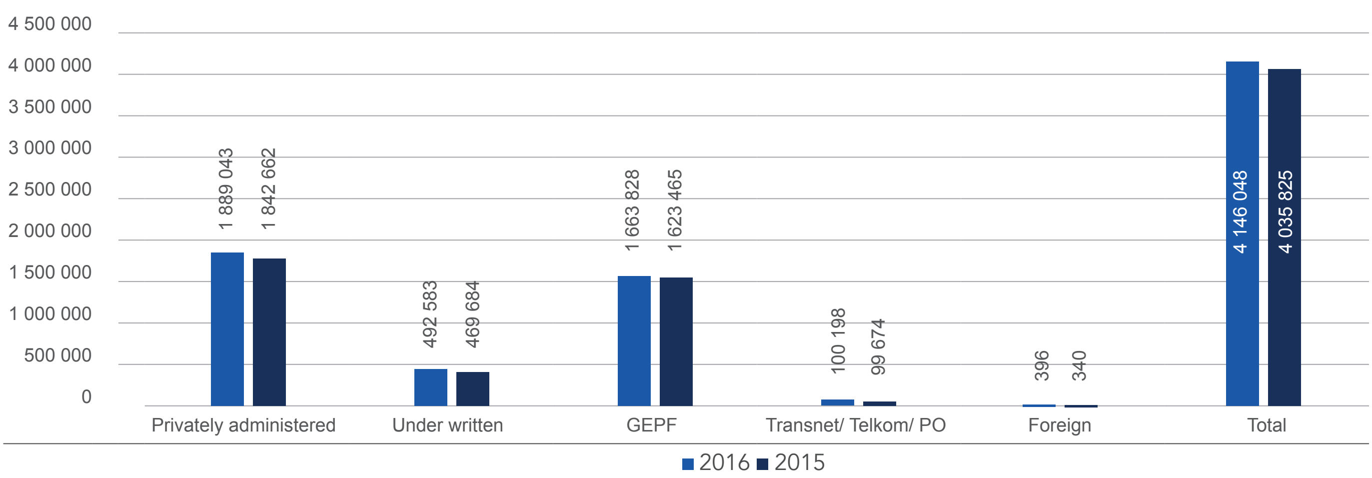
BENEFITS (R million)



ASSETS

Retirement fund industry assets increased by 2.7%, from R4 036 billion in 2015 to R4 146 billion in 2016. The net assets of privately administered funds increased by 2.5% from R1 843 billion in 2015 to R1 889 billion in 2016.

ASSETS (R million)



INSURANCE

About

The Insurance Division was responsible for supervising and enforcing the Long-term Insurance Act, 1998 (Act No. 52 of 1998) and Short-term Insurance Act, 1998 (Act No. 53 of 1998) (insurance acts) to achieve the regulatory objectives of maintaining a fair, safe and stable insurance market that protects policyholders and potential policyholders.

The division comprised seven departments, with the following primary responsibilities:

	Department	Responsibilities
1	Insurance Groups Supervision Department	Supervising the financial soundness and sound governance of insurance groups in South Africa
2	Insurance Prudential Supervision Department	Supervising the financial soundness and sound governance of registered insurers (excluding the insurance groups)
3	Microinsurance Supervision Department	Supervising the conduct of registered insurers providing assistance (funeral) policies in terms of the Long-term Insurance Act 52 of 1998 and acts against persons providing assistance (funeral) policies without being registered to do so Enforcing the Friendly Societies Act 25 of 1956
4	Insurance Regulatory Framework Department	Developing legislative and regulatory frameworks, supporting supervisory staff in the application of the frameworks and conducting relevant research to improve the standard of regulation in line with international requirements and South African circumstances
5	Insurance Compliance Department	Supervising the conduct of business of registered insurers, other than insurers providing assistance (funeral) policies, in terms of the insurance acts and the fair treatment of policyholders and acting against persons conducting insurance business, other than providing assistance (funeral) policies without being registered to do so
6	Insurance Enforcement Department	Managing enforcement action against any insurers found not to be in compliance with insurance legislation and provides legal support to the supervision departments within the Insurance Division
7	Solvency Assessment and Management Unit	Project managing the development and implementation of a new risk-based solvency regime for the South African long-term and short-term insurance industries, to be in line with international standards

During the period under review, the division continued to implement its risk-based supervisory framework and took regulatory action for non-compliance with the insurance acts. The regulatory framework is being enhanced by embedding the Solvency Assessment and Management (SAM) for insurers, as well as various market conduct requirements aimed at supporting the fair treatment of customers.

The Insurance Division was also responsible for supervising and enforcing the Friendly Societies Act, 1956 (Act No. 25 of 1956) (FS Act). The FS Act aims to promote the registration, incorporation, regulation, and dissolution of friendly societies.

The Insurance Division’s actual outputs against its strategic objectives are summarised in the table that follows.

Strategic objective	Departmental objectives / Management action	Performance indicators	Estimated 2016/17 performance	Target 2017/18	Achievement 2017/18
Sound financial institutions					
Regulatory framework in line with international standards. 80% of principles partly, broadly or fully implemented	Report on progress on implementation of relevant findings and recommendations of the peer review	Number of progress reports	Achieve a compliant or substantially compliant result	4 progress reports to International and Local Affairs Unit	Achieved: 4 progress reports
	Regulatory and Research Plan approved by 30 April 2017	Date of approval of Regulatory and Research Plan	Regulatory and Research Plan approved by 30 April 2016	Regulatory and Research Plan to be approved by 30 April 2017	Achieved: Regulatory and Research Plan was approved on 25 April 2017
	Implement Regulatory and Research Plan	Percentage implementation of Regulatory and Research Plan	100% of Regulatory and Research Plan implemented	90% of the Regulatory and Research Plan implemented	Achieved: 100%
	Approval of Solvency Assessment & Management Project (SAM) Plan 2017/18 by 30 April 2017	Date of approval of SAM plan for 2017/18	30 April 2016	Approve SAM plan for 2017/18 by 30 April 2017	Achieved: SAM plan approved on 30 April 2017
	Implement annual SAM Plan	Percentage implementation of SAM Plan	90% of SAM Plan implemented	90% of SAM Plan implemented	Achieved: 90% implementation of quarterly targets as per the Annual SAM Plan

Strategic objective	Departmental objectives / Management action	Performance indicators	Estimated 2016/17 performance	Target 2017/18	Achievement 2017/18
Sound financial institutions					
Conduct risk based supervision to monitor and improve financial investment environment	Approval of annual on-site visit plan 2017/18	Date of approval of on-site visit plan 2017/18	On-site visit plan approved by 30 April 2016	Approve annual on-site visit plan 2017/18 by 30 April 2017	Achieved: On-site visit plans approved by 30 April 2017
	Risk based supervisory reviews for at least 80% of identified high risk regulated entities (Implementation of annual on-site visit plan 2017/18)	Percentage achievement of targets set out in on-site risk based supervision plans 2017/18	Achieved 95% implementation of on-site visit plan	Achieve 80% of targets set out in risk based supervision on-site plans	Achieved: 84%
	Approval of annual supervisory college plan 2017/18	Date of approval of supervisory college plan for 2017/18	Approved supervisory college plan for 2016/17 by 30 April 2016	Approve annual supervisory college plan by 30 April 2017	Achieved: Supervisory college plan approved on 30 April 2017
	Implementation of annual supervisory college plan 2017/18	Percentage implementation of annual supervisory college plan 2017/18	100% implementation of annual supervisory college plan	90% implementation of annual supervisory college plan 2017/18	Achieved: 100% implementation of quarterly targets of the supervisory college plan
	Approval of annual prudential risk based off-site reviews annual plan 2017/18	Date of approval of prudential annual plan for risk based off-site reviews for 2017/18	Approved prudential annual plan for risk based off-site reviews for insurers for 2016/17 by 30 April 2016	Approve prudential annual plan for risk based off-site reviews for insurers for 2017/18 by 30 April 2017	Achieved: Prudential annual plan approved on 28 April 2017
	Implementation of annual prudential risk based off-site reviews annual plan 2017/18	Percentage implementation of annual plan for risk-based off-site reviews for identified regulated entities 2017/18	90% of identified regulated entities analysed on an annual cycle	90% of identified regulated entities analysed on an annual cycle	Not achieved 82.98% implemented for the entire plan
	Approval of Supervisory Plan for the supervision of Friendly Societies	Date of approval of Supervisory Plan for Friendly Societies	No baseline	Approve Supervisory Plan for Friendly Societies by 30 April 2017	Achieved: Supervisory Plan approved on 28 April 2017
	Implement Annual Supervisory Plan for the supervision of Friendly Societies 2017/18	Percentage implementation of supervisory plan	No baseline	90% implementation of annual supervisory plan 2017/18	Achieved: 100% implementation of quarterly targets of the supervisory plan

Strategic objective	Departmental objectives / Management action	Performance indicators	Estimated 2016/17 performance	Target 2017/18	Achievement 2017/18
Sound financial institutions					
Effective enforcement of compliance with legislation	Achievement of commitment time lines in the service level agreement/ commitment (IED)	Percentage achievement of commitment time lines in the service level agreement/ commitment (IED)	100% achievement of commitment time lines in the service level agreement/ commitment (IED)	80% achievement of commitment time lines in the service level agreement/ commitment	Achieved 100% achievement of SLC
	Adherence to service level commitments	Percentage compliance with timelines set out in each division's SLCs	Achieve the turnaround times set in each division's SLCs with regard to licensing, complaints, registrations and other applications/ submissions, for at least 92% of the cases received. (Where all information necessary for the processing has been provided.)	Achieve the turnaround times set in each division's SLCs with regard to licensing, registrations, complaints and other applications/ submissions, for at least 90% of the cases received. (Where all information necessary for the processing has been provided)	Not achieved 88.55%

Regulatory policy projects

SOLVENCY ASSESSMENT AND MANAGEMENT REGIME

The FSB aimed to promote the soundness of insurers and reinsurers by the effective application of international regulatory and supervisory standards that have been adapted to local standards. To this end, the FSB started developing a new risk-based solvency regime for the South African long-term and short-term insurance industries, termed the Solvency Assessment and Management (SAM) regime. The Prudential Authority will continue this work after 1 April 2018. The SAM regime will be implemented with the implementation of the Insurance Act, 2017 (Act No. 18 of 2017) (Insurance Act). It is envisaged that the Insurance Act will be implemented on 1 July 2018.

The SAM risk-based framework is close to finalisation. A complete set of prudential standards, dealing with financial soundness (Pillar I) requirements and Governance and Operational Standards, was published by the South African Reserve Bank (SARB) for formal public comment in March 2018.

CONSUMER CREDIT INSURANCE

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

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

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

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

The amendments to the regulations and policyholder protection rules (PPRs) facilitate alignment with the dti regulation and give effect to certain regulatory reforms proposed in the technical report.

MICROINSURANCE

The Prudential Regulatory Framework for Microinsurance has been included in the Insurance Act. This Act gives effect to the National Treasury Microinsurance Policy Document by supporting the development of an inclusive insurance sector and introducing proportionate regulation and supervision of microinsurance operations and providers. The conduct of business regulatory framework will be included in subordinate legislation to be issued under the remaining parts of the Short- and Long-term Insurance Acts and the FAIS Act.

THIRD-PARTY CELL CAPTIVE INSURANCE AND SIMILAR ARRANGEMENTS

The previous report mentioned that a policy paper on third-party cell captive insurance and similar arrangements that sets out the regulatory proposals in more detail will be issued during the course of 2017. The need to publish the Third Party Cell Captives position paper is under consideration as most policy proposals have already been given effect to through the Insurance Act or the draft Prudential Standards published for comment. Governance requirements for cell captive insurers will also be given effect to in a Prudential Standard. The Standard is being drafted and will be consulted on during the course of 2018. The only outstanding policy issue relates to the definition and treatment of affinity schemes that will be allowed to be cell owners. Once this policy issue is clarified, consideration will be given to how best to give effect to the final policy position.

Regulatory framework

LEGISLATION

The Insurance Act, 2017 (Act No. 18 of 2017) was assented to by the President on 17 January 2018 and published in Government Gazette 41388 of 18 January 2018. The Insurance Act introduces a proactive and risk-sensitive approach to prudential supervision of insurers and insurance groups, and a microinsurance framework. The Minister of Finance may set different dates for different provisions of the Insurance Act to come into operation.

REGULATIONS AND RULES

Phase 1 of the insurance conduct of business reforms will be given effect to in two tranches.[1]

- **Proposed amendments to insurance regulations**
  Tranche 1 of the proposed amendments to the Regulations made under the insurance acts giving effect to a number of regulatory reforms focusing on conduct of business was issued by National Treasury for public comment on 9 December 2016 and published in Government Gazette 40515 of 23 December 2016. Comments were due on 22 February 2017, with an extension granted until mid-March. The comments received were considered in conjunction with National Treasury. On 21 July 2017, a workshop with industry was hosted on the key revisions proposed in respect of the draft amendments to the regulations. On 24 July 2017 the proposed revisions to the draft amendments were circulated to commentators with the purpose of obtaining additional inputs to inform final proposals on the draft amendments. Comments were considered in conjunction with National Treasury and the draft regulations amended accordingly by National Treasury. The draft regulations were submitted to Parliament on 2 November 2017 for parliamentary scrutiny at least one month before promulgation. The amendments to the regulations were promulgated on 15 December 2017 in Government Gazette 41334, effective 1 January 2018, with certain regulations subject to transitional arrangement. These amendments give effect to a number of regulatory reforms focusing on conduct of business, including amendments to the Binder Regulations and certain Retail Distribution Review (RDR) [2] Phase 1 proposals.

  In order to give effect to tranche 2 of the regulatory reforms, the Minister of Finance on 23 March 2018, published proposed amendments to the regulations under the Long-term Insurance Act and Short-term Insurance Act, respectively, for public comment. The proposed amendments focus mainly on aligning the Regulations with the Insurance Act and on improving the premium collection framework. Comments on the proposed draft amendments were due to National Treasury by 23 April 2018.

- **Proposed amendments to PPRs**
  Tranche 1 of the proposed replacement of the PPRs made under the Long-term Insurance Act and Short-term Insurance Act, respectively, giving effect to a number of regulatory reforms focusing on conduct of business, was published in Board Notice 192 of 2016 and issued for public comment on 15 December 2016.

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1 The explanatory document supporting consultation on amendment of the Regulations under the Long-term Insurance Act and Short-term Insurance Act as published with the draft amendments in December 2016 refers.

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

Comments were due on 22 February 2017, with an extension granted until mid-March. Comments were received and considered on 21 July 2017 a workshop with industry was hosted on the key revisions proposed in respect of the draft replacement of the PPRs. Revised PPRs were issued for a second round of consultation on 1 September 2017. Notice of the release of the proposed replacement of the PPRs made under the Long-term Insurance Act and Short-term Insurance Act was published in Board Notice 153 of 2017 for public comment. Comments were due by 2 October 2017.

The PPRs were submitted to Parliament on 2 November 2017 for parliamentary scrutiny at least one month before promulgation. The replacement of the PPRs made under the Long-term Insurance Act and Short-term Insurance Act, respectively – giving effect to a number of regulatory reforms focussing on conduct of business – were promulgated on 15 December 2017 in Government Gazettes 41321 and 41329, effective 1 January 2018 with certain rules subject to transitional arrangement.

The replacement PPRs were promulgated on 15 December 2017 in Government Gazettes 41321 and 41329, effective 1 January 2018, with certain rules subject to transitional arrangement. These replacement PPRs include, amongst others, detailed requirements relating to the fair treatment of policyholders, product design, cooling-off rights, advertising and marketing, appropriate disclosures, data management, and complaints management.

In order to give effect to tranche 2 of the regulatory reforms, the FSB published draft proposed amendments to the PPRs made under the Long-term Insurance Act and Short-term Insurance Act, respectively, for public comment in Board Notice 30 of 2018, on 2 March 2018. Comments on the draft amendments to the PPRs were due to the FSB by 13 April 2018. These proposed amendments to the PPRs are necessary to:

- align the PPRs with the Insurance Act;
- provide for certain conduct of business related requirements that will be repealed from the Long-term Insurance Act and Short-term Insurance Act through Schedule 1 of the Insurance Act once the latter Act commences, as these conduct requirements are better placed in subordinate legislation;
- provide for microinsurance product standards by giving effect to the National Treasury Microinsurance Policy Document.[3]

THE CONDUCT OF BUSINESS RETURN

The conduct of business returns (CBRs) represent the introduction of formalised reporting requirements for all life and non-life insurers on specific market conduct risk indicators. Following an exhaustive consultation and pilot process, the final versions of the returns for Life Individual and Non-Life Personal Lines business were published in December 2016.

Insurers were required to submit their first returns at the end of June 2017, and second returns at the end of October 2017. Utilising a risk-based approach and in order to ensure that insurers have sufficient time to address internal systems and data limitation challenges, they have been provided with a two-year transitional period to achieve full compliance with the reporting requirements. During this transitional period insurers are also required to submit, as well as track, progress against an implementation plan to ensure that they will be able to achieve full and complete reporting on a quarterly basis from the first half of 2019. Insurers were required to submit these implementation plans together with their second round of reporting to provide the FSB with an indication of their state of readiness to achieve adequate compliance within the requisite time frame.

The quality of plans submitted raised serious concerns about the quality of data currently available to insurers, as well as the current capability of their internal resources to provide meaningful reporting to the FSB. As a result, extensive industry engagement is planned for 2018 to assist insurers with the development and tracking of their CBR implementation plans. Due to the challenges being experienced by insurers to adequately report on their Life Individual and Non-Life Personal Lines businesses consultation will commence during 2018 on the appropriate format of returns for Life Group Risk and Fund Business, and Non-Life Commercial Lines Business will be deferred until the latter part of 2018.

During the transitional period leading up to full and complete reporting, information gathered from the returns will be used solely for internal off-site supervisory and framework development purposes and to assist with the formulation of preliminary conduct risk profiles of individual insurers. Publication of comparative indicators and key trends emerging from the analysis of the returns will commence after the transitional period is over and when there is sufficient comfort regarding the integrity and validity of information being submitted.

[3] The South African Microinsurance Regulatory Framework released in July 2011.

Supervisory Matters

INSURANCE GROUP SUPERVISION

The Insurance Division reviewed insurance groups with the cooperation of their management. All identified insurance groups are monitored either annually or biannually (depending on size) as part of the parallel run noted under Solvency Assessment and Management (SAM).

During the year under review, the FSB and the Bank Supervision Department of the South African Reserve Bank continued with their quarterly cross-sector supervisory colleges to discuss major domestic banking and insurance groups. Members from the division also attended international supervisory colleges involving registered insurers.

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

STRESS TESTING

The Insurance Division received annual submissions for all long- and short-term insurers on both economic and insurance stress tests. Based on these submissions, insurers remained resilient to adverse economic stresses and scenarios during the year under review.

FINANCIAL INTELLIGENCE CENTRE ACT MATTERS

The Insurance Division conducted Financial Intelligence Centre Act (FICA) inspections and attended quarterly enforcement forum meetings. During the period, it conducted three FICA on-site inspections on accountable institutions under section 45B of FICA to ensure compliance with anti-money laundering and combating terrorist financing activities. Long-term insurers, as per schedule 1 of FICA, are considered accountable institutions under FICA.

Licences

LONG-TERM INSURERS

During the period, no long-term insurer was registered and one was deregistered. The number of registered long-term insurers at 31 March 2018 is shown in the table that follows.

Number of registered long-term insurers at 31 March 2018

Types	2018	2017
Insurers		
Typical insurers	28	28
Niche insurers	11	12
Linked insurers	12	14
Cell captive insurers	6	6
Assistance insurers	7	7
Insurers in run-off	7	5
Reinsurers		
Long-term only	3	3
Long- and short-term (composite)*	4	4
Total	**78**	**79**

**Composite insurers are treated as separate entities*

SHORT-TERM INSURERS

During the period, no short-term insurer was registered and one was deregistered. The number of short-term insurers registered at 31 March 2018 is shown in the following table:

Number of registered short-term insurers at 31 March 2018

Types	2018	2017
Insurers		
Typical	32	33
Niche	31	33
Cell captive	5	6
Captive	8	8
Insurers in run-off	13	10**
Reinsurers		
Long-term only	3	3
Long- and short-term (composite)*	4	4
Total	**96**	**97****

**Composite insurers are treated as separate entities*

***Restated*

On-site visits

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

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

During the period under review, the division conducted 12 prudential risk-based visits at large insurance groups focusing on either insurance group-related issues or on the solo insurance companies within an insurance group), which did not highlight any serious concerns.

The division conducted 12 market conduct on-site visits at insurers during the period under review. Similar to the previous year, the major concerns highlighted during these visits related to inadequate levels of governance and oversight by insurers who conduct insurance business through binder and outsourced arrangements, as well as inconsistent progress in respect of the operational embedment of Treating Customers Fairly (TCF) principles across the insurance value chain.

In addition, compliance resourcing and technical constraints were evident across most insurers who were visited during the year. Positive findings were also evident across insurers, specifically in respect of the level of engagement by Board members on conduct risk issues as well as focused training interventions for staff in respect of TCF embedment.

Six of those visits were at insurers conducting microinsurance business (assistance business), and highlighted some concerns with noncompliance with section 48 of the Long-term Insurance Act (i.e. providing policyholders with summary of a policy), noncompliance with section 53 of the Long-term Insurance Act (payment of benefits in cash), noncompliance with rule 15 of the PPRs (long-term insurance) 2004, (i.e. conditions of cancellation of assistance business group scheme agreements) and noncompliance with rule 16 of the PPRs (long-term insurance) 2004, (i.e. proper notification to policyholders regarding repudiation of a claim). Any noncompliance was addressed with the relevant insurers and corrective action was taken.

Market conduct thematic reviews

The Insurance Division undertook a comprehensive review of the travel insurance market, namely Travel Insurance Thematic Review. The review focused on an in-depth assessment of the various distribution models and sales, claims, premium handling, and complaints processes of insurers who offer travel insurance products. Five insurers were selected to form part of the review.

A consolidated report setting out the findings of the review is planned to be published in the first half of 2018. Areas of concern relevant to specific insurers identified during the thematic review will be addressed with the relevant insurers, and these will continue to be closely monitored as part of the ongoing supervisory process.

Inspections, referrals, curatorships and liquidations

INSPECTIONS

An inspection of saXum Insurance Limited was requested during the year, following saXum being placed in liquidation. The inspection was still underway by year-end. Two inspections jointly requested by the Registrar and the Registrar of FAIS are still underway.

REFERRALS TO THE SOUTH AFRICAN POLICE SERVICE

Ten matters regarding unregistered insurance business were referred to the South African Police Service (SAPS) for investigation, with the division regularly following up on their progress.

REFERRALS TO THE ENFORCEMENT COMMITTEE

The division refers contraventions of the insurance acts, including those with entities conducting unregistered insurance business, to the Enforcement Committee (EC). The division referred three insurers during the year – two of which were fined for contravening rule 16.1(c) of the PPRs (long-term insurance) 2004, and rule 5.1(a)(i) of the PPRs (long-term insurance) 2004. The other insurer was referred for contravening section 49 of the Long-term Insurance Act. The remaining case is still being considered by the EC.

CURATORSHIPS

New Era Life Company Limited entered curatorship in September 2009 and was placed under business rescue in October 2012. On 25 October 2016, approval was granted to Limpopo Economic Development Agency to acquire the entire shareholding in New Era. The prohibition imposed on New Era to conduct new long-term insurance business (in terms of section 12 of the Long-term Insurance Act 52 of 1998), was lifted, subject to certain conditions being met. The conditions were met, and the business was handed over to the Limpopo Economic Development Agency as the new shareholder in August 2017. A notice of substantial implementation of the Business Rescue Plan was filed with CIPC on 6 October 2017, ending the business rescue proceedings and terminating the curatorship.

LIQUIDATIONS

The Johannesburg High Court granted an urgent application launched by the Registrar of Short-term Insurance to place saXum Insurance Limited under final liquidation on 20 October 2016. In launching this application, the Registrar was satisfied that it was in the interests of saXum's policyholders that the company be placed into liquidation due to its insolvency and to prevent further erosion of its assets.

On 28 November 2016, the Master of the High Court appointed four liquidators as joint final liquidators of saXum. Subsequent to the liquidation, the Registrar instructed an inspection into the business activities of saXum and the third parties that it conducted business with before its liquidation. saXum remains in liquidation and the said inspection is continuing. A draft inspection report was issued to the inspected parties for comment. The parties' comments are under consideration. The FSCA is working closely with the liquidators of saXum and other relevant stakeholders to assist policyholders by expediting the finalisation of all outstanding claims.

APPEALS

No new appeals were lodged against the decision of the Registrar in the reporting period.

Regulatory actions

UNREGISTERED INSURANCE BUSINESS

The Insurance Division continued its campaign to name and shame entities conducting unregistered insurance business by publishing their details in national newspapers or FSB media releases. During the period under review, the names of 13 entities were published. The notices warned the public to be cautious when buying funeral insurance policies and ensure that entities are underwritten by a registered long-term insurer.

The division also undertook investigations into 57 entities who were alleged to have been conducting unregistered insurance business during the period under review.

CONSUMER COMPLAINTS

During the reporting period, the division received 897 complaints, 69% of which were resolved. Outstanding cases are still being investigated.

Engaging with local industry associations

The Insurance Division liaised regularly during the year under review, with industry ombuds, representative bodies of insurers, intermediary associations, and the auditing and actuarial professions.

International engagements

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

The International Association of Insurance Supervisors (IAIS) is the global standard-setting body for insurance regulation. Its membership spans over 200 jurisdictions worldwide. The FSB is a member of IAIS. Members of the FSB Insurance Division attended numerous IAIS working group and committee meetings during the year under review.

COMMITTEE OF INSURANCE, SECURITIES AND NON-BANKING FINANCIAL AUTHORITIES FOR SADC

The Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA) falls under the SADC committee of senior treasury officials. Its members are supervisory authorities of capital markets, retirement funds, collective investment schemes, insurance companies, medical schemes, microfinance and financial cooperatives, and providers of intermediary services from SADC countries. As at 31 March 2018, the CISNA Secretariat is housed at the FSB and the committee meets at least biannually. Members of the FSB Insurance Division attended a number of CISNA meetings during the year.

FINANCIAL ADVISORY AND INTERMEDIARY SERVICES

About

The Financial Advisory and Intermediary Services (FAIS) Division was responsible for the administration of the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002) (the FAIS Act).

Department		Responsibilities
1	Registration Department	Processing new licence applications for financial services providers Processing profile changes (changes to application details under the licence conditions of financial services providers or FSPs) Approving compliance practices and compliance officers or those that provide these services under supervision Updating the central representative register Approving mandates and voluntary lapsing of licences Approving recognition of qualifications and regulatory examinations
2	Supervision Department	Overseeing FSPs and compliance officers. Department uses a risk-based supervision framework for both on-site and off-site monitoring
3	Compliance Department	Ensuring that all financial services providers are held to a high degree of compliance with the FAIS Act Ensuring that appropriate regulatory and enforcement action is taken against any person, including unregistered persons, who contravene the Act
4	FAIS Legal Unit	Processing exemption applications and developing and maintaining the legislative and regulatory framework applicable to financial services providers

Registration

Financial services providers (FSPs) are classified into the following five categories:

- Category I - financial advisers and those intermediaries who render financial services but don't fall into any of the other categories.
- Category II - referred to as Discretionary FSPs
- Category IIA - hedge fund managers
- Category III - administrative FSPs
- Category IV - assistance business FSPs

Given the different categories and business models of each applicant, the Registration Department adopted different approaches in scrutinising each licence application. On-site visits were conducted with all highly complex categories (mainly IIA and III) prior to the Registrar's decision, possibly impacting said decision.

We continuously consulted with both local and foreign regulatory authorities when considering applications. This consultation is on the basis of a memorandum of understanding for information sharing.

NEW APPLICATIONS

During the reporting period, 1 116 new applications were authorised, compared to 1 133 in the prior year, with 90% of the applicants being authorised as category I FSPs, and the remainder for category II and IIA financial services activities. Twenty-one applications were declined due to not meeting the fit and proper requirements for FSPs. A total of 335 FSPs voluntarily requested to have their authorisation lapsed.

Total number of authorised FSPs as at 31 March 2018

Category I (Advise/ Intermediary Services & Foreign FSPs)	Category II (Discretionary FSPs)	Category IIA (Hedge Fund Manager FSPs)	Category III (Administrative FSPs)	Category IV (Assistance Business Administration FSPs)
10 139	670	127	28	111

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

PROFILE CHANGES

There was a high volume of profile change applications. During the reporting period, a total of 51 235 profile change applications were received and processed and 48 307 were completed. The department continues to improve the efficiency of this process to ensure adherence to the required service levels.

COMPLIANCE OFFICERS

In terms of the FAIS Act, an authorised FSP with more than one key individual or more than one representative must appoint one or more compliance officers. The compliance officer must meet the minimum prescribed requirements to be approved by the Registrar. The department approved three types of compliance arrangements, namely compliance practices including juristic persons, in-house compliance officers who monitor compliance for specific FSPs by virtue of their contract of employment, and compliance officers under supervision.

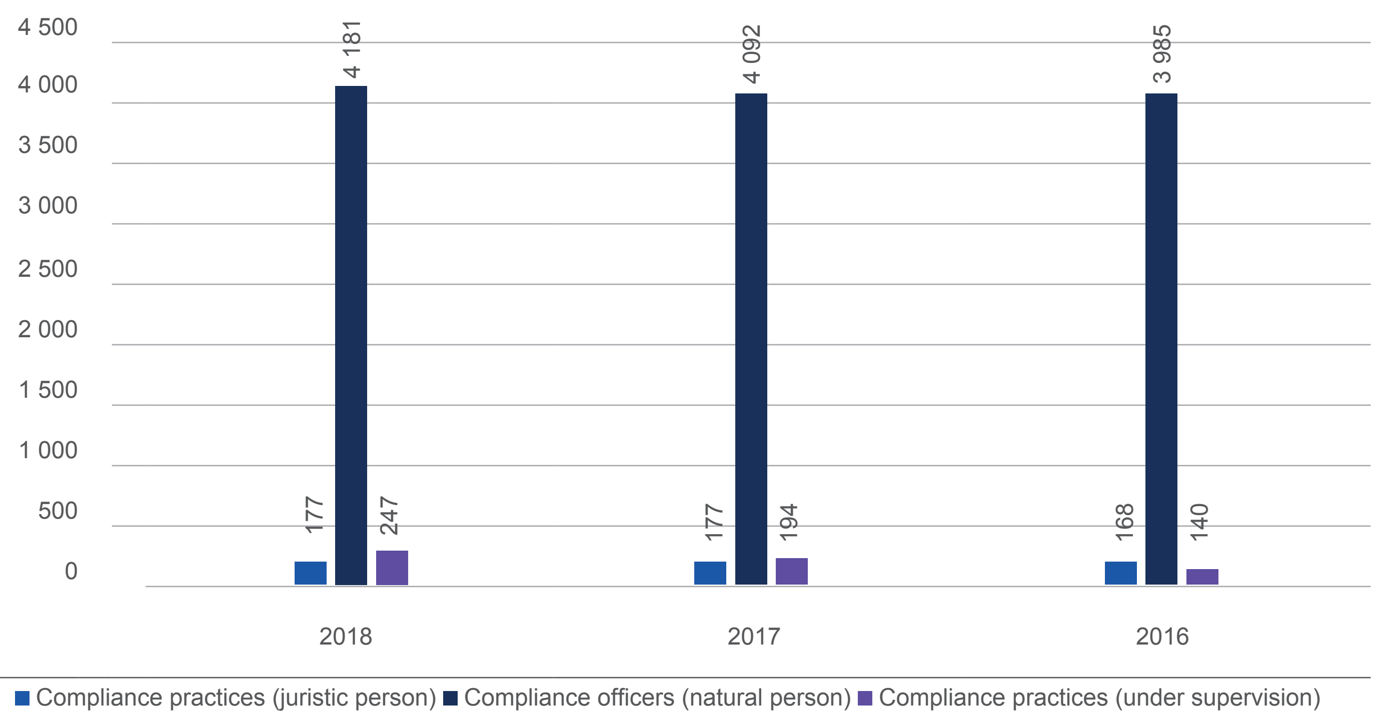
During the reporting period, the department did not receive any phase I compliance practice applications for approval, but received 89 approved phase I applications for compliance officers (both in-house and those employed by compliance practices), and 53 compliance officers under supervision.

Compliance officers under supervision are individuals who do not have the required experience and render services under the guidance, instruction, and oversight of a supervisor in terms an exemption by the Registrar under Board Notice 126. There was an increase in the number of approved compliance officers under supervision, in order to create a pool of compliance officers in the financial services who are fit and proper.

Total approved compliance practices and compliance officers at 31 March 2018

Year	Compliance practices (juristic persons)	Compliance officers (natural persons both in-house and external)	Compliance officers approved under supervision
2018	177	4 181	247
2017	177	4 092	194
2016	168	3 985	140

The increase in number of compliance practices and compliance officers approved



LAPSES

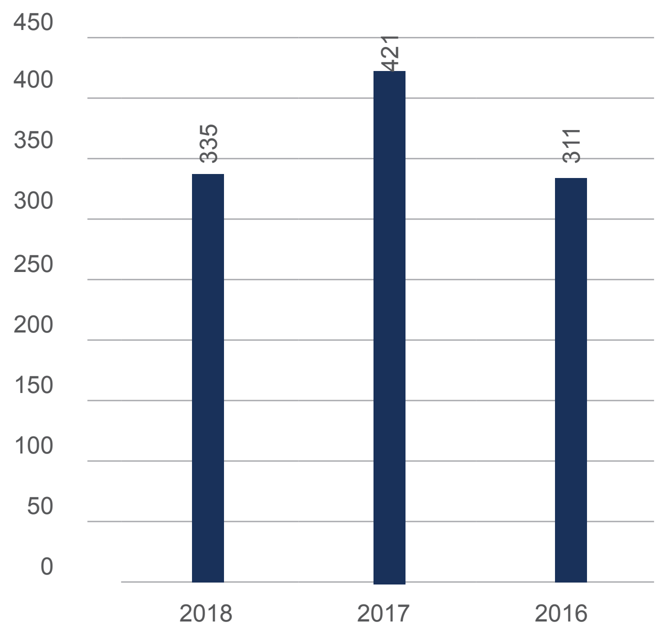
A total of 335 licences were voluntarily lapsed, a decrease from 421 in the previous year. These were due to business mergers, retirements and independent FSPs who decided to provide financial services as juristic representatives under other authorised FSP licences.

Total approved compliance practices and compliance officers at 31 March 2018

2018	2017	2016
335	421	311

Three-year lapse comparison at 31 March 2018

LAPSES



COMPETENCY FRAMEWORK

Consultation with the industry on the amendments to the fit and proper requirements was completed. Comments received were reviewed and incorporated into the final document which was published on 17 December 2017. Implementation of the amendments to the fit and proper requirements will be effected in phases, starting in April 2018.

The new FAIS licence application form and Regulatory Examinations will be among the items to be implemented in April.

NEW LICENCE APPLICATION FORM

A new licence application form was developed to provide, among others for the revised fit and proper requirements and to obtain information regarding the race and BEE status of applicants. The latter will enable statistical analysis of transformation in the financial industry.

REGULATORY EXAMINATIONS

Some of the questions in the question bank will be changed as a result of the amendment to the fit and proper requirements. The question bank is in the process of incorporating the new questions which will be available from 3 April 2018. Key individuals, representatives and compliance officers are required to write regulatory examinations.

Compliance officers are required to write the regulatory exams (RE1) as part of the fit and proper requirement. Compliance officers serving under supervision are required to have passed the RE1 with 24 months from the date of approval.

RECOGNISED QUALIFICATIONS

A total of 173 qualifications were submitted for recognition, during the year under review. The submitted qualifications had to meet specific criteria as published in the current fit and proper requirements, in order to be recognised.

Number of qualifications recognised between 1 April 2017 and 31 March 2018

Total received	Approved	Declined
173	169	4

Supervision

CATEGORISING FSPs

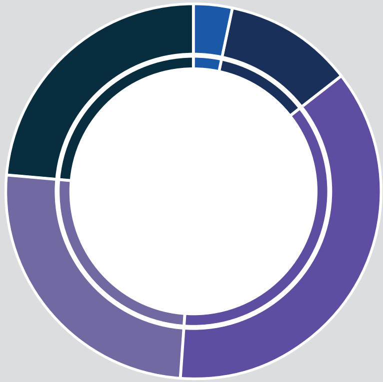
The FAIS Supervision Department was responsible for the oversight of financial services providers and compliance officers and follows a risk-based supervision framework.

The risk-based supervision approach, categorises FSPs (see table and graph below) according to the risks underlying their business activities and the impact thereof on consumers of financial services and products.

Risk categorisation of financial services providers

Risk categorisation	2018	2017
High impact	384	360
Medium-high impact	1 227	1 175
Medium impact	4 066	3 904
Small-medium impact	2 805	2 635
Small FSPs	2 593	2 595
TOTAL	**11 075**	**10 669**

Risk categorisation of financial services providers



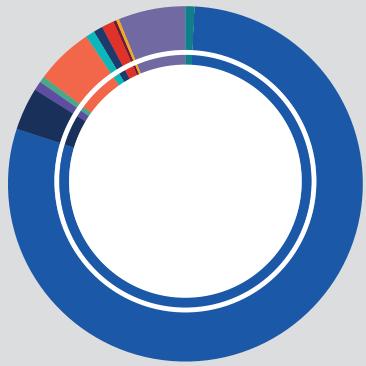
Supervisory developments

OFF-SITE MONITORING

The off-site monitoring activities for the year under review included:

- Financial statements
  Authorised FSPs are required to submit annual financial statements in terms of the FAIS Act. The risk categorisation of FSPs determines whether or not financial statements have to be audited. A total of 9 479 financial statements were received and analysed during the reporting period. A total of 283 financial statements are pended for further information. Below is a breakdown of information relating to the financial year end of the various FSPs and their respective submission dates.

Financial year-end	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Number of FSPs	111	8 766	414	98	70	594	74	113	120	31	22	662
Submission Date	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Percentage (%)	1	79.15	3.74	0.88	0.63	5.36	0.67	1.02	1.08	0.28	0.2	5.99

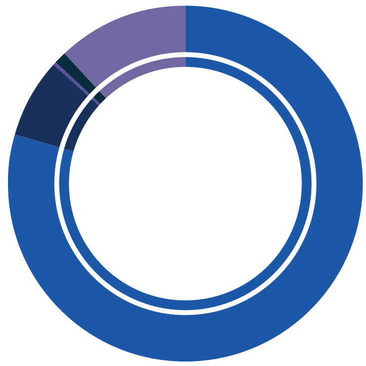


- **Extension requests**
  The department granted extensions for the submission of financial statements. For the period under review, 729 extension applications were considered, of which 639 were granted, 45 declined, and 45 are still under consideration. The department follows a stringent criterion when considering extension applications. Extension requests that were not supported by sufficient reasons and motivation, or where there were outstanding financial statements and compliance reports for prior years or missed deadlines for previous submissions were declined. There was a decrease of 6% in the number of extension requests from the previous reporting period.

- **Compliance reports**
  Authorised FSPs are also required to submit compliance reports in the correct manner as well as regarding the correct matters as determined by the Registrar, from time to time. FSPs authorised for category I activities are required to submit compliance reports annually, and FSPs authorised for category II, IIA, and III activities are required to submit reports biannually. A total of 10 391 compliance reports were received and analysed and 450 were pended for further information during the reporting period.

Submission of compliance reports

Category of FSP	Frequency	Number of FSPs	Percentage (%)
Category I	Annual	8 824	80
Category II & IIA	Bi-annual	797	7
Category III	Bi-annual	28	0.25
Category IV	Annual	111	1.
Funeral Assistance FSPs	Annual	1 315	12



- **Irregularity reports**
  In terms of the FAIS Act, compliance officers and auditors must report material breaches (irregularities) to the Registrar. During the review period, 89 irregularity reports were received. These were investigated, with 58 finalised and 31 still under consideration as at 31 March 2018.
- **Conduct of Business Report**
  The current compliance report under section 17(4)(a) of the FAIS Act will be replaced by the proposed Conduct of Business Report (COBR).

  The proposed COBR was necessitated by the changing regulatory landscape and the focus on outcome-based regulation and proactive supervision. It further seeks to address the inefficiencies created by requiring providers, who are regulated in terms of other laws administered by the FSB, to submit the same information more than once to the FSB.

  The COBR was published for comment on 6 December 2016 and the closing date was 28 February 2017. Comments were considered and the relevant amendments made. Due to the extensive changes made to the first draft of the COBR, the Registrar deemed it necessary to publish the COBR for a second round of public consultation.

ON-SITE MONITORING

A total of 151 on-site visits were conducted, comprising 131 thematic on-sites and 20 ad hoc visits during the reporting period. Management meetings were also held with various FSPs, where regulatory matters and developments in their respective businesses were discussed and considered.

- **Thematic reviews**
  Thematic reviews were conducted as follows:

  o **Category I FSPs (small FSPs without compliance officers)**
  The FSB introduced an educational intervention for Category I FSPs who do not employ the services of a compliance officer, in 2014. The purpose of the intervention is to provide guidance and assistance in developing a sound compliance culture within the affected FSPs to ensure sustainability of licenses. A total of 60 FSPs were visited and participated in this initiative during the period under review.
  Eighty percent of FSPs visited were found to be contravening section 42 of the Financial Intelligence Centre Act (FICA), which requires the formulation and implementation of internal rules and 44% of the FSPs contravened section 43B of FICA, which requires an accountable institution to register with the Financial Intelligence Centre (FIC).
  Other contraventions related to disclosure requirements; conflict of interest policy; business information not updated within 15 days of change; and business continuity plan.
  In addition to these on-site visits conducted, face-to-face workshops were held with the said FSPs, in which the amendments to the FICA were addressed and explained in a practical manner. A total of three workshops were conducted – in Bloemfontein, Port Elizabeth, and Polokwane – and 84 FSPs participated in the workshops.
  The Registrar intends to continue with this initiative and to support and provide guidance to newly authorised SMMEs and those with existing licenses, to ensure that they comply with their regulatory obligations.

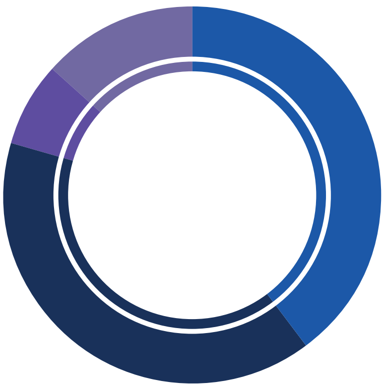
  o **Category I FSPs (with juristic representatives)**
  The focus of the theme visits was to identify the way in which FSPs implement the provisions of section 13(1)(c) of the FAIS Act. The original implementation date of section 13(1)(c) was set for 30 May 2014, but the implementation was further extended to 30 June 2015.
  The Registrar had received information indicating that FSPs who appointed juristic representatives were allowing such representatives to act in a principal capacity rather than in an agent capacity. This created

the undesirable business practice of "renting a licence" where the FSP had little insight into the activities performed by the juristic representative. A secondary consequence was that when the representative contracted with product suppliers in a principal capacity, the FSP was not necessarily informed of such contractual agreements. And a third area of concern was that juristic representatives were collecting premiums or receiving funds from clients, which were not reflected in the financial statements of the FSP and thus not reported on by the auditor.

The implementation of section 13(1)(c) has in general been complied with by the FSPs visited. However, the main area of concern remains the collection of premiums in bank accounts held in the name of the FSP. The Registrar published two exemption notices addressing the collection of premiums by juristic representatives.

- **Hedge funds and discretionary FSPs (category II and IIA):**
  The primary objective of the project was to review the overall compliance culture of the FSPs authorised for activities under this category. During the 2018 financial year, a total of 11 hedge fund FSPs were visited. There were no material findings from this project that necessitated regulatory action against any of the FSPs that were visited. However, there were areas of noncompliance that were observed, including failure to timeously inform the Registrar of the changes in the profile of the FSPs and prescribed professional indemnity insurance for the category of FSPs.

Thematic risk assessment visits conducted



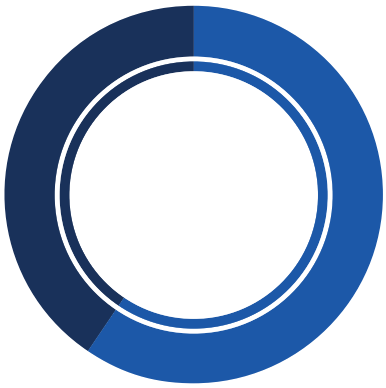
- **Ad hoc visits**
  The ad hoc visits were informed by the complaints received by the Registrar, and focused on the operational ability of the key individual and compliance officers of the affected FSPs. The findings of these visits highlighted the practice of renting licences by the key individual of various FSPs. The recent amendment to the fit and proper requirements, with particular reference to the operational ability of key individuals, is aimed at addressing this practice.

Referrals for regulatory action

A total of 219 FSPs were referred for regulatory action due to various contraventions of the FAIS Act and subordinate legislation including:

- **Failure to meet fit and proper requirements in respect of:**
  - personal character qualities of honesty and integrity;
  - competence;
  - operational ability;
  - financial soundness
- Failure to comply with the General and Specific Code of Conduct for financial services providers.

Referrals for regulatory action – comparison between year-end 31 March 2017 and year-end 31 March 2018



There was a decrease of 32% in the number of referrals for regulatory action

COMPLIANCE WITH GENERAL CODE OF CONDUCT

There has been general improvement in the compliance culture of FSPs. This is supported by the decrease in the number of FSPs referred for regulatory action. The open communication lines between the Registrar's office and FSPs through various platforms has been an effective tool in ensuring that FSPs have a good understanding and appreciation of their regulatory obligations.

FSPs who failed to comply with the legislation, despite being afforded ample opportunities to address identified areas of noncompliance, were referred for regulatory action.

General compliance with the General Code of Conduct by authorised FSPs

	Description	2018	2017	2016
1	Sections 4 and 5 of general code of conduct (code): disclosure documentation non-compliant	29	29	35
2	Licence conditions: business information not updated within 15 days of change occurring	21	48	42
3	Non-compliance with part VIII of the determination of fit-and-proper requirements – FSP does not have a business continuity plan	17	23	30
4	Sections 11 and 12 of code: FSP's risk management plan is inadequate	10	15	27
5	Sections 16-19 of code: FSP does not have complaints handling policy and resolutions system in place	13	18	22
6	FSP has not adopted, maintained and implemented a conflict of interest management policy	23	11	18
7	Areas of concern / non-compliance raised with the FSP in the FICA inspection feedback letter	32	42	-
8	BN 123 of 2009: FSP does not have the required PI cover	16	10	-
9	Section 13(1)(c) of the Act: The FSP does not comply with this section of the Act	9	10	
10	Section 9(1) of GCOC: FSP doesn't keep a copy/record of the advice furnished	18	-	-

NOMINEE COMPANIES

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

EXEMPTIONS

During the reporting period, a total of 31 financial soundness exemption applications were received.

Exemption application status at 31 March 2018

Status	2018	2017
Exemptions granted	11	10
Exemptions declined	2	0
Pending applications	8	39
Withdrawn applications	4	4
Extensions of exemptions previously granted	6	-
TOTAL	**31**	**53**

Financial Intelligence Centre Act 2001

SUPERVISION OF COMPLIANCE WITH THE FINANCIAL INTELLIGENCE CENTRE ACT

The Supervision Department is responsible for the oversight and supervision of compliance with the Financial Intelligence Centre Act 2001 (FICA). Various supervisory tools are used in the department to monitor the level of compliance with the FICA by authorised FSPs such as on-site inspections and desk based analysis of compliance reports.

IMPLEMENTATION OF AMENDMENTS TO THE FINANCIAL INTELLIGENCE CENTRE ACT

During the period under review, the department participated in a process to review the FICA. The amendments are intended to strengthen SA's AML/CFT regime and to ensure full compliance with the Recommendations and Standards of the Financial Action Task Force.

The Act was signed into law on 26 April 2017 and came into operation on 13 June 2017 and 2 October 2017 respectively. The cut-off date for enforcing compliance with the above-mentioned new provisions has been delayed until 2 April 2019.

SUPERVISORY ENGAGEMENTS

During the reporting period, the Supervision Department engaged in a range of supervisory activities in order to achieve its legal mandate. These included:

- **On-site inspections**
  FICA inspections were conducted on all FSPs visited by the department during the review period. The inspections were conducted on an ad hoc or targeted basis in order to proactively assess compliance with the FICA. Not all of the FSPs visited received the same level of scrutiny. The scope and intensity of the inspections were determined using a risk-based approach.

  The outcome of the inspections was communicated to relevant FSPs. There were no findings against 54 FSPs. A total of 55 FSPs were given the opportunity to apply remedial actions in terms of section 43 of FICA. These FSPs were also assisted with methods of correcting the noncompliance. The affected FSPs have addressed all identified shortcomings. The department also imposed administrative sanctions in terms of section 45 of the FICA against two FSPs. The sanctions included cautions, reprimands, and directives to remedy the noncompliance.

- **FICA workshops**
  During the period under review, the department continued with its efforts to raise awareness – by informing, supporting, and educating authorised FSPs regarding their FICA obligations. To that effect, the department conducted interactive workshops for category I FSPs in Bloemfontein, Port Elizabeth, and Polokwane.

- **Cooperation with relevant stakeholders**
  The department continued to collaborate with other supervisory bodies, by sharing and exchanging relevant information during meetings and FICA Enforcement Forums. The department also participated in several workshops hosted by the FIC and National Treasury on implementation of the FIC Amendment Act. These cooperation efforts are seen as an effective tool for strengthening supervisory oversight.

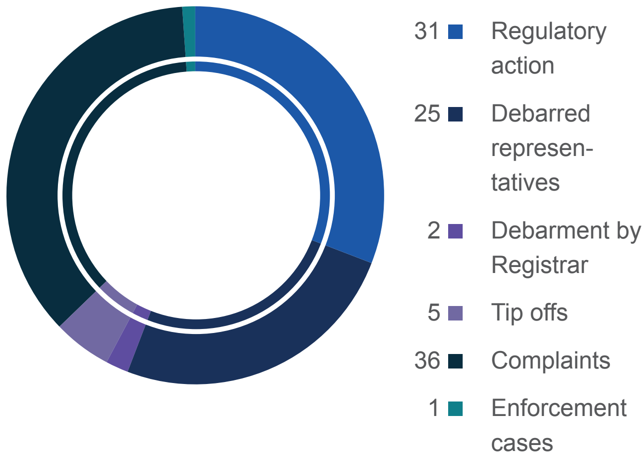
Ensuring compliance with the Financial Advisory and Intermediary Services Act

The Compliance Department's goal was to ensure that all FSPs were held to a high degree of compliance with the Financial Advisory and Intermediary Services Act (FAIS). It considered complaints on contraventions of the FAIS Act and referrals of non-compliance from other departments on evidence of misconduct and non-compliance.

Non-compliance can result in the suspensions or withdrawal of licences, debarment of any person or referral to the enforcement committee for the imposition of an administrative penalty. The department opened 5 343 cases during the reporting period. The department's responsibilities included the following:

- Complaints handling.
- Anonymous tip-offs.
- Regulatory action.
- Register of debarred representatives (debarred by FSPs).
- Debarment by the FSB.
- Enforcement cases.

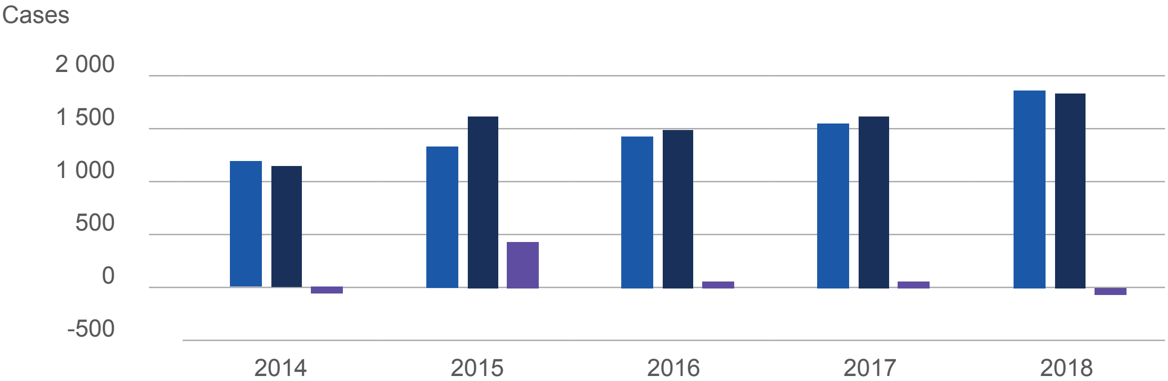
Summary of activities of the Compliance Department at 31 March 2018



COMPLAINTS

There was an upward trend in complaints received during the five-year period between 2014 and 2018, while at the same time the number of complaints that the department managed to resolve also increased significantly. Cases received increased by 714, from 1 123 to 1 837 (an increase of 64%), and the number of cases resolved increased from 1 110 to 1 837 (also an increase of 64%). The increases are largely attributable to increased stakeholder awareness of the regulator's functions, as a result of consumer education awareness programmes. The improvement in the turnaround of received complaints is attributed to the department's concerted effort to prioritise complaints and optimally allocate cases. During the reporting period, complaints received increased by 19%, from 1 544 in 2017 to 1 837 in 2018.

Summary of activities of the Compliance Department at 31 March 2018



	2014	2015	2016	2017	2018
Received	1 123	1 169	1 456	1 544	1 837
Finalised	1 110	1 663	1 511	1 614	1 823
Lag	-13	494	55	70	-14

REGULATORY ACTION

Regulatory action cases opened against authorised FSPs, who failed to comply with the provisions of the Financial Advisory and Intermediary Services Act declined by 36% during the reporting period – from 2 542 to 1 636. The number of licences that were suspended and withdrawn declined by 29%, and 5%, respectively, during the same period in 2017. The decline in these cases is attributable to improvement in compliance culture, as more key individuals and sole proprietors pass the regulatory examinations.

The percentage of licences that were able to comply with the conditions for the lifting of a suspension decreased by 44% during the period. This decline has been due to the timing of regulatory action – as 91% of the 581 suspensions representations were made in February 2018.

DEBARMENTS

There are two categories of debarments; a debarment by the Registrar, and a debarment of representatives by the FSPs.

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

During the period under review, the Registrar debarred 122 persons as compared to 140 in the previous year, representing a decline of 13%.

A FSP is required in terms of section 14(1) of the FAIS Act to debar any of its representatives who no longer comply with the fit and proper requirements, or have contravened the Act, and to inform the Registrar of such a debarment within 15 days, to enable the Registrar to update a central register of representatives. The role of the Registrar is merely to update the central register.

During the period, there were 1 334 representatives compared to 1 200 during the previous reporting period that were debarred by the FSPs in terms of section 14(1). This represents an increase of 11%.

ENFORCEMENT ORDERS

Five enforcement orders were issued against FSPs for contravening the Financial Advisory and Intermediary Services Act, with penalties totalling R430 000.

Enforcement orders for contravening the Financial Advisory and Intermediary Services Act

Name of FSP	Section Contravened	Penalty imposed
DELL Computer (Pty) Ltd FSP 47015	7(1)	R100 000
AEGIS Outsourcing SA FSP 25021	7(1)	R250 000
REFINERY 5 (Pty) FSP 47387	7(1)	R20 000
MZALA and Company FSP 45629	7(1)	R20 000
Tendai Nyadombo FSP 26918	7(1)	R40 000

LEGISLATIVE AMENDMENTS

The Financial Advisory and Intermediary Services (FAIS) Division was responsible for supervising and enforcing the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002), to achieve the regulatory objectives of creating a responsible and safe environment for consumers of financial services and for ensuring that consumers are treated fairly by regulating the conduct of financial services providers and their representatives. During the year under review, the legislative framework was continuously enhanced by embedding market conduct requirements aimed at supporting fair treatment of and good outcomes for clients.

- **Amendments to Financial Advisory and Intermediary Services Act**
  On 29 March 2018, the Minister of Finance determined the dates on which the various amendments to the FAIS Act that was published in Schedule 4 of the Financial Sector Regulation Act, 2017, came into effect. The Minister determined 1 April 2018 as the date on which representatives who were debarred by their FSPs in terms of section 14 of the FAIS Act may apply for a reconsideration of that debarment by the Financial Services Tribunal. In addition, from 1 April 2018 authorised agents of managers as contemplated in the Collective Investment Schemes Control Act, 2002, are required to be authorised as financial services providers.

- **Revised fit and proper requirements**
  During the reporting period, the fit and proper requirements applicable to persons rendering financial services were reformed. This was to provide for an effective and proportionate framework to ensure that FSPs have the right level of operational ability, financial soundness, honesty and integrity, and competency, while meeting appropriate standards of professionalism and undergoing continuous professional development.

  The reforms built on existing requirements, and shifted from predominantly rules to requirements that are more principle in nature and focused on outcomes. Additional requirements, related to good standing, training, operational ability, governance, outsourcing, financial soundness, and early warning requirements, were introduced. The new requirements were published on 15 December 2017, coming into effect on 1 April 2018.

- **Amendments to General Code of Conduct**
  Proposed amendments to the General Code of Conduct were published on 1 November 2017 for public comment. The amendments, inter alia, seek to allow for enterprise development contributions to promote transformation and inclusion, and to give effect to a number of proposals published in the Retail Distribution Review – in which reforms to the regulatory framework for financial advice and distribution of financial products were proposed. It further seeks the alignment of advertising, marketing, and complaints handling requirements with similar requirements in the Long-term and Short-term Insurance Policyholder Protection Rules, as well as the prohibition of the use of a person's authorisation status to market other services.

EXEMPTIONS AND APPEALS

The Division received 1 625 applications for exemptions, of which 1 477 were granted during the review period. This was a significant decrease from the previous review period, mainly to due to the absence of bulk applications by financial institutions on behalf of their representatives.

Exemptions were only granted for a limited period, to allow a person to meet the regulatory obligations and to promote and facilitate transformation in the financial services sector – particularly through the promotion of the inclusion of previously disadvantaged persons in the economy by direct participation without compromising the fair treatment of or good outcomes for clients.

Conditions are imposed on all exemptions, to provide for additional safety measures and more intensive oversight. To promote transparency, all exemptions were published on the website, and disclosure of the exemption to clients – prior to the rendering of financial services – was made a condition of the exemption.

The number of appeals lodged against the Registrar's decisions during the review period decreased slightly from 25 appeals during the previous year to 22 appeals during the reporting period. Most of the appeals lodged were related to decisions by the Registrar to take regulatory action due to a lack of honesty and integrity.

COLLECTIVE INVESTMENT SCHEMES

About

The focus of the Collective Investment Schemes Division was to ensure that industry participants structure their operations in a manner that sufficiently protects the interests of investors.

	Department	Responsibilities
1	Collective Investment Schemes Department	Supervises collective investment schemes in securities, in property and in participation bonds in terms of the Collective Investment Schemes Control Act, 2002 (Act no.45 of 2002). The department also approves foreign collective investment schemes to market their products in South Africa
2	Hedge Funds Department	Facilitating oversight of the hedge funds industry in South Africa in line with section 63 of the Collective Investment Schemes Control Act 45 2002 (CISCA)

Industry overview

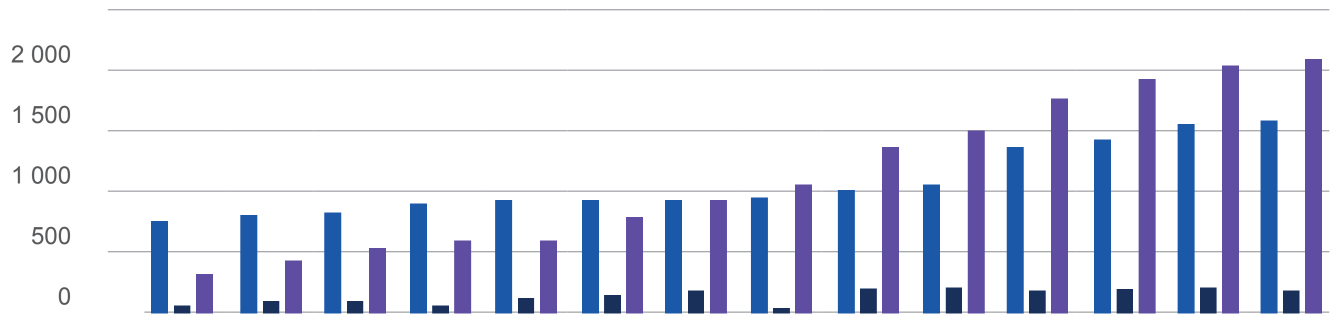
SOUTH AFRICAN COLLECTIVE INVESTMENT SCHEMES IN SECURITIES

The South African collective investment schemes in securities industry set a new record of R2.17 trillion in assets under management as at the end of March 2018, compared to R2.06 trillion in March 2017. This figure excludes the Fund of Funds category for double counting purposes.

During this period, the CIS industry experienced a decrease in both the number of portfolios and net flows as compared to the previous period. The number of approved portfolio decreased from 1631 as at the end of March 2017 to 1601 as at the end of March 2018. The decrease in the number of portfolios is reflective of some consolidation in the sector, which also resulted in the reduction in the number of CIS Managers from 51 to 50 over the period. Notably, this is also the first period over which the number of approved portfolios has decreased. Similarly, net flows decreased from R157 billion at the end of the previous period to R107 billion as at the end of this period.

As at the end of March 2018, new investments sourced via intermediaries represented the largest percentage of total sales, at 30%. This was closely followed by direct investors at 29%, which was also the category via which most new investments were received in the previous period. Linked investment service providers (Lisps) and institutional investors made up the remainder of the new investments each contributing 21% and 20% respectively.

Assets for CIS in securities (local)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of Portfolios	582	718	765	899	942	949	969	980	1 049	1 063	1 304	1 461	1 631	1 601
Net Inflows (R'billion)	42	67	69	45	79	85	107	31	166	158	98	110	157	107
Assets under management (R'billion)	319	459	596	659	658	817	962	1 035	1 315	1 538	1 775	1 919	2 069	2 178

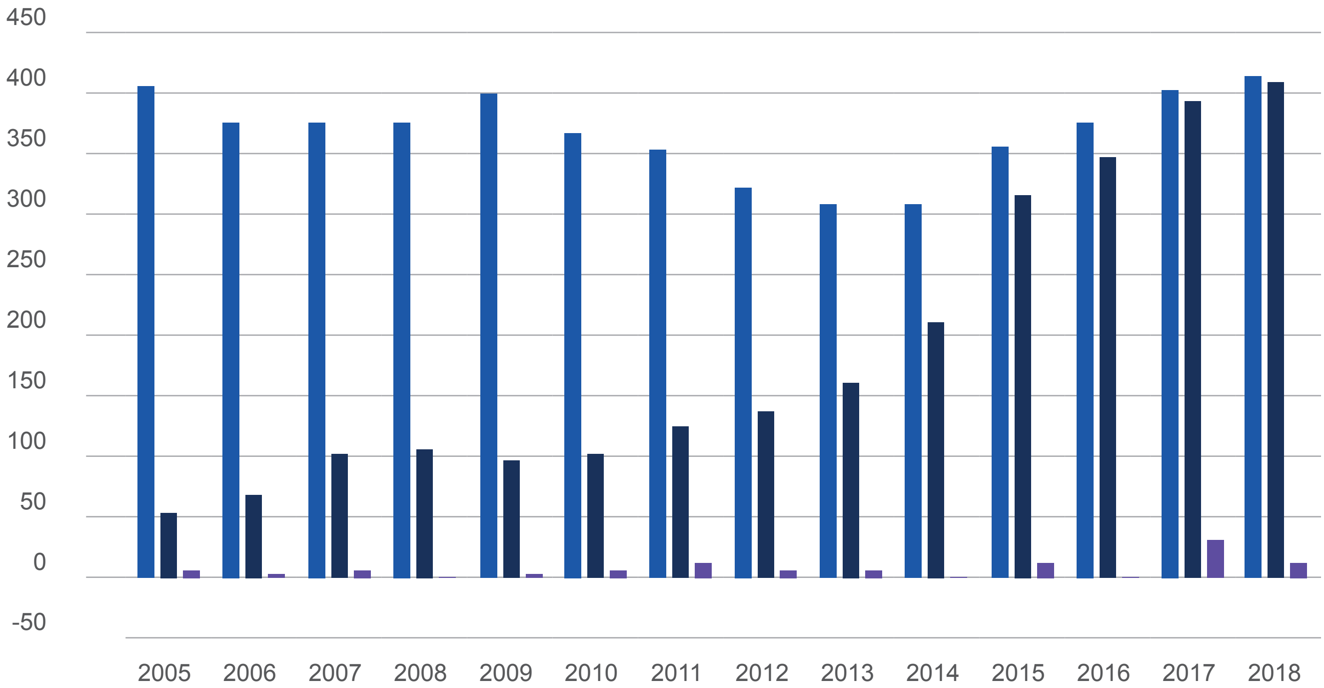
FOREIGN COLLECTIVE INVESTMENT SCHEMES IN SECURITIES

Foreign collective investment schemes in securities (FCIS) are offshore schemes authorised for promotion in the Republic of South Africa, subject to certain prescribed conditions. Only authorised FCIS can be marketed to South African Investors. FCIS portfolios are generally dominated in foreign currencies, typically the US dollar, British pound, euro, and Japanese yen.

The number of foreign portfolios available for investment in South Africa increased from 407 to 434 as at the end of March 2018.

Foreign total assets under management increased from R383 billion as at end of March 2017 to R422 billion as at the end of March 2018. During the period, FCIS experienced net flows of R13 billion as compared to R32 billion in net flows from the previous period.

Assets for CIS in securities (foreign)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of Portfolios	415	381	382	383	400	369	355	320	308	308	363	379	407	434
Assets under management (R'billion)	53	70	105	118	96	107	122	138	164	212	317	348	383	422
Net Inflows (R'billion)	6.28	3.86	6.58	-1.25	3.84	8.11	16.44	8.28	9.76	-7.29	16.30	32.19	32.19	13.79

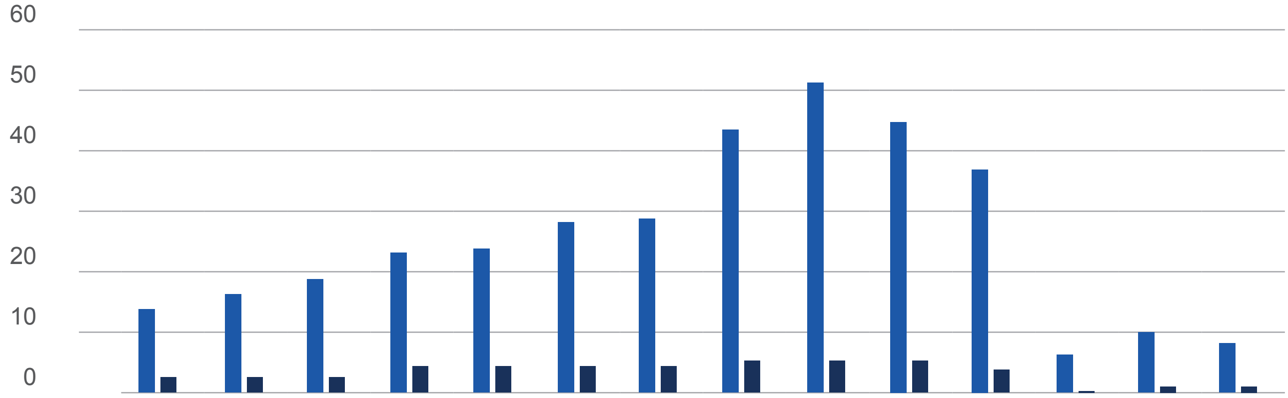
COLLECTIVE INVESTMENT SCHEMES IN PARTICIPATION BONDS

As at the end of March 2018 the aggregate amount owing to the 7912 participants was R2.07 billion. This represents a 5.9% increase in the number of participants in mortgage bonds and a 34% increase in the aggregate amount owing. During the period the number of schemes remained unchanged at two. A total of 169 participation bonds are registered between the two schemes.

COLLECTIVE INVESTMENT SCHEMES IN PROPERTY

At the end of the period the number of participatory interest in issue remain relatively stable at 0.96 billion, as compared to the previous period end figure of 0.96 billion. While the participatory interest in issue remained relatively stable in number the overall market capitalisation on the other hand experienced a noticeable decrease in value. The 19% decrease in market capitalisation over the period can be explained by the relative decrease in the Net Asset Value in one of the two funds in the sector.

Participatory interest and market capitalisation of CIS in Property.



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Market capitalisation (R'billion)	12	17	19.4	22.6	22.9	28	29	43	51	44	37.7	6.6	10.5	8.44
Participatory interest in issue (billion)	2.9	2.5	2.7	4.1	4.4	4.5	4.6	5.6	5.6	5.4	3.9	0.25	0.96	0.96

REGULATORY DEVELOPMENTS

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

ADVERTISING, MARKETING AND INFORMATION DISCLOSURE

The review of the advertising, marketing and information disclosure notice (Board Notice 92 of 2014) was finalised and published for public comments in June 2017 and the deadline for comments was the end of August 2017. The notice aims to review the current CIS advertising, marketing and disclosure requirements and incorporates new Hedge Funds requirements. It is envisioned that the final document will be published during 2018.

CONDITIONS OF REGISTRATION AND FIT AND PROPER REQUIREMENT

The Registrar published a draft notice for public comments and subsequent to the comments received the Registrar continues to engage with industry on the matter. As part of the comments review process the department has engaged the Independent Regulatory Board for Auditors (IRBA) regarding the audit requirements arising from this draft notice. Due to the high volume of comments received, a second draft notice will be published for comments during 2018.

AUDIT REQUIREMENTS FOR COLLECTIVE INVESTMENT SCHEMES IN SECURITIES

The Collective Investment Schemes (CIS) Department reviewed all pieces of legislation to identify areas where it requires auditors to submit various reports to the Registrar. A working group comprising FSB representatives, audit partners from various audit firms, and IRBA representatives was established to draft different audit reports based on the CIS requirements.

DELEGATION OF ADMINISTRATION FUNCTIONS

The Registrar published a draft notice for public comments, setting out the requirements applicable to the delegation of functions and the appointment of authorised agents. All of the comments received have been considered and the notice has been finalised, with a planned publishing date for later this year.

STANDARD ON NET ASSET VALUE CALCULATION FOR COLLECTIVE INVESTMENT SCHEMES PORTFOLIOS

The draft notice was published in June 2017, with an initial deadline of 31 July 2017 for public comments. Following a request from the industry, the deadline was extended to 30 August 2017. The level of response was voluminous, and due to the technical nature of this draft notice, the department held a workshop with the representatives from the industry and CIS trustees to discuss and finalise the comments. It is envisaged that the final notice will be published during the second-half of 2018.

FOREIGN MEMBER FUNDS

Following the ministerial announcements in 2014 and 2016 respectively, the FSB, along with National Treasury and the South African Reserve Bank, have been working on a draft policy framework which lays the groundwork for the Foreign Member Funds to be launched in South Africa. The framework document was released for public comments by National Treasury at the end of March 2018.

Supervisory developments

ON-SITE VISITS

A total of 25 on-site visits were conducted during the period under review. There were no major findings.

Collective investment schemes in hedge funds

Hedge funds were declared as collective investment schemes under section 63 of the Collective Investment Schemes Control Act, 2002 (Act No.45 2002) (CISCA) on 25 February 2015. The Registrar then issued Board Notice 52 of 2015, prescribing the requirements governing hedge funds under this regulatory framework.

Given the complex and technical nature of these products, a separate FSB Hedge Funds Department was established, to facilitate oversight of this industry in South Africa in line with the new legislation. In terms of the declaration, all hedge funds had to apply for registration by 30 September 2015, either as new management companies wanting to register hedge fund schemes, or as existing management companies – registered in terms of CISCA – adding hedge funds to their product offering.

TRANSITIONING PERIOD

All hedge fund managers that had applied for approval under the new legislation were approved by the end of September 2016. The managers spent much of the 2017 financial year transitioning their portfolios to the newly registered schemes. The process proved to be far more administratively intensive than anticipated, but it was successful and all managers have transitioned their portfolios to the new regulated structures. The size of the newly regulated industry is depicted in the table below.

Statistics regarding hedge funds retail schemes and qualified schemes

Hedge Funds Statistics - 31 December 2017			
	Retail Schemes	Quilified Schemes	Total
Number of portfolios	134	161	295
AUM (R000)	R27 740 561	R60 908 340	R88 648 902
Largest AUM (R000)	R4 818 846	R5 003 787	
Smallest AUM (R000)	R 965	R1 015	

Note: Comparative figures are unavailable as this was the first year of operation post-registration.

POST-REGISTRATION REVIEWS

The Hedge Funds Department conducted a series of post-registration reviews during 2017/18. The objective was to ensure that managers understood their obligations under the new regulations and that they implemented their business plans and structures as had been approved by the Registrar.

The reviews placed emphasis on governance structures, management reporting, and risk management. Adherence to investment mandates and interpretation of legislation also received attention. The Registrar took decisive action in instances where detected deficiencies presented a potential compromise to the interests of investors. In all instances where regulatory action was taken, managers have moved quickly to resolve the concerns expressed by the Registrar. The post-registration review initiative is summarised in the table below.

Summary of post-registration reviews

Summary of activities	
Number of managers	15
Number of schemes	28
Post registration reviews	14
Follow up reviews	5
Number of managers subjected to formal regulatory action	4

HEDGE FUNDS DEPARTMENT OBJECTIVES FOR 2018

The FSB Hedge Funds Department will operate under the Financial Sector Conduct Authority from 1 April 2018 and will focus on rolling out a more detailed risk based supervision plan that is specifically tailored around a detailed verification of the effectiveness of the quantitative risk processes employed by managers.

This will include an interrogation of the actual mechanics utilised in measuring and monitoring key risk variables both at portfolio and instrument level such as liquidity, value at risk and counterparty exposure inter alia. A new IT system that will facilitate the submission and analysis of performance data of individual portfolios is being procured. The department has also retained specialised risk management skills that will enable an interrogation of the quantitative models employed by the managers. The operating risk models will also be interrogated in more detail through the development and refinement of a detailed operational risk review program.

INVESTMENT INSTITUTIONS

About

The Investment Institutions Division comprised three departments, with the following primary responsibilities:

	Department	Responsibilities
1	Capital Markets Department	Regulating and supervising licensed exchanges, central securities depositories, clearing houses, and trade repositories in terms of the FINANCIAL MARKETS ACT, 2012 (Act No 19 of 2012) (FMA) Ensuring sound, efficient, and fair capital markets and related services for trading, clearing, and settlement of securities – including appropriate mechanisms for investor protection
2	Market Abuse Department	Combating market abuse, particularly those forms prohibited by the FMA insider trading, prohibited trading practices (market manipulation) and publishing false or misleading statements on listed companies
3	Credit Rating Services Department	Overseeing the quality of the credit rating process and the protection of investors' interests

Capital markets industry overview

EXCHANGES

There are currently five licensed exchanges:

- JSE Limited (JSE)
- A2X (Pty) Ltd (A2X) (granted an exchange licence on 6 April 2017)
- 4 Africa Exchange (Pty) Ltd (4AX) (granted an exchange licence on 31 August 2016)
- ZAR X (Pty) Ltd (ZARX) (granted an exchange licence on 31 August 2016)
- Equities Express Securities Exchange (Pty) Ltd (EESE) (granted an exchange licence on 11 September 2017)

Market participants for year ended March 2018 (Year ended March 2017)

Exchange	Market Participants							
	Equity		Equity derivatives		Commodity derivatives		Interest rate	
	Members	Dealers	Members	Dealers	Members	Dealers	Members	Dealers
JSE	61 (65)	1 322 (1 471)	80 (95)	603 (777)	61 (67)	629 (718)	86 (91)	760 (936)
A2X	8	58	n/a	n/a	n/a	n/a	n/a	n/a
4AX	1	3	0	0	0	0	0	0
ZARX	9	23	n/a	n/a	n/a	n/a	n/a	n/a
EESE	1	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Statistics of retirement funds

Exchange	Number of companies with shares listed	Turnover of shares	Average number of trades per day	New equity capital raised	Liquidity	Market Capitalisation
JSE	371	R5 790 billion	272 187	R91, 79 billion	40.87%	R14 291 billion (R13 809 billion)
A2X	5	R8 392 479	0.11	n/a	0.03%	R44, 7 million
4AX	4	R442 046	0.40	R2, 5 billion	0.02%	R2, 5 billion
ZARX	3	R79 505 151	2.13	0	2.47%	R3, 2 billion
EESE	1	R2 244 207	3	n/a	1.8%	R423 million

CENTRAL SECURITIES DEPOSITORIES

Strate limited

Strate Limited is licensed as a central securities depository (CSD) in terms of the FMA for equities and bonds, as well as a clearing house for bonds.

Description	Bonds	Equities	Money Market
Number of securities held on accounts at the CSD as at 31 March 2018	2 132	815 (including exchange traded funds (ETFs) and warrants)	5 347
Value of securities held on accounts at the CSD at 31 March 2018	R2 900 billion	R8 209 billion	R890 billion
Number of settlement instructions processed at the CSD from 1 April 2017 to 31 March 2018	865 027	7 034 587	111 916
Value of settlement instructions processed at the CSD from 1 April 2017 to 31 March 2018	R33 billion	R6 669 billion	R2 972 billion
Value of corporate actions payments processed at the CSD from 1 April 2017 to 31 March 2018	R422 billion	R245 billion	R870 billion

INDUSTRY DEVELOPMENT: LICENCE APPLICATION

On 16 July 2018 Yizani Phuthuma Nathi (YPN) withdrew its licence application and the Authority is currently only assessing the South African Finance Exchange (SAFE).

Central securities depositories

Granite Central Securities Depository (Granite) was granted a central securities depository licence on 18 May 2017 to settle bond and money markets and is in the process of operationalising.

National Treasury is in the process of implementing an electronic trading platform (ETP) for the Primary Dealers (PDs) where the secondary market quoting obligations under the Primary Dealer contract will need to be satisfied on the ETP.

The main reasons for this decision are to enhance the transparency within the South African Bond Market and to enable National Treasury to more accurately monitor the activities of the PDs. The ETP is expected to go live in the first quarter of the 2018-2019 financial year.

LEGISLATIVE DEVELOPMENTS

Financial Markets Act amendments

The Financial Sector Regulation Act (FSRA) was signed into law on 21 August 2017 at which time the FMA consequential amendments also came into effect.

Financial Markets Act Regulations

These regulations to the Financial Markets Act were published on 9 February 2018 and a working group comprising members of National Treasury, the South African Reserve Bank, and the FSCA is finalising the draft conduct standards for these instruments.

The aim is to align domestic legislation with G20 recommendations by bringing OTC derivative transactions into the regulatory ambit. These regulations include the licensing of a trade repository and imposing reporting obligations and margining requirements on OTC derivative providers.

INTERNATIONAL COOPERATION

International Organisation of Securities Commissions

International Organisation of Securities Commissions (IOSCO) objectives include cooperation in promoting high standards of regulation to maintain fair, efficient and sound markets. Member countries exchange information to promote the development of domestic markets, and embed effective surveillance and enforcement.

The FSB actively participated in the Growth and Emerging Markets Committee, the Africa/Middle East regional committee, the Assessment Committee, the IOSCO Screening Group, the Regulation of Secondary Markets Committee and the Committee on Retail Investors, as well as participating in a number of task forces within IOSCO.

INTERNATIONAL LIAISON

Markets on Financial Instruments Directive II

The Markets in Financial Instruments Directive II (MiFID II) introduces a share trading obligation which obliges firms in the European Union (EU) to trade shares on EU venues or on third country venues that have been recognised as equivalent in that they have similar laws and supervisory frameworks.

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

In order to obtain equivalence, the FSB responded to a questionnaire, prepared by the Directorate General Financial Markets, Financial Services and Capital Markets Union of the European Commission, which requires a description of our regulatory regime in order to enable them to assess whether South African trading venues abide by legally-binding obligations that are equivalent to the rules governing EU shares trading venues. They will also determine whether the trading venues are subject to effective supervision and enforcement.

Communication received from the European Commission during December 2017 indicated that the European Commission is putting the final touches on a draft equivalence decision for the JSE.

Legal Entity Identifier (LEI)

On 18 December 2015, the LEI Regulatory Oversight Committee (ROC) endorsed Strate (Pty) Ltd (Strate) as a pre-Local Operating Unit (pre-LOU), which allowed Strate to proceed with the LEI application program. To date, there is a total of 23 registered LEI's on the Strate system. With effect from 7 October 2015, new institutions that wish to become LEI issuers need to be accredited by the Global Legal Entity Identifier Foundation (GLEIF).

The GLEIF assumed the responsibility for accrediting organisations seeking to become LEI issuers with the conclusion of a Memorandum of Understanding between GLEIF and the ROC. Prior to that date, the LEI Regulatory Oversight Committee (ROC) was responsible for endorsing organisations as LEI issuers. Existing LEI issuers, previously endorsed by the LEI ROC, are referred to as 'pre-LOUs'. Strate is in the process of being accredited as a Local Operating Unit (LOU) by the GLEIF.

MARKET ABUSE

About

The Market Abuse Department was a department of the FSB which investigated matters and reported them to the Directorate of Market Abuse (DMA). After considering the department's reports, the DMA either closed a case or referred it for enforcement action.

The DMA was an independent body that had representatives from the FSB, licensed exchanges, legal and accounting professions, insurance industry, fund management industry, banking industry, the Association for Savings and Investments South Africa and the South African Reserve Bank.

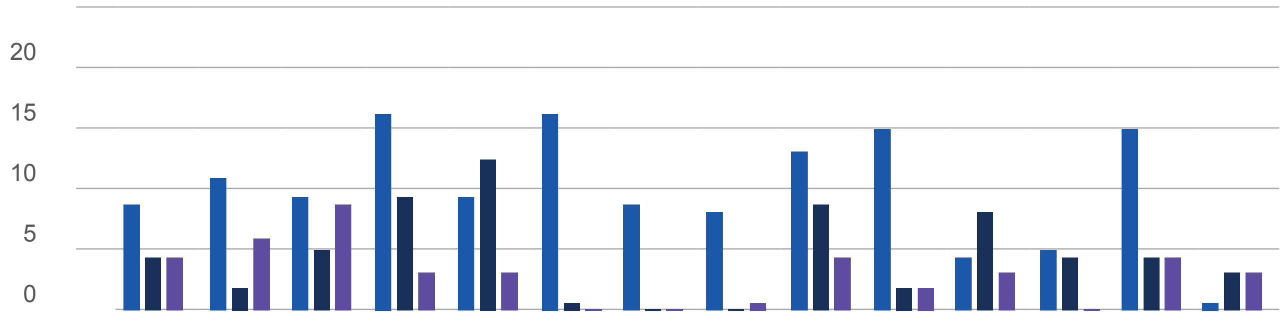
The DMA was responsible for combating market abuse, particularly the following practices prohibited by the Financial Markets Act, 2012 (Act No. 19 Of 2012) (FMA):

- Insider trading
- Prohibited trading practices (price manipulation)
- Publishing false or misleading statements on listed companies

CASES REGISTERED

During the year under review, the DMA registered 32 new cases for investigation (14 for insider trading, 10 for market manipulation, seven for false reporting and one for assistance to foreign regulators), bringing the total cases registered since inception in 2005, to 239. These were incidents that warranted investigation, but were not necessarily found to constitute a market abuse contravention.

Market-abuse incidents since 2005



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Insider Trading	8	11	9	16	9	16	8	7	13	15	4	5	15	1
Price Manipulation	4	2	5	9	12	1	0	0	8	2	7	4	4	3
False Statements	4	6	8	3	3	0	0	1	4	2	3	0	4	3

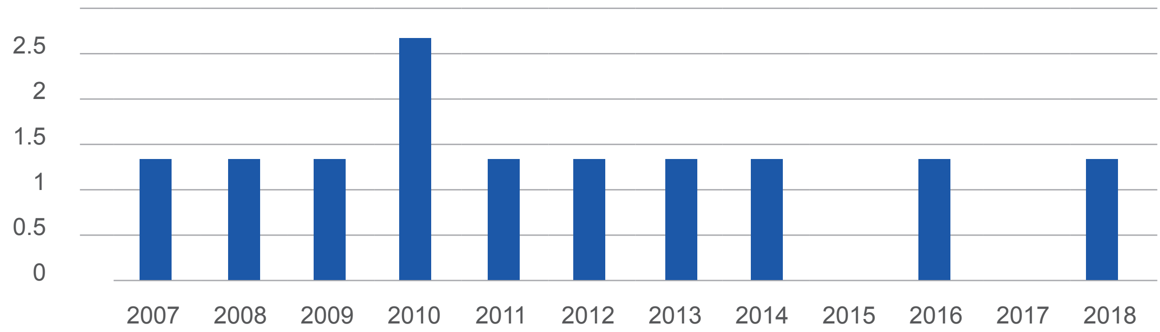
Market-abuse incidents since 2005

	Opening Balance	New Cases	Completed Cases	Closing Balance
2005	12	11	(1)	22
2006	22	20	(28)	14
2007	14	16	(15)	15
2008	15	19	(21)	13
2009	13	21	(12)	22
2010	22	23	(20)	25
2011	25	16	(21)	20
2012	20	9	(15)	14
2013	14	25	(19)	20
2014	20	17	(18)	19
2015	19	11	(17)	13
2016	13	16	(16)	13
2017	13	21	(13)	21
2018	21	14	(3)	32
Total		239	(219)	

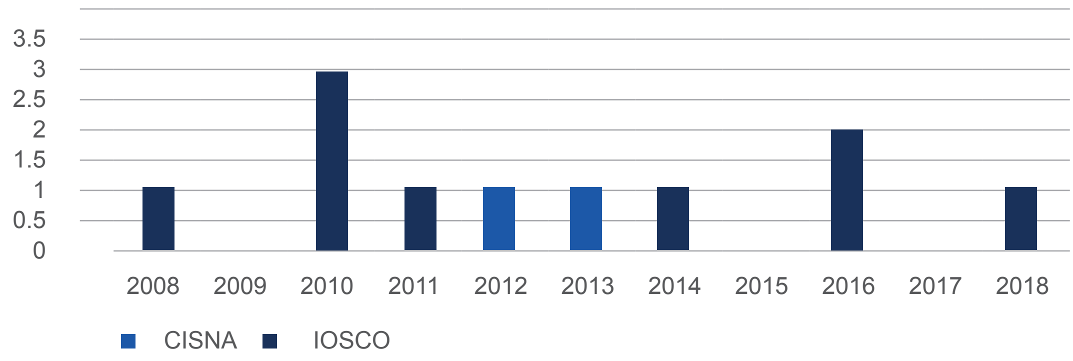
ASSISTANCE TO FOREIGN MARKET REGULATORS

During the year under review, one new case was registered where assistance was requested by a foreign regulator. The graphs below show matters registered and regulators that we assisted.

Matters registered



Regulators Assisted



COMPLETED MARKET ABUSE INVESTIGATIONS

The DMA held four meetings and considered 17 completed investigations of which 12 were closed (investigations are closed once it becomes evident that no/insufficient evidence has been obtained to warrant action in terms of the FMA). The DMA was satisfied that anti-market abuse provisions were not contravened in these cases.

The DMA referred three cases for enforcement action:

- One case for alleged insider trading in the shares of Times Media Group Limited;
- One case for alleged price manipulation in the shares of Oakbay Resources & Energy Limited;
- One case for alleged false and misleading statements in White Maize Futures December 2015.

Most matters were detected via sophisticated surveillance systems at the JSE. DMA investigators and JSE surveillance staff meet bi-weekly to consider surveillance results and the progress of cases under investigation. The success of the DMA's investigations can also be attributed partly to the high level of co-operation from market professionals and their compliance functions.

ENFORCING ANTI-MARKET ABUSE LEGISLATION

The enforcement committee finalised three market abuse cases and imposed administrative penalties against two individuals and one company:

- R100 000 against an individual for price manipulations in Oakbay Resources and Energy Limited;
- R362 000 against a company for false and misleading statements in White Maize Futures Contract December 2015;
- R750 000 against an individual for price manipulations in ConvergeNet Holdings Limited.

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

DISTRIBUTIONS

In terms of the FMA, the DMA - through an independent claims officer - may distribute penalties to persons prejudiced by insider trading. These payments not only reimburse persons who traded while unaware of the existence of inside information, but also enhance confidence in South African financial markets. During the period under review, a total amount of R1 005 400 was distributed to 28 claimants who traded in the opposite direction to the insiders in the Basil Read Holdings Limited case.

MARKET ABUSE OUTLOOK

The Market Abuse Department operated in a dynamic and innovative industry, and therefore it needed to keep abreast of developments in the financial markets industry and anti-market abuse regime to fulfil its mandate. During the review period, it considered the impact on the South African financial markets with regards to issues such as companies that make markets in their own shares and the impact of the changing environment wherein three new exchanges were licensed during the year in South Africa.

The Market Abuse Department ceased to exist on 1 April 2018 and its investigative powers have been assumed by the Financial Sector Conduct Authority (FSCA), which was established pursuant to the Financial Sector Regulation Act No. 9 of 2017 (FSR Act), which was enacted on 21 August 2017 to give effect to the Twin Peaks model of financial regulation.

The FSCA has as one of its objectives the promotion of the efficiency and integrity of the financial system. Therefore, the FSCA will continue to investigate cases of market abuse in order to enhance the efficiency and integrity of the South African financial markets.

CREDIT RATING SERVICES INDUSTRY OVERVIEW

The FSB Credit Rating Services Department oversaw the quality of the credit rating process and the protection of investors' interests. The supervision of credit rating agencies (CRAs) helps to ensure responsible and accountable CRAs and enhances the integrity, good governance and independence of credit rating activities.

During the period under review, the total number of registered

CRAs in South Africa remained unchanged, as follows:

1. Standard & Poor's Credit Market Services Limited operates through its South African branch and is registered as an external credit rating agency.
2. Moody's Investors Service South Africa (Proprietary) Limited operates as part of the global Moody's Investor Service, Inc. group.
3. Global Credit Ratings Co. (Proprietary) Limited is a registered CRA with its operations based in South Africa.

The Registrar extended the December 2015 Fitch Ratings Limited exemption on the same terms and conditions for a further period of 24 months (until 31 December 2019). The exemption permits Fitch Ratings Limited to perform credit rating services relating to sovereign ratings, state-owned companies, including special-purpose vehicles of the state.

ENGAGEMENT AND COOPERATION

Stakeholder engagement and international cooperation continues to serve as a critical forum for learning, dialogue, and the exchange of ideas on best practice. The department continued to have discussions with the European Securities and Markets Authority (ESMA) on supervisory and enforcement-related matters. ESMA continues to consider the South African legal and supervisory framework as stringent as the EU regulatory regime for credit rating agencies, a determination that is based on the 2009 and 2012 EU Regulations.

SUPERVISORY REVIEWS

During the year under review, the Credit Rating Services Department conducted risk-based on-site supervisory reviews of the registered credit rating agencies. The department's supervisory approach reinforced the responsibility of independent members of the board to ensure compliance with regulatory standards and to maintain adequate risk oversight of credit rating agencies business activities, as well as reinforce that the importance of the compliance function is recognised by senior management.

The Credit Rating Services Department employed an interactive approach in its supervisory role and sought to influence and encourage the behaviour of the regulated entities, in line with the objectives of the Act.

Overall, credit rating agencies continued to display a greater awareness of their obligations as regulated service providers. The department will continue to operate under the new dispensation (FSCA). It will continue to engage with the credit rating agencies to promote compliance, strengthen governance, and to ensure that CRAs provide robust disclosure for the benefit of investors.

PERFORMANCE INFORMATION BY SUPPORT DEPARTMENT

The 14 support departments of the Financial Services Board (FSB) provided services to the FSB key divisions, and the FSB Board and its committees, as well as to one another. Below is a summary of the support departments, their function and performance during the year under review.

LEGAL

About

EXECUTIVE SUMMARY

The Legal department provided on-going legal support services to the entire Financial Services Board (FSB). Legal services are mainly available in-house, especially in the areas of drafting of legislation, litigation processes, litigation management and general corporate legal advice. Where necessary, the department engaged external professionals (attorneys, counsel) to provide the requisite legal services, particularly for litigation. The Legal department also provided on-going secretariat services to the FSB Appeal Board.

Key objectives included:

- Minimising the FSB's exposure to external and internal legal risk.
- Facilitating on-going legislative review to enable line departments to deal with any regulatory gaps that may exist with a view to submission to National Treasury to include in its annual legislative programme.
- Legal support in litigation.
- Manage the FSB Appeal Board processes in an impartial and efficient manner.

The department has substantially achieved its objectives and targets for the year.

Legal proceedings

CURATORSHIPS

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

The Cadac Pension Fund was placed under curatorship during December 2013. Appeals against the final appointment of Mr Tony Mostert as the curator were lodged during 2014. Following two approaches to the Supreme Court of Appeal (SCA) two additional curators were appointed namely, Mr Johan Esterhuizen (an attorney) on 29 February 2016 and Ms Karen Keevey (a liquidator) who were appointed by the Chairperson of the Johannesburg Bar Council on the instruction of the SCA during December 2017. The curators have been ordered by the SCA to file a final report by 31 May 2018.

Two new curatorship applications were launched by the FSB during the period under review namely, the Municipal Councillors Pension Fund and Bosele National Provident Fund. The Municipal Councillors Pension Fund provisional curatorship order was made final during March 2018 and on 8 February 2018 the provisional curatorship order in the Bosele National Provident was granted, with a return date of 12 April 2018.

CIVIL DAMAGES CLAIM AGAINST THE FSB

The PEP Fund is claiming an amount of approximately R70 million from the FSB and the Registrar for losses allegedly suffered on the basis of an allegation that the FSB failed in its duties as the regulator with regard to investments made by the Fund with the Trilinear Group of Companies. The Deputy Judge President allocated a special trial date from 7 October to 8 November 2019 for the matter to be heard.

OTHER APPLICATIONS

During March 2015 the FSB received an application from the liquidator of the Picbel Groepvoorsorgfonds for an order declaring Regulation 35(4) to the Pension Funds Act invalid and unenforceable on the basis that it is *ultra vires* and irrational. The application was heard during June 2016 and judgment in favour of the Registrar and Minister of Finance was handed down on 24 June 2016. The applicant applied for and was granted leave to appeal to the SCA. The SCA dismissed the appeal during September 2017. The issue on appeal focussed on the 180 day period provided for in PAJA and did not resolve the merits of the matter which would, if the appeal had succeeded, have been reverted to the High Court. During October 2017, the appellant applied to the Constitutional Court (CC) for leave to appeal. The application for leave to appeal to the CC was dismissed in February 2018. The implication is that the time bar point, i.e. review applications must be brought within 180 days under PAJA, will impact some of the other applications which seek to review and set aside Regulation 35(4) outside of the 180 days.

REVIEW APPLICATIONS

During August 2014 an application to review and set aside a decision of the Registrar to withdraw Picvest Investments (Pty) Ltd's licence was received. The Registrar's decision had been confirmed and upheld by the Appeal Board in a determination issued during February 2014. The review application was heard on 21 April 2017 and judgment was handed down on 8 December 2017. The application was dismissed with costs. The findings of the Registrar and the Appeal Board were upheld. Picvest has made application for leave to appeal which the Registrar is opposing and a hearing date is awaited.

On 7 December 2017 an application was received in which Liberty Group Limited sought to review and set aside the Registrar's decision to cancel the registration of 25 retirement funds which had previously been cancelled in terms of the provisions of section 27 of the Pension Funds Act. The affected funds have been grouped into three different categories, namely:

- **Category A:** funds administered by Liberty and in respect of which it made application for the cancellation of registration, which were erroneously cancelled because the Registrar received and relied on incorrect information provided by Liberty and its personnel.
- **Category B:** funds which were taken over by Liberty from other administrators where the data loaded onto Liberty's administration platform indicated that the funds were dormant, but where a subsequent investigation revealed that the funds still had members, assets and liabilities. The Registrar therefore received and relied on incorrect information from Liberty.
- **Category C:** funds whose assets had been transferred to the Liberty's unclaimed benefit fund, but where subsequent to cancellation of registration the unclaimed benefit fund transferred the members and benefits back to the cancelled funds because their rules did not allow for the receipt of the specific unclaimed benefits.

The Registrar did not oppose the application which was granted on 14 March 2018. The cancellation decisions were reviewed and set aside and the registrations of the 25 retirement funds were reinstated with effect from the date of the order.

The FSB Appeal Board

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

During the period under review, a total of forty four (44) appeals were lodged with the Appeal Board. Twenty four (24) decisions were delivered and published on the FSB website.

Two (2) appeals lapsed; twelve (12) appeals were withdrawn by appellants; nine (9) matters were remitted to the various decision makers for reconsideration; ten (10) matters were resolved by way of settlements and Consent Orders being granted; three (3) rulings were received in respect of points in limine raised by the Registrar of Financial Services providers; two (2) rulings declaring appeals lodged against the Registrar of Pension Funds as nullities; four (4) decisions were taken on review to the High Court.

A total of thirty one (31) applications for leave to appeal were lodged with the Appeal Board emanating from the office of the FAIS Ombud, twenty two (22) of which were refused and two (2) were withdrawn by the applicants.

Legislation

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

FINANCIAL SECTOR REGULATION ACT, 2017

The National Treasury (NT) published the commencement notice (which determines the different dates on which the different provisions of the Act take effect as envisaged in section 305 of the Act) together with the transitional Regulations on 29 March 2018.

INSURANCE ACT, 2017

The Insurance Act, 2017 (Act No. 18 of 2017) was enacted on 18 January 2018. The envisaged effective date is 1 July 2018.

FINANCIAL SERVICES LAWS GENERAL AMENDMENT BILL (OMNIBUS BILL)

The Omnibus Bill addressed necessary and urgent amendments to the various laws administered by the FSB. The NT and the FSB are in the process of developing a draft Bill. The intention is to submit the Bill to Parliament in 2018.

CONDUCT OF FINANCIAL INSTITUTIONS BILL

In the second phase of Twin Peaks, the existing sectoral legislation will be gradually amended or replaced with laws that more appropriately align with the Twin Peaks framework. A comprehensive market conduct framework will be legislated, to ensure a comprehensive, consistent and complete approach to governing the conduct of financial institutions across the financial sector. The NT established a work group consisting of FSB and SARB representatives to develop the Conduct of Financial Institutions Bill. Given the significant shift in the legislative environment NT decided to circulate the draft Bill for a first round of closed external consultation, before publishing for a broader consultation in 2018. For this purpose, NT has thus established a COFI Bill Technical Expert Panel comprised of industry experts as well as other non-industry participants, to provide some preliminary input into the Bill. Meetings of the Technical Expert Panel took place in January and February 2018. NT and the drafting group are considering comments and effecting changes to the Bill. Specific workshops for payment services, pensions and licensing were also held.

SUBORDINATE LEGISLATION

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

ACTUARIAL

About

The Actuarial Department was assigned specific regulatory functions by the FSB's Retirement Funds Division. In addition, the Actuarial Department provided broader support and advice where required. Issues of mutual concern are covered in the respective divisional sections.

Pensions

TRANSFERS BETWEEN FUNDS

The department considered applications for the transfer of business involving a pension fund under section 14 of the Pension Funds Act (Act 24 of 1956) (PF Act). During the reporting period, 3 439 new applications were submitted.

Over the same period, the department completed 3 977 transfer applications, while 503 cases remained pending as at 31 March 2018. Completed cases included those submitted in preceding periods.

The department was concerned with the high number of cases that are queried due to incomplete submissions or poor quality applications. We will, under the new dispensation of the FSCA, continue to engage with the affected administrators and funds to raise our concerns with their applications and to improve the quality of their submissions.

The process of revising Directive PF6 is now at an advanced stage; public comments have been received and are being considered. This directive will clarify certain matters concerning section 14 transfers.

ACTUARIAL VALUATION REPORTS

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

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

During the period, the Registrar accepted 257 actuarial valuation reports, and 764 reports were pending at the end of the reporting period due to unresolved queries.

A draft directive on the communication of benefit projections to members of retirement funds was sent out for public comment, with the deadline for submission being 16 March 2018. Various comments were received and are being considered.

SURPLUS SCHEMES

At the end of the previous reporting year, most funds had already complied with surplus legislation promulgated in December 2001, with their surplus apportionment schemes either approved or nil surplus returns noted. By the end of the 2018 reporting period, the apportionment of an actuarial surplus of R49, 46 billion had been approved.

Insurance

During the reporting period, we supported the Insurance Division with prudential and market conduct matters as well as providing assistance to the Solvency Assessment and Management Department. From a prudential aspect, the department made recommendations to the Insurance Division on various applications received. We dealt with and finalised 16 ad-hoc application cases in the annual review period. The Actuarial Department also assisted the Insurance Division with conducting on-site visits, provided technical input into various supervisory colleges held and provided support in refining the risk-based supervisory approach.

Actuarial assistance was also provided as part of the development of the Solvency Assessment and Management programme (SAM). The actuarial team assisted the SAM team with developing the standards, reviewing new application forms, database development and the internal model approval process.

Furthermore, the actuarial team assisted with the analysis of the actuarial elements of the mock Own Risk and Solvency Assessment (ORSA) submissions as well as the returns submitted as part of the Comprehensive Parallel Run (CPR).

Besides the day-to-day support activities of the department, during the reporting period the Actuarial Department was involved with the following:

- **Cyber insurance**
  Research was undertaken and the details were presented to the SARB on cyber risk as a key emerging risk worldwide.
- **Average valuation basis**
  Results were presented to the Actuarial Society of South Africa for both long-term and short-term insurance. Results consisted of a summary of the key features of the valuation bases used by insurers for 2016 year-end valuations. High-level feedback was also provided about the stress tests conducted by the FSB and some of the CPR results.
- **Market conduct**
  Assistance was provided for market conduct matters. The actuarial team was involved in a number of projects that have a treating customers fairly element such as premium reviews for policies with premiums guaranteed for a set term and consumer credit insurance.
- **Revenue**
  During the reporting period, we continued to support the FSB engagements with National Treasury and SARS on developing a suitable tax basis for insurers post-SAM implementation.

General

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

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

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

Future outlook

The Actuarial Department will continue operating under the FSCA. The department's main objectives for the year ahead are:

- Reduce the number of late, pending and outstanding submissions. To this end, regular discussions with valuator firms continue and further administrative penalties will be levied on late or outstanding actuarial valuation reports.
- The section 14 directive that was previously published for comment will be finalised, to clarify matters relating to transfers.
- A directive is being considered to require all funds to provide their members with benefit projections, which will also set out appropriate methodology and disclosure requirements. Projections will assist in managing the expectations of members of retirement funds and influencing their behaviour by educating members about the realistic expectations of their future retirement benefits and the potential effect of retirement decisions taken.

CONSUMER EDUCATION

About

The Consumer Education Department (CED) used a multifaceted approach to increase the financial literacy levels of persons living in South African. The activities of the CED were mandated through the FSB Act as amended in 2000, and in the Financial Services Laws General Amendments Act of 2013, which directs the FSB to "provide, promote or otherwise support financial education, awareness and confidence regarding financial products, institutions and services".

The department used various innovative methodologies to better engage with consumers. The use of edutainment, through industrial theatre, was entertaining and informative, while the two-workshop methodology used during the EPWP project assisted in behavioural change among participants. In both projects external monitoring and evaluation showed that knowledge retention was increased.

The monitoring and evaluation of bespoke activities assisted the department to identify additional consumer needs with respect to financial education. Further research through the South African Social Attitudes Survey (SASAS) helped to identify trends in financial literacy levels over the past five years. These trends reflected an increase in consumers' budget. However, it also shows that consumers' ability to save in the medium- to long-term has decreased. The trends in the SASAS, as well as the implementation of the FSR Act, have necessitated the re-evaluation of the National Strategy for Consumer Financial Education.

Activities

Activities and initiatives aimed to market the FSB and what it did as a regulator, to create a greater awareness of consumers' rights and their responsibilities when dealing with authorised financial services providers (FSPs), and to disseminate financial information on various financial topics and themes. These topics and themes included: budgeting, savings, insurance, managing debt, retirement planning, investing, cash versus credit, the debt trap, rights and responsibilities as well as recourse mechanisms.

Activities were mediated through face-to-face interactions, train-the-trainer and employee wellness workshops, roadshows and exhibitions, community initiatives, outside broadcasts, television interviews and television series shows, radio, printed media and edutainment (industrial theatre). These programmes were re-enforced by providing consumers with resource material in the form of booklets and brochures available on **www.fsb.co.za** and **www.mylifemymoney.co.za** for increased visibility and reach. Activities were conducted throughout South Africa and where possible, in the vernacular of the region. The FSB partnered with various stakeholders and existing networks to achieve their financial education objectives.

WORKSHOPS

During the year, 395 workshops and presentations reached 45 912 consumers. In particular, we again concentrated on partnering with programmes that create job opportunities for South Africans. This is the second year that the partnership with the Department of Public Works (DPW) assisted in reaching the participants of the Expanded Public Works Programme (EPWP). This collaboration reached first time employees and contract workers. The programme's messaging included managing your money through budgeting and provided tips on saving for the future (i.e. when worker contracts come to an end). The two-workshop methodology reached 7 480 participants through the first 151 workshops and 5 978 participants through the second set of 146 workshops. This was the second time that the department used the same participants over multiple workshops and the fall-off during the second set of workshops was due to EPWP sector programmes ending. This means that the participants were not available to attend the second set of workshops.

The Consumer Education Department used the 2017 World Investor Week to kick-start the FSB Investor Education Programme. The project was implemented in collaboration with the Cooperative Banks Development Agency (CBDA) and the main objectives of the project were to enhance cooperative members' financial management knowledge and awareness of different investment products.

A total of 27 workshops were conducted in various part of the Limpopo province, reaching 547 participants. Of this number, 21% of the participants were aged 39 or below. Of participants contacted afterwards, 71% indicated that they found the workshops to be essential, while 50% of participants reported that they were using the information they learned during the workshops. Importantly, 18% of those who reported to be using what they learned, were doing so for investing purposes.

The FSB purchased a vehicle which has been modified for community outreach activities. This mobile unit will be shared with the Office of the Pension Funds Adjudicator and will assist in reaching consumers in rural areas.

ONLINE

The number of visitors to the MyLifeMyMoney website grew from 95 111 in the previous financial year to 137 941 users as of March 2018, the numbers of visitors increased by 42 830. The MyLifeMyMoney website underwent phase 3 of the enhancement, this was to improve user experience and refresh the overall look and feel of the portal. The website focuses on financial responsibilities faced at various life stages such as graduation, buying your first car, getting married, having a baby, buying a house, retirement and funeral planning. The most popular pages remain the 14 financial calculators, the downloadable free budget template, weekly financial tips and topical articles. The website can be viewed at **www.mylifemymoney.co.za** and aims to help you make the most of your finances.

TRUSTEE TRAINING AND OTHER QUALIFICATIONS

The FSB online Trustee Training Toolkit for trustees of retirement funds continued to grow in popularity. To date, 5 651 trustees have registered on the e-learning system and 2 272 have passed the summative assessment test. The online e-learning programme can be accessed via **www.trusteetoolkit.co.za** and registration is free.

MEDIA

Radio is a powerful conduit to create awareness on various financial management topics. During the year under review, the FSB conducted 35 radio interviews on financial education topics which were estimated to have reached over two million listeners. Most notable were the interviews on UNISA FM radio which reached approximately 260 000 students and other listeners.

EXHIBITIONS

The CED exhibitions targeted mostly in school and out of school youth at career exhibitions to create awareness on the importance of money management when getting your first job. Exhibiting at the Batseta and IRFA conferences assisted in reaching Trustees of Retirement funds with information on the Trustee Toolkit. During the year, the CED participated in 28 exhibitions and reached 14 836 learners and teachers. This is a challenging activity to monitor and evaluate, but verbal feedback from most of the learners is that the financial information is valuable as they do not receive it in schools.

MYLIFEMYMONEY FINANCIAL LITERACY SPEECH COMPETITION

Building on the success of the pilot in 2016, the CED expanded the mylifemymoney financial literacy speech competition to include Gauteng, KwaZulu-Natal and Eastern Cape. The format of the competition sees Grade 11 learners, who are attending quintile 1, 2 and 3 schools present a five-minute speech on one of the following three topics:

- Oops, I spent again
- So many people and so few financial plans
- We are going to be UsoMabhizinisi (Business people)

Learners competed during various rounds. The first round of competition, the classroom round was followed by the district round, then the provincial round and finally the interprovincial round. The competition is to be expanded to more provinces in 2018.

The winners of the interprovincial 2017 Mylifemymoney financial literacy speech competition

Position	Name	Surname	Province
Winner	Lindokuhle	Dlamini	KwaZulu-Natal
First runner-up	Fisokuhle	Lushaba	Gauteng
Second runner-up	Sinegugu	Goge	KwaZulu-Natal

Liaison and partnerships

The Consumer Education Department successfully maintained relationships with, among others, financial industry associations and bodies, ombuds offices and government departments. A Memorandum of Agreement was signed with the Department of Public Works to collaborate on the EPWP Project.

Developing resources

Resource development is a significant part of consumer financial education, as it provides the attendees of activities with reference material for future use. During the year under review, five new resources were developed and 102 500 brochures printed. Most notably, the Consumer Education Department – in collaboration with the Language Business Unit of the FSB as well as various financial collaborators – developed0 a Multilingual Financial Terminology Booklet. The booklet contains over 400 financial terminologies that have been translated from English into the other 10 official languages in South Africa. In total, 84 267 brochures were distributed.

Statistical summary of activities of the Consumer Education Department at 31 March 2018

Medium	Activities	Target reached	Urban	Rural
Workshops and presentations	395	45 912	26 426	19 486
Exhibitions	28	14 836	9 634	5 202
Media	35	1 323 691		
Resources developed, including reprints and translations	5	102 500 printed 84 267 distributed		

Research, monitoring and evaluation

With the Financial Sector Regulation Act being signed into law, the mandate of the Financial Sector Conduct Authority (FSCA) will place a greater emphasis on consumer financial education and transformation. Such changes will influence increased co-ordination of consumer financial education in South Africa resulting in the creation of standards and guidelines. The latter will be utilised in the drafting of best practice through monitoring and evaluation strategies.

Of significance to the FSB, is a tracer study conducted about the impact of financial education workshops presented as part of the South African Institute of Chartered Accountants (SAICA) Thutuka camps. The study explored the impact of the project over a three-year period. This study aimed to not only determine project effectiveness, but also assessed possible knowledge retention for a particular audience.

The attainment of detailed data through the tracking process will allow the Consumer Education Department to introduce sustainable projects which meet the exact needs of the relevant social context of the audience.

In addition to the SAICA Thuthuka Winter Camps tracer study, the following projects were monitored and evaluated: the MylifeMymoney financial literacy speech competition; the CBDA investor education project; the GDE speech competition case study; and the student radio project.

The Human Sciences Research Council (HSRC) completed the data collection of the annual survey into the financial literacy levels of South Africans. The study was done as part of the South African Social Attitude Survey (SASAS). This is the fifth iteration of this study. The final report will be available in the 2018/19 financial year.

International engagements

ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

As a fee-paying member of the Organization for Economic Cooperation and Development's (OECD) International Network on Financial Education (INFE), the FSB is represented by the head of the Consumer Education Department at the INFE's biannual meetings and conferences. INFE is a standard-setting forum that assists countries by developing high-level principles and implementation strategies for financial education. During the year under review, the FSB attended INFE meetings and conferences in France and India. The head of the department presented at the following conferences:

- 3 May 2017, Bali, Indonesia - Indonesia Financial Services Authority (IFSA) - International Seminar - Changing consumer behaviour through financial literacy, financial inclusion, and consumer protection - High-Level Panel Discussion: The Role of Governments and Regulators to Change Financial Consumer Behaviours
- 9 November 2017, New Delhi, India–OECD/Reserve Bank of India High-level Global Symposium - Implementing effective financial literacy policies in a changing financial landscape - Supporting safe investment through financial education

COMMITTEE OF INSURANCE, SECURITIES AND NON-BANKING AUTHORITIES

The Consumer Education Department attended meetings of the Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA), in Swaziland and Zimbabwe in April and October 2017, respectively. The objective of the technical committee is to harmonise consumer education activities in the Southern African Development Community (SADC) region and share experiences and best practice.

Funding

The FSB sourced its funding for financial consumer education from the discretionary fund, a repository for all penalties paid by the industry, and the Financial Services Consumer Education Foundation, an independent trust founded by the FSB. In March 2017, the FSB's Audit Committee approved R11 684 797 from the discretionary fund and in October 2017, the trustees of the foundation approved R14 355 150 for financial consumer education initiatives.

THE WAY FORWARD

The Financial Sector Regulation Act places an increased priority on financial literacy and education as part of the consumer protection environment. Going forward under the FSCA and through its research, monitoring and evaluation initiatives, the Consumer Education Department intends to identify best practices and to develop standards and guidelines for the implementation of financial education.

INSPECTORATE AND ENFORCEMENT

About

Under the Inspection of Financial Institutions Act, 1998 (Act No. 80 of 1998) (Inspection Act), the Registrar appointed inspectors and instructed inspections into the affairs of financial institutions, associated institutions, and unregistered operators. Inspections were also conducted after implementation of any agreement, communique or memorandum of understanding by regulated institutions (section 3A of the Inspection Act). From 1 April 2018, these functions will be performed under different provisions in the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act).

Inspections and penalties

The FSB Inspectorate Department conducted inspections on behalf of the Registrar and in terms of the investigative powers provided for in the Inspection Act. During the review period, 15 inspections were finalised. Of these, two were requests for assistance (in terms of section 3A-foreign regulators). The balance related to contraventions of the FAIS Act (five), Security Services Act (one), Collective Investment Schemes Act (one), Long-term and Short-term insurance Acts (three) and Pension Funds Act (three).

In November 2008, the FSB Enforcement Committee was established in terms of an amendment to the Financial Institutions (Protection of Funds) Act, 2001 (Act No. 28 of 2001), replacing the capital markets enforcement committee. The Enforcement Committee was an administrative tribunal with jurisdiction to impose penalties, compensation orders and cost orders against those who contravene any FSB law. This process was used by the Registrar and the DMA to deal with the majority of contraventions and non-compliance with FSB legislation by the industry and members of the public.

From 1 April 2018, the Enforcement Committee will cease to exist. However, in terms of the transitional provision in FSR Act (section 298(1)(a)(i)), the Enforcement Committee will continue to deal with any matter it was dealing with immediately before it ceased to exist. Going forward, administrative penalties will be dealt with by new structures created under FSRA.

During the review period, the committee considered 14 cases against 14 respondents and found a contravention of FSB legislation in each case. Penalties were imposed on the 14 respondents:

- FAIS Act in five cases
- Long-Term Insurance Act in three cases
- Financial Markets Act in three cases
- Collective Investment Schemes Control Act in three cases

MARKET CONDUCT STRATEGY

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

Accordingly, the Market Conduct Strategy Unit provided ongoing support to FSB operational areas and regulated entities in embedding TCF principles,

in addition to supporting the FSB more holistically in developing its future regulatory and supervisory frameworks.

INTERNATIONAL AND LOCAL AFFAIRS

About

The International and Local Affairs Unit managed relations with internal and external stakeholders by monitoring local and international developments in the financial sector, and by liaising with other regulators (local and foreign) mainly on the basis of the memorandums of understanding entered into between the FSB and other regulators. It also monitored developments within the Southern African Development Community (SADC) and similar bodies. The unit also served as the secretariat for the Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA), a committee of SADC.

The functions of the unit comprised the following:

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

Liason

The unit received a number of requests from foreign regulators to visit the FSB for benchmarking and learning purposes. Other requests included completion of surveys, letters of good standing, as well as requests to enter into a memorandum of understanding. The information below shows a breakdown of requests received in the reporting period.

VISITS

In the 2017/18 financial year, the unit coordinated visits from the Securities Exchange Commission of Ghana in May 2017, the Bank of Uganda in June 2017, the Securities Exchange Commission of Zimbabwe in October 2017 and the Central Bank of Lesotho in November 2017.

Requests	Number
Foreign delegation visits	4
Requests for information	247
Requests to complete surveys and questionnaires	13
Requests to sign memorandum of understanding	1

Locally, the unit engaged and cooperated with the National Treasury, South African Reserve Bank (SARB), and Independent Regulatory Board for Auditors (IRBA). It received 23 reports of reportable irregularities from IRBA, and managed the process of monitoring and reporting on these irregularities.

FSB FAMILIARISATION AND TRAINING PROGRAMME

The unit hosted the Familiarisation and Training Programme in November 2017 to further strengthen cross-border relations between the FSB and its counterparts. The programme was attended by participants from Botswana, Lesotho, Malawi, Mauritius, Seychelles, Swaziland, Zambia and Zimbabwe, and aimed at exchanging information and sharing experiences on regulatory and supervisory frameworks.

MEMORANDUMS OF UNDERSTANDING

In the 2017/18 financial year a memorandum of understanding (MoU) was signed with the Kuwait Capital Markets Authority. Negotiations to sign the MoU are still underway with Anguilla Financial Services Commission. Locally, the FSB signed the MoU with the Council for Medical Schemes.

There are currently 96 signed MoUs (bilateral and multilateral) between the FSB and other regulatory authorities (local and foreign).

COMMITTEE OF INSURANCE, SECURITIES AND NON-BANKING FINANCIAL AUTHORITIES SECRETARIAT

Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA) is a structure of the SADC committee of senior treasury officials, comprising the authorities that regulate and supervise non-banking financial services from within the SADC region.

The unit provided the necessary support for the bi-annual and other meetings of CISNA, held in Swaziland in April 2017, Botswana in August 2017, Zimbabwe in November 2017, and Zambia in February 2018. The main focus of the meetings was to work on the 2016 CISNA annual report, monitor and evaluate performance against the CISNA Strategic Plan 2016-2020, and to finalise the bidding proposal for the establishment of the office of a permanent CISNA secretariat. The unit continued to manage the CISNA website **www.cisna.net**, together with the FSB ICT department.

Surveys and/or matrices

In the 2017/18 financial year, the unit coordinated the following surveys and questionnaires:

- FinCoNet survey on digitalisation of high cost lending.
- FinCoNet draft joint questionnaire on relevant aspect of consumer short-term.
- The World Bank's draft edition on good practices for financial consumer protection.
- Institute of International Bankers' global survey on regulatory and market development.
- The Financial Intelligence Centre survey on civil and administrative proceedings.
- The Financial Stability Board survey on national authorities' approaches to responsibility mapping.
- FinCoNet survey on actions to mitigate security risks related to digital payments.
- The OECD questionnaire regarding the thematic peer review on the use of flexibility and proportionality in corporate governance frameworks.
- FinCoNet survey on practices and tools required to support risk-based supervision in the digital age.
- OECD/FinCoNet questionnaire on relevant aspects of consumer short-term credit.
- Final comments on the FinCoNet Standing Committee 3 report on the online and mobile payments: an overview of supervisory practices to mitigate security risks.
- The G2O draft policy guidance note FCP on digital age.
- SADC Peer Review Mission on Macroeconomic Convergence on the FSB side.

Financial sector assessment programme

To keep abreast with international standards, the International and Local Affairs Unit continued to monitor and report to Exco on the progress made with the implementation of the recommendations made by the Financial Sector Assessment Programme (FSAP).

COMMUNICATION AND LIAISON

About

The Communication and Liaison Department continued its efforts to improve the reputation of the FSB through visibility and targeted communication with its various stakeholders.

During the year under review, the department finalised the development of a new corporate identity (CI) for the Financial Sector Conduct Authority (FSCA). The CI was adopted, and thereafter a re-branding exercise was undertaken. The department hosted an internal brand launch, allowing all employees first hand interaction with the new brand. The department also produced six editions of the Twin Peaks newsletter and distributed them to industry.

Media relations

During the review period, the FSB held four media roundtable discussions on the following topics: FAIS legislation; unclaimed pensions benefits, Directorate of Market Abuse investigations and an information sharing session on Twin Peaks.These sessions afforded members of the media the opportunity to interact with the FSB and gain a better understanding of the work being done by the FSB.

A total of 95 media releases were issued and 32 broadcast interviews were held with FSB spokespeople throughout the year.

The department continued to respond timeously and satisfactorily to media queries and undertook continuous education efforts to assist the media with FSB related topics. Media platforms including broadcast, print and online were utilised addressing 278 media queries, 32 of which were interview requests.

The FSB moved between a pendulum of neutral to positive media coverage on Twin Peaks developments.

Client management system

The Communication and Liaison Department uses a client management system that records all correspondence received and ensures this is directed to the correct department for action and assistance.

A total of 8 218 written queries were received during the period, recording an increase of 1 894 queries when compared to 6 324 in the prior year. Most were FAIS related (4 674), followed by pension queries (1 558).

The department also manages the outsourced FSB call centre, which handles all queries received via our own toll-free number (0800 202 087/0800 110 443) and the FAIS ombudsman share-call number, 0860 FAISOM (324 766).

Recorded Call Volumes

Year ending	31 March 2016	31 March 2017	30 March 2018
FSB	76 364	38 318	41 968
FAIS ombudsman	10 012	13 125	13 753
Total	**86 376**	**51 443**	**55 721**

LANGUAGE BUSINESS UNIT

About

The Language Business Unit was established in compliance with the Use of Official Languages Act, 2012 (Act No. 12 of 2012) (UOLA). This act requires that each national government department, national public entity and national public enterprise should develop a language policy and establish a language unit. The responsibility of the unit is to guide and monitor the use of official languages by the (FSB), both internally (staff members) and externally (interaction with members of the public), and advising the Executive Committee on the different activities regarding the language policy provisions.

Operational overview

The responsibilities of the statutory unit during the 2017/18 financial year are detailed below:

- Translating official documents from English into various official languages of the Republic of South Africa. These included requests for translation of German and French documents. Emails and query letters were also translated.
- Interpreting services were rendered during the various sittings of the Appeal Board. Sepedi and Afrikaans were languages predominantly procured.
- Editing and proofreading of official documents, including internal annual reports from departments, to ensure the use of proper language, grammar and punctuation within the organisation and also in communicating with the members of the public by eliminating errors from the documents to preserve the dignity of the information that the organisation produces and distributes.
- The Multilingual Financial Terminology Project undertaken in partnership with the Terminology Coordination Section (TCS) of the Department of Arts and Culture was finalised and the booklet disseminated in hard copies (200 booklets) including soft copies to various stakeholders. The next phase (translation of definitions) of the project is underway for the 2018/19 financial year
- Rendering South African Sign Language interpreting services both internally and externally when required. Sign language basic training sessions were conducted on a quarterly basis to create deaf awareness within the FSB. These were open to all interested staff members and positive feedback was received from attendees.

Support to other entities

During the financial year, the Language Business Unit provided advice, language awareness campaigns and translation service to offices of the Pension Funds Adjudicator and FAIS Ombud in terms of the memorandum of understanding entered into with the two entities. The entities, together with the FSB, are included in the report by the Department of Arts and Culture to the Standing Committee of Arts and Culture, in the list of public institutions that are complying with the UOLA.

HUMAN RESOURCES

The HR Department played a significant role in facilitating the understanding and ongoing practice of the FSB values and culture. During the year under review, the department worked at creating an attractive work environment for the recruiting, developing, rewarding and retaining high-potential people through a complete HR service offering, and partnering with FSB departments. More information is available in PART D: HUMAN RESOURCES & SECURITY AND FACILITIES MANAGEMENT.

BOARD SECRETARIAT

All FSB Board members had access to the advice and services of the Board Secretariat, which was responsible for ensuring proper governance of the board and guiding Board members on their responsibilities under the enabling legislative framework. The Board Secretariat was also responsible for providing secretariat and corporate governance services to the offices of the Pension Funds Adjudicator and FAIS Ombud in terms of the memorandum of understanding entered into with the two entities. More information available in PART C: GOVERNANCE

INFORMATION COMMUNICATION TECHNOLOGY

Given the FSB's reliance on technology, the Board-approved ICT strategy consisted of both the business demand and the ICT supply portfolio. This is supported by an ICT security and risk strategy that addresses related risks. In preparation for the readiness of the transition from the FSB to the FSCA, various initiatives and projects were embarked upon during the review period which required dual mode of operation. The ICT governance framework was revised to accommodate the two modes of operation in preparation for the transition.

The following strategic projects are currently underway in pursuit of proactively aligning our business architecture, ICT infrastructure and applications to the new organisational mandate:

- Twin Peaks preparations, which included the business process reengineering to align with the organisations core business processes from the current sectoral model to the functional and activity based model of regulation. In addition to this, the single view of regulated entity initiative to establish a unified and integrated view of regulated entities' information which flows through the organisation and the basis for real time information sharing for consistent, better and timeous decision-making by various lines of business, is also in progress. This will be used for integration into the Integrated Regulatory Solution (IRS) that will replace the existing legacy core regulatory systems and support the organisation's new business processes.
- Over and above all these projects, the Enterprise Resource Planning project is also ongoing in order to integrate business processes across support functions, to improve efficiency of operations of corporate shared services and streamline the flow of information in respect of levies and fees processing from the Integrated Regulatory Solution.
- FSB business as usual, and Twin Peaks readiness activities for the FSCA, which included the implementation of a new and re-aligned FSCA website, whose branding, purpose, capabilities and content matches the new mandate, as a user-friendly tool for collaboration with internal and external stakeholders.
- The Provisioning of FSCA Infrastructure hardware project, which entails the sourcing of additional infrastructure hardware to capacitate the existing infrastructure resources and to build a shared environment to deliver ICT services required for FSCA, is currently in progress.
- In order to maintain current efficiencies, an upgrade of the legacy core system to latest version was completed, as well as implementation of a new Service Desk system.
- ICT Operations Service-Level Commitment of 95.5% was achieved against a target of 90%.

SECURITY AND FACILITIES

The Security and Facilities Business Unit oversaw the operations of the two buildings in the Riverwalk Office Park, as well as the maintenance and upgrades of existing buildings and equipment. An additional 3 000m^2 of office space was leased during 2017/18. The Security and Facilities Business Unit ensured that the FSB had a suitable, safe and secure working environment for its employees, visitors and their activities. See PART C: GOVERNANCE for more information on the performance of this unit.

PART C

GOVERNANCE

MEMBERS OF THE FSB BOARD

AM (ABEL) SITHOLE

Chairperson (Appointed 2002)

MA (INTERNATIONAL RELATIONS) (STELLENBOSCH UNIVERSITY), MPHIL (FUTURES STUDIES) (STELLENBOSCH UNIVERSITY), MBA (WITS), EDP (CITY UNIVERSITY NEW YORK), BA (LAWRENCE UNIVERSITY), HED (WISCONSIN), DIP ACTUARIAL TECHNIQUES (IISA), FILPA

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

HS (HILARY) WILTON

Deputy Chairperson (Appointed 2002)

BCOM (WITS), MBA (WITS BUSINESS SCHOOL), FSII

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

MEMBERS OF THE FSB BOARD

ZARINA BASSA

Non-executive (Appointed 2008)

CA (SA), ALP (WHARTON UNIV. PENNSYLVANIA)

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

OLANO MAKHUBELA

National Treasury representative (Appointed 2010, Resigned 30 September 2017)

BCOM (UKZN), HONS ECONOMICS (UNISA), LLB (WITS), MSC (DEVELOPMENT ECONOMICS) (SOAS)

Olano is currently the Chief Director of Financial, Investments and Savings at National Treasury. He brings a wealth of experience as an economist to the FSB Board deliberations. Olano was seconded by the National Treasury to the FSB to act as the Deputy Executive Officer: Retirement funds from 1 October 2017.

FRANCOIS GROEPE

SARB representative (Appointed 2012)

BA LLB (UNISA), LLM (UNISA), BBA(CUM) (STELLENBOSCH), MBA (STELLENBOSCH), POSTGRADUATE DIP LAW (TAXATION) (UCT), CIMA

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

MEMBERS OF THE FSB BOARD

JABU MOGADIME

Non-executive (Appointed 2004)

BA (UNIV BOTSWANA), MBA (UNIV WALES), DIP MARKETING (CIM)

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

ISMAIL MOMONIAT

National Treasury representative (Appointed 2010)

BSC (HONS) AND MSC (LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE)

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

HAMILTON RATSHEFOLA

Non-executive (Appointed 2010)

BCOM (INFORMATION SYSTEMS) (UNIV. NORTH WEST), IBM EXECUTIVE LEADERSHIP (NEW YORK), IMB ENGINEERING SCHOOL, EXECUTIVE LEADERSHIP CERTIFICATE (CORNELL UNIVERSITY)

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

MEMBERS OF THE FSB BOARD

DIANA TURPIN

Non-executive (Appointed 2010)

B BUS SCI (MARKETING) (UCT)

Diana is Chairman of the Nedgroup Collective Investments board, and a board member at Shine Literacy, a non-profit organization focused on second language literacy. She is Chairman of Old Mutual Wealth Retirement Funds and the Fairbairn Capital Retirement Funds, and a trustee on Nedgroup Investments Retirement Funds. She has extensive experience in the collective investments and retirement fund industries.

DUDU MSOMI

Non-executive (Appointed 2010)

BA (HONS) (UNIV. NATAL), POSTGRADUATE DIP) (ADVERTISING AND MARKETING), POSTGRADUATE DIP (CORPORATE GOVERNANCE), MBA AND PMD (GORDON INSTITUTE OF BUSINESS SCIENCE, UNIV. PRETORIA)

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

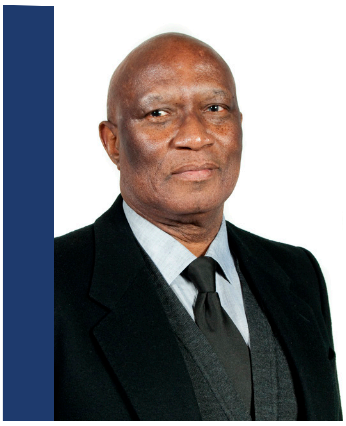
PHILIP SUTHERLAND

Non-executive (Appointed 2002)

BCOM LLB (CUM LAUDE) (STELLENBOSCH), PHD (UNIV EDINVURGH)

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

EXECUTIVE COMMITTEE



DUBE TSHIDI

EXECUTIVE OFFICER

JURGEN BOYD

DEPUTY EXECUTIVE OFFICER (INVESTMENT INSTITUTION) (COLLECTIVE INVESTMENT SCHEMES)

CAROLINE DA SILVA

DEPUTY EXECUTIVE OFFICER (FAIS AND CONSUMER EDUCATION) (INSURANCE) ACTING FROM AUGUST 2017

PAUL KEKANA

CHIEF FINANCIAL OFFICER

MARIUS DU TOIT

CHIEF ACTUARY

OLANO MAKHUBELA

ACTING DEPUTY EXECUTIVE OFFICER (RETIREMENT FUNDS) FROM OCTOBER 2017

CORPORATE GOVERNANCE

THE BOARD

The Board was responsible for monitoring standards of corporate governance and subsequently endorsed and supported the application of the recommendations of the King IV Report on Corporate Governance for South Africa 2016. The Board was committed to governance processes that assure stakeholders that the institution's operations were conducted ethically, within prudent risk parameters and in pursuit of best governance practices.

To the best of the Board's knowledge, information and belief, the institution has thus far complied with applicable legislation, policies and procedures, as well as codes of governance.

COMPOSITION OF THE BOARD AND ITS ROLE

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

The Board was primarily responsible for the leadership of the institution, strategic direction and policy, operational performance, financial matters, risk management and compliance matters. It exercises leadership, integrity and judgement in directing the institution, based on transparency, accountability and responsibility. It was also the focal point of the corporate governance system of the institution. Authority for day-to-day management of the institution's activities was delegated to the executive management team. The mandate, role and responsibilities of the Board are stipulated in the Board Charter as set out in the Financial Services Board Act, 1990 (Act No. 97 of 1990).

INDUCTION OF NEW MEMBERS

A comprehensive induction programme was developed to ensure that new Board members would be adequately briefed and possess the required knowledge of the institution's structure, operations, policies and industry-related issues to enable them to fulfil their duties and responsibilities. There were no new board and governance members appointed during 2017/18.

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

DELEGATION OF AUTHORITY

The Board had oversight authority to lead, control and manage the business of the institution, through a comprehensive delegation-of-authority framework. It delegated certain aspects of its authority to the Executive Officer and Executive Committee (Exco) to manage the day-to-day business affairs of the institution. This delegation of authority assisted in decision-making and meeting strategic objectives without exonerating the Board of its accountability and responsibilities for the institution.

EXECUTIVE COMMITTEE

In terms of the FSB Act, the FSB Exco performed the functions of the Board between meetings. However, in terms of statute, the Board Charter and Delegation-Of-Authority Document, some non-delegated matters were reserved for approval by the Board and/or the Minister of Finance.

BOARD MEETINGS

Board meetings were held at least once every quarter and special meetings convened when necessary. In the review period, four scheduled meetings were held and several extraordinary meetings convened. Exco members attend board meetings ex officio. Details of attendance are shown in the table below.

Board member	26/07/2017	18/10/2017	06/12/2017	27/03/2018
A Sithole (Chairperson)	✓	✓	✓	✓
H Wilton (Deputy Chairperson)	✓	A	A	✓
Z Bassa	A	✓	✓	✓
F Groepe	✓	✓	✓	A
O Makhubela	✓	R	R	R
J Mogadime	✓	✓	✓	✓
I Momoniat	A	✓	✓	✓
D Msomi	A	✓	✓	✓
H Ratshefola	A	✓	✓	✓
PJ Sutherland	✓	A	✓	✓
D Turpin	✓	✓	✓	✓

✓: Attended *A: Apologies* *R: Resigned*

COMMITTEES OF THE BOARD

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

AUDIT COMMITTEE

The Audit Committee assisted the Board in its responsibility for safeguarding assets, operating control systems, combined assurance, finance functions, internal and external audit services, and advised the Board on the adequacy of risk management processes and strategies. The committee met five times in the previous year, with attendance shown in the following table.

Member	26/05/17	14/07/17	01/09/17	31/10/17	19/03/18
J Mogadime (Chairperson)	✓	✓	✓	✓	✓
D Msomi	✓	✓	✓	✓	✓
PJ Sutherland	✓	✓	✓	A	✓
H Wilton	✓	✓	✓	✓	✓

✓: Attendance *A: Apologies*

RISK MANAGEMENT COMMITTEE

The Risk Management Committee assisted the Board in ensuring that the institution implemented effective policies and plans for risk management that would enhance its ability to achieve strategic objectives. It advised the Board on the adequacy of risk management processes and strategies and it met four times in the 2017/18 period, with attendance reflected below.

Member	07/06/2017	30/09/2017	03/10/2017	01/03/2018
H Wilton (chairperson)	✓	✓	✓	✓
Z Bassa	A	A	✓	✓
J Mogadime	✓	✓	✓	✓
H Ratshefola	✓	A	✓	✓
D Turpin	✓	✓	✓	✓

✓: Attendance   A: Apology

HUMAN RESOURCES COMMITTEE

The function of the Human Resources Committee was to ensure that the institution's human resources strategy and policies were implemented. It met four times in the 2017/18 financial year, with attendance shown in the table below.

Member	07/06/2017	30/08/2017	20/11/2017	01/03/2018
Z Bassa (Chairperson)	✓	A	✓	✓
A Sithole	✓	✓	A	✓
H Wilton	✓	✓	✓	✓

✓: Attendance   A: Apology

REMUNERATION COMMITTEE

The Remuneration Committee ensured that the institution's remuneration strategies and policies wre implemented. It reviewed compensation matters, benchmarked salaries of staff and made recommendations to the Board. The committee met four times in the review period, with attendance reflected below.

Member	07/06/2017	30/08/2017	20/11/2017	01/03/2018
H Wilton (Chairperson)	✓	A	✓	✓
A Sithole	✓	✓	A	✓
Z Bassa	✓	✓	✓	✓

✓ : Attendance   A: Apology

LICENSING COMMITTEE

The Licensing Committee provided oversight to ensure that the Registrar (Executive Officer) acted in terms of legislation administered by the institution in discharging his duties. The committee met 11 times in the period, with attendance shown in the table below.

Member	04/04/17	09/05/17	06/06/17	11/07/17	08/08/17	05/09/17	10/10/17	07/11/17	06/12/17	06/02/18	06/03/18
J Mogadime (Chairperson)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
D Msomi	✓	A	✓	✓	✓	✓	✓	✓	✓	✓	✓
H Ratshefola	✓	✓	✓	✓	✓	A	✓	✓	✓	A	✓
A Raats	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
S Moraba	✓	A	✓	✓	✓	✓	A	✓	✓	✓	✓
L Vilakazi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
B Naidoo	✓	✓	✓	✓	✓	✓	✓	✓	✓	A	✓

✓: Attendance A: Apology

LITIGATION COMMITTEE

The Litigation Committee oversaw the litigation process for claims against, or by, the institution. It met four times in the 2017/18 period, with attendance reflected below.

Member	02/06/2017	31/08/2017	1/11/2017	01/03/2018
PJ Sutherland (Chairperson)	✓	✓	A	✓
A Loubser	✓	✓	✓	✓
K Mackenzi	✓	✓	✓	✓
D Msomi	✓	A	✓	A
S Martin	✓	✓	✓	✓
AMJ Pinnock	✓	✓	A	✓
D Turpin	✓	✓	✓	✓

✓: Attendance A: Apology

LEGISLATIVE COMMITTEE

The Legislative Committee considered new legislation or amendments to existing legislation relating to the institution's supervisory functions. It met four times a year with attendance in the period of review shown below.

Member	02/06/2017	31/09/2017	31/11/2017	02/03/2018
H Ratshefola (Chairperson)	✓	A	✓	✓
A Sithole	✓	✓	✓	✓
D Turpin	✓	✓	✓	✓
HB Falkena	R	R	R	R
M Katz	✓	A	✓	✓
A Meyer	✓	✓	✓	✓
PJ Sutherland	✓	✓	A	✓
E Mphahlele	A	✓	✓	A

✓: Attendance A: Apology R: Resigned

BOARD SECRETARIAT

All Board members had access to the advice and services of the Board Secretariat, which was responsible for ensuring proper governance of the Board and guiding Board members on their responsibilities under the enabling legislative framework. The Board Secretariat was also responsible for providing secretariat and corporate governance services to the offices of the Pension Funds Adjudicator and FAIS Ombud in terms of the memorandum of understanding entered into with the two entities. The Acting Chief Operations Officer was responsible for the management of the Board Secretariat.

HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

OCCUPATIONAL HEALTH AND SAFETY (OHS)

In terms of the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993) and Regulations, the FSB needed to ensure and maintain a safe working environment for employees.

The FSB carried out OHS training programmes annually. Recent training includes fire marshal and evacuation marshal training for appointed OHS representatives. Three evacuation drills were conducted at the Pretoria offices of the FSB; one in Block B and two in Block C.The FSB was committed to complying with health and safety standards. OHS practices were audited by an external auditor on a quarterly and annual basis.

Ongoing inspections, in-house and external training, as well as the induction of all new employees were done as and when required. OHS awareness communications to all staff were issued by email every quarter .

The Occupational Health and Safety Act was adhered to and no contraventions were reported during the year under review.

AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2018.

The Audit Committee is a committee of the Board of the FSB and comprises four independent, non-executive Board members, who collectively have sufficient qualifications and experience to fulfil their duties. The Executive Officer, Chief Financial Officer and Chief Risk Officer are permanent invitees to committee meetings while the external and internal auditors attend by invitation. The internal and external auditors have unrestricted access to the Audit Committee.

ROLES AND RESPONSIBILITY

The committee has adopted formal terms of reference which have been approved by the Board. These are reviewed on an annual basis and the committee has executed its duties during the past financial year in accordance with these terms of reference, the Public Finance Management Act (PFMA), Treasury Regulations and the King IV Report on Corporate Governance in South Africa 2016.

OVERSIGHT OF RISK MANAGEMENT

The committee is satisfied that the process and procedures followed by the Risk Management Committee are adequate in order to ensure that financial risks are identified and monitored.

The committee has concluded that the following areas of risk have been addressed appropriately:

- Financial reporting risks.
- Internal financial controls.
- Fraud risks as they relate to financial reporting.
- IT risks, as they relate to financial reporting.

INTERNAL FINANCIAL CONTROL

The Audit Committee has reviewed:

- the effectiveness of the entity's internal financial control systems, including receiving assurance from management, internal audit and external audit;
- significant issues raised by the internal and external audit process, including the manner in which they were resolved;
- policies and procedures for preventing fraud, bribery and corruption.

Based on the processes and assurance obtained, we believe that the significant internal financial controls that were in place were effective.

REGULATORY COMPLIANCE

The Audit Committee complied with all its applicable legal and regulatory responsibilities.

INTERNAL AUDIT

The committee has:

- reviewed and recommended the Internal Audit Charter for approval by the Board;
- evaluated the independence, effectiveness and performance of the internal audit function and compliance with its mandate;
- satisfied itself that the internal audit function has the necessary resources, budget, standing and authority within the entity to enable it to carry out its functions;
- approved the internal audit plan;
- encouraged cooperation between the internal and external audit functions.

EXTERNAL AUDIT

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

ANNUAL REPORT

The committee reviewed the annual report of the FSB for the year ended 31 March 2018 and submits that management is presenting an appropriate view of the entity's financial position and performance.

EVALUATION OF FINANCIAL STATEMENTS

The committee evaluated the annual financial statements of the FSB for the year ended 31 March 2018. It also reviewed:

- the external auditor's report;
- the FSB's compliance with applicable laws and regulation;
- information on predetermined objectives included in the annual report;
- significant adjustments resulting from the audit.

Based on the information provided by management, internal audit and external audit, the committee considers that these statements comply, in all material respects, with the requirements of the PFMA, and the basis of preparation set out in the accounting policies in Note 1 of the annual financial statements. The committee concurs that adopting the going-concern assertion in preparing the annual financial statements is appropriate.

At its meeting on 13 July 2018, the committee recommended that the financial statements be submitted to the Board for approval.

Ms Jabu Mogadime
Chairperson: Audit Committee

REMUNERATION COMMITTEE REPORT

INTRODUCTION

The Remuneration Committee was committed to applying independent and objective oversight. Its mission was to ensure that remuneration, and associated practices enabled the FSB to attract, motivate and retain top talent, as well as carry out its business strategy.

REMUNERATION PHILOSOPHY, STRATEGY AND POLICY

The remuneration mix applied by the FSB includes guaranteed package and variable pay. In terms of variable pay, the FSB did not subscribe to long-term incentives as this does not adhere to the business model of the FSB. The institution adapted its reward strategies on an on-going basis to reward good behaviour and to retain staff. In 2017, 85% of staff received bonuses based on their performance in order to ensure that they were retained as the organisation was going through a transitional phase towards the Twin Peaks model of regulation. Funding for the incentive scheme was based on a budgeted percentage of the annual cost to employer payroll.

Short-term incentives were subject to Board approval each year, based on economic circumstances and the performance of the organisation.

Performance targets were set annually and approved by the Board. Executive members' individual performance targets were linked to organisational targets and cascaded to individual performance goals. The executive incentive scheme was separate from the staff incentive scheme and the total pay-out was linked to the individual performance score.

ROLE OF THE REMUNERATION COMMITTEE

This committee was tasked with ensuring that senior management and staff were appropriately rewarded to ensure, as far as possible, that we were able to recruit, retain and motivate people with the skills we required.

The Remuneration Committee was a subcommittee of the Board of the FSB. Its purpose was to ensure that the FSB adhereed to fair pay practices and that staff would be rewarded appropriately. The committee dealt with the following matters over the past year:

Quarter 1	Mid-year performance reviews of remuneration aspects Staff promotions and structural adjustments
Quarter 2	Salary increases (market trend surveys) Approval of terms of reference
Quarter 3	Performance bonus (approval) Salary increases (approval) Performance report (year-end)
Quarter 4	Budget provisions Remuneration statement for the annual report

KEY REMUNERATION DECISIONS IN 2017

The FSB ensured that the majority of its employees were paid within market parameters. Salaries were benchmarked between -25% to a maximum of 25% above market median. Salary adjustments were granted to performing staff members twice a year (July and December), to bring their salary closer to the market median. The table below summarises adjustments made in July 2017.

General staff

No. of Staff	Applicable Adjustment	Motivation
20	4%	Staff members that were appointed late in 2016, or that were promoted, that did not qualify for annual increase
20	between 2,14% - 33,30%	Salary below minus 25%, as well as motivated by HoD or budgeted by HoD

Summary of July 2017 structural adjustments

As at 30 July 2017 (after structural adjustments and analyst progressions) 376 employees (66%) were paid below market median; 93 (16%) were paid below -25% of market median, and 69 (12%) were paid more than 25% above the market median.

No. of Staff	% Adjustment	Motivation
44	15%	Budgeted analyst progression, as well as motivations received from HoD

Summary of July 2017 promotions

Actuarial staff

Encouraging the growth and development of actuarial students was part of our retention strategy of the FSB. The strategy was aligned to industry practices: when students passed their examinations, they received an incentive either as a structural salary adjustment or a once-off bonus payment. Bonuses differed, depending on the level of the examination. The incentive was applied twice a year and linked to the actuarial study discipline. Incentives granted to actuarial staff during the 2017/18 year are summarised below:

Summary of actuarial salary changes

Date	Structural adjustments	Number	Bonuses
August 2017	R47 099,60	2	R28 300
February 2018	R58 783,00	3	R26 400
Total	**R105 882,60**		**R54 700**

SUMMARY OF EXECUTIVE REMUNERATION

Summary of Exco remuneration

Name	Gross Pay R'000	Short-Term Insentive R'000	Total R'000
Tshidi, DP	R5 622	R900	R6 522
Boyd, JA	R3 852	R461	R4 313
*Dixon, JI	R1 389	-	R1 389
Du Toit, MM	R3 748	R408	R4 156
*Ramuthaga, TG	R741	-	R741
Da Silva, CD	R3 483	R424	R3 907
*Makhubela, OB	R1 382	-	R1 382
Kekana, LP	R2 831	R408	R3 239

**Dixon JI (Resigned 31 August 2017); *Ramuthaga TG (Resigned 30 June 2017); *Makhubela OB (Appointed as Acting DEO: Pensions from 01 October 2017)*

SUSTAINABILITY

The Financial Services Board remained committed to sustainable business operations. The FSB initiated various programmes in order to reduce the use of paper in our offices. This included electronic storage of our policy documents as well as other relevant customer data.

ENVIRONMENT

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

WATER CONSUMPTION

The FSB had a number of water saving measures in place, like monitoring water consumption to detect possible leaks, and monitoring and repairing taps, pipes and toilet leaks. The buildings were equipped with hydroboils that provide instant warm water and water coolers that provide instant cold water. Taps in our bathrooms are sensor-activated.

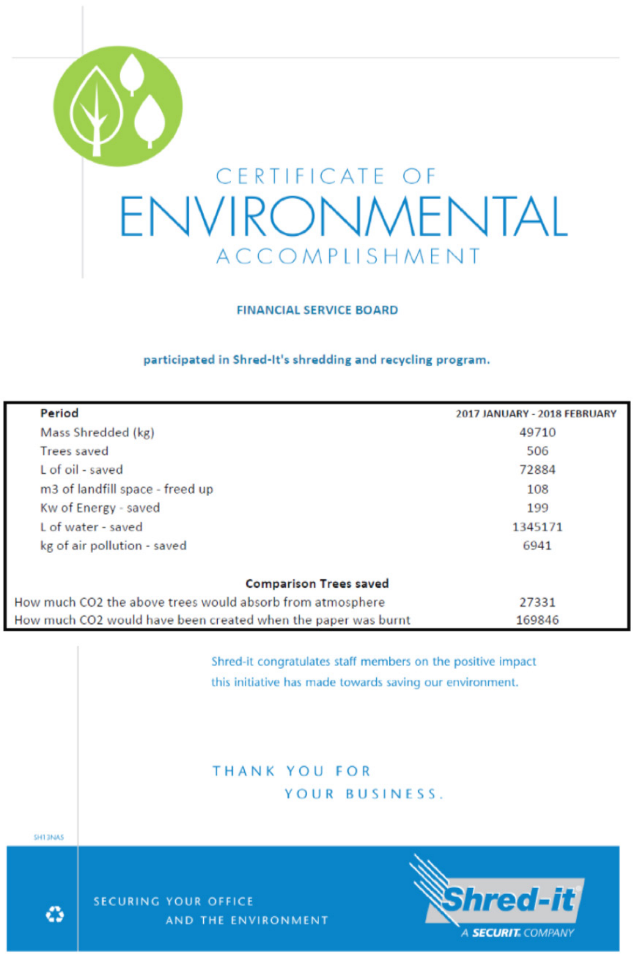
Water saving measures were introduced in order to ensure sustainability of the water supply. These measures included the installation of water storage tanks.

ELECTRICITY CONSUMPTION

Other sustainable initiatives include switching off air conditioning, lights, basement fans and hydroboils after hours and over weekends.

RECYCLING

The FSB participated in a number of recycling programmes to recycle paper, magazines, newspapers, cardboard, printer cartridges, plastic, tin cans and glass bottles. Programmes include, among others, the Shred-It Shredding programme and Wasteplan Recycling programme.



CERTIFICATE OF ENVIRONMENTAL ACCOMPLISHMENT

FINANCIAL SERVICE BOARD

participated in Shred-It's shredding and recycling program.

Period	2017 JANUARY - 2018 FEBRUARY
Mass Shredded (kg)	49710
Trees saved	506
L of oil - saved	72884
m3 of landfill space - freed up	108
Kw of Energy - saved	199
L of water - saved	1345171
kg of air pollution - saved	6941
Comparison Trees saved	
How much CO2 the above trees would absorb from atmosphere	27331
How much CO2 would have been created when the paper was burnt	169846

Shred-it congratulates staff members on the positive impact this initiative has made towards saving our environment.

THANK YOU FOR YOUR BUSINESS.

SECURING YOUR OFFICE AND THE ENVIRONMENT

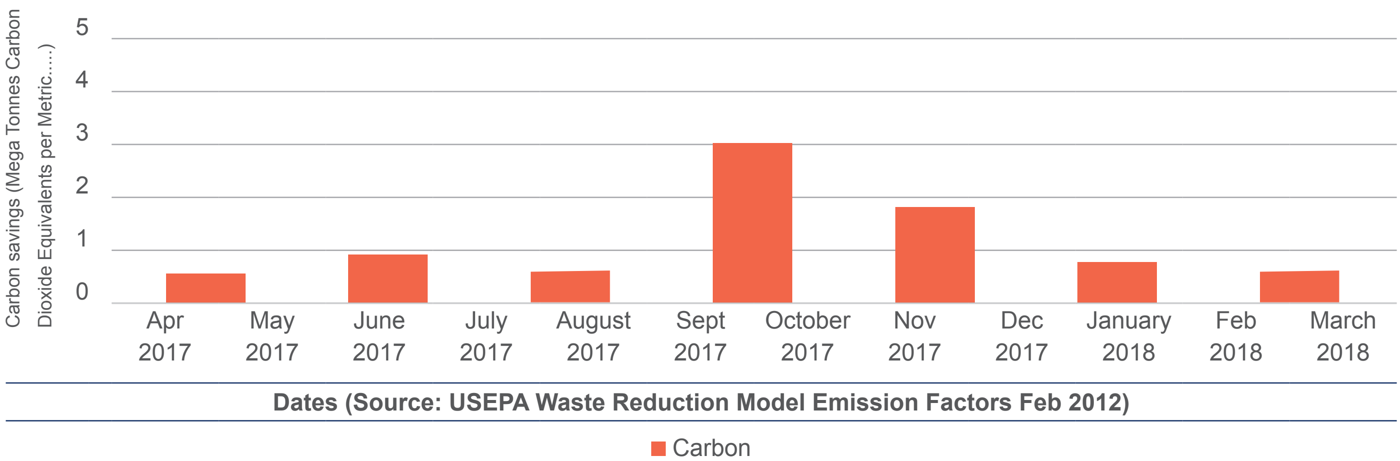
Shred-it

A SECURIT. COMPANY

Recycling – paper, plastic and glass

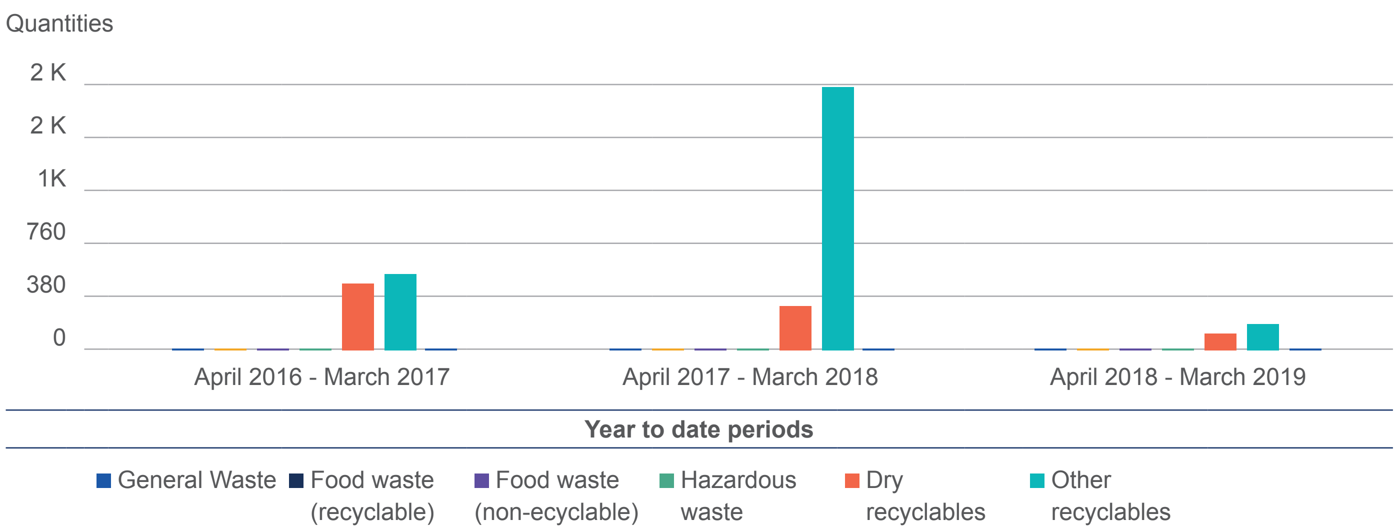
The FSB introduced recycling bins on all floors, specifically for paper (other than FSB documentation), glass and plastic.

Figure 1: Carbon Savings per Period



	Cardboard K4	Mixed Recyclables	Paper common mix
March 2018	72 kg	97 kg	43 kg
January 2018	35 kg	116 kg	65 kg
December 2017		447 kg	
November 2017		721 kg	
October 2017		132 kg	
September 2017		231 kg	
August 2017	127 kg	132 kg	

Figure 2: Waste stream



	31 March 2016	31 March 2017	30 March 2018
Waste to landfill			
Total waste to landfill	0 kg	0 kg	0 kg
Total	86 376	51 443	55 721

Waste to recycling			
Waste to recycling			
Cardboard K4	154 kg	234 kg	345 kg
Mixed Recyclables	183 kg	1 876 kg	541 kg
Paper common mix		108 kg	
Paper newspapers			125 kg
Metal cans			2 kg
Glass			13 kg
Plastic PP			7 kg
Plastic PS			9 kg
Total waste to recycling	337 kg	2 218 kg	1 042 kg

Toner cartridge recycling

The FSB recycled its toner bottles, cartridges and image units through a recycling program. The program allows clients to reduce their environmental impact by ensuring the toner cartridges and bottles never reach landfill sites. They are recycled into useful products instead.

Future sustainability initiatives

Sustainable initiatives planned for the near future include the installation of light sensors in the bathrooms, meeting rooms and training rooms.

PART D

HUMAN RESOURCES

HUMAN RESOURCES

OVERVIEW

To ensure a sustainable sound financial investment environment, the Financial Services Board employed a rigorous talent management process to meet its strategic and operational objectives. Eighty-one per cent (81%) of our employees attended various training interventions (held in-house and externally) during the period under review. In addition to the investment in training, 25 recently qualified graduates were offered training opportunities either as interns or trainee analysts at the beginning of the financial year. The FSB is proud to have been contributing to the national imperative of creating sustainable jobs for graduates in order to alleviate the shortage of skills in the financial sector and to the overall reduction of unemployment in the country.

GRADUATE DEVELOPMENT PROGRAMME

Ten interns were enrolled on the internship programme and 10 on the graduate development programme. Graduates on the internship programme were offered an opportunity to train from day one on real work scenarios while those on the trainee analyst programme got the opportunity to be exposed to theory and practicals simultaneously. During the financial year, five additional graduates were recruited to assist with the Pensions Department's Unclaimed Benefits project. We are proud to report that the programme has provided the institution with a cost-effective way of recruiting employees at a junior level without compromising the quality of output.

ACTUARIAL BURSARY PROGRAMME

Four students received funding from the FSB to study towards a qualification in actuarial sciences. Two students are already in their second year of study and expected to complete the qualification in 2020. Two new students have received funding for the 2018 - 2021 academic years. All bursary students will be employed by the Financial Sector Conduct Authority after the completion of their qualifications.

EMPLOYEE WELLNESS

The physical and psychosocial wellness of employees has always been of paramount importance for the organisation in order to achieve its mandate. For this reason, the FSB instituted a programme that had been outsourced to the Careways Group. The programme also supported immediate family members. Besides the services offered by the Careways Group, all employees were encouraged to participate in various physical wellness programmes such as walking, road running, soccer and netball. Employees created internal leagues for the soccer initiative, while for walking and road running, employees affiliated themselves to Athletics Gauteng North, which is a member of Athletics South Africa.

HUMAN RESOURCE OVERSIGHT STATISTICS

Our Workforce

The staff complement as at 31 March 2018 was 593, including contractors and employees living with disabilities. The institution was unable to fill all positions in terms of the approved resource plan due to various reasons, some of which relate to the timing with regards to the implementation of Twin Peaks.

PERSONNEL COST BY PROGRAMME/ ACTIVITY/ OBJECTIVE

Programme/activity/objective	Total expenditure (R000)	Personnel expenditure (R000)	% of total expenditure	No of employees	Average personnel cost per employee (R000)
Administration	284 609	158 422	56	239	663
Supervise financial advisory and intermediaries in the financial services sector	158 608	68 920	43	141	489
Supervise collective investment schemes in terms of relevant legislation	29 361	20 024	68	33	607
Supervise South African licensed exchanges, central securities depositories and clearances	16 601	8 978	54	17	528
Supervise long-term insurance industry in terms of relevant legislation	104 452	68 721	66	92	747
Supervise retirement funds and friendly societies	137 667	51 366	37	79	650
Directorate of Market Abuse (securities)	17 658	11 676	66	12	973
Regulating credit rating agencies	6 146	4 349	71	6	725
Regulating hedge funds	11 077	7 174	65	15	478

PERSONNEL COST BY SALARY BAND

Level	Personnel expenditure (R000)	% of total personnel cost (R000)	No of employees	Average personnel cost per employee (R000)
Top management	23 048	6	8	2 881
Senior management	65 791	16	33	1 994
Professional qualified	219 268	55	290	756
Skilled	66 179	17	206	321
Semi-skilled	25 344	6	97	261
TOTAL	**399 630**	**100**	**634**	**630**

PERFORMANCE REWARDS

The Financial Services Board also awarded performance bonuses to exceptional performers, including Exco members, at the end of the performance cycle.

Level	No of employees	Incentives paid (R000)	% of incentive rewards
Top management	5	2 600 000	17
Senior management	32	2 659 886	17
Professional qualified	230	7 493 552	48
Skilled	138	2 035 708	13
Semi-skilled	83	868 616	5
TOTAL	**488**	**15 657 762**	**100**

TRAINING COSTS

To optimise individual performance and to improve business performance, the FSB encouraged progressive personal development by investing in training and formal studies relevant to its core business.

Programme//activity/objective	Personnel expenditure (R000)	Training expenditure (R000)	Training expenditure as % of personnel cost	No of employees trained	Avg training cost per employee (R000)
Administration	158 422	3 258	2,1	166	20
Supervise financial advisory and intermediaries in the financial services sector	68 920	1 502	2,2	106	14
Supervise collective investment schemes in terms of relevant legislation	20 024	373	1,9	29	13
Supervise South African licensed exchanges, central securities depositories and clearances	8 978	175	2	14	13
Supervise long-term insurance industries in terms of relevant legislation	68 721	1 126	1,6	56	20
Supervise retirement funds and friendly societies	51 366	816	1,6	66	12
Directorate of market abuse (securities)	11 676	154	1,3	11	14
Regulating credit rating agencies	4 349	62	1,4	6	10
Regulating hedge funds	7 174	223	3,1	8	28

EMPLOYMENT AND VACANCIES

Programme/activity/objective	2017 no of employees	2018 approved posts	2018 no of employees	2018 vacancies	% vacancies
Administration and support	205	256	209	47	62
FAIS	132	134	126	8	10
CIS	32	34	33	1	1
Capital markets	17	18	16	2	3
Insurance	90	92	81	11	15
Pensions	73	79	76	3	4
Market abuse	10	12	12	-	-
Credit agencies	5	6	6	-	-
Hedge funds	8	17	13	4	5
TOTAL	**572**	**648**	**572**	**76**	**100**

Levels	2017 no of employees	2018 approved posts	2018 no of employees	2018 vacancies	% vacancies
Top management	7	9	6	3	4
Senior management	33	36	32	4	5
Professional qualified	251	298	256	42	55
Skilled	186	201	186	15	20
Semi-skilled	95	104	92	12	16
TOTAL	**572**	**648**	**572**	**76**	**100**

EMPLOYMENT CHANGES

The Financial Services Board appointed 64 new staff members during the 2017/18 financial year. The average vacancy rate was 10% in the year under review which is aligned to the target set by management. The staff turnover rate increased from 8% to 11% during the financial year.

One significant external appointment was made, where the Minister of Finance seconded Mr Olano Makhubela to the institution to fill the Deputy Executive Officer vacancy in the Retirement Funds Division.

Salary band	Employed at beginning of period	Appointments	Internal Movements	Terminations	Employed at end of the period
Top management	7	1	-	2	6
Senior management	33	-	-	1	32
Professional qualified	251	17	23	35	256
Skilled	186	39	-21	18	186
Semi-skilled	95	7	-4	6	92
Total	**572**	**64**	**-2**	**62**	**572**

SIGNIFICANT TERMINATIONS

A total of 62 staff members left during this period. Two terminations were at an executive level:

- Chief Information Officer resigned effective 30 June 2017.
- Deputy Executive Officer: Insurance resigned effective 31 August 2017.

Reason	Number	% of total staff leaving
Death	1	1.5
Resignation	58	94
Dismissal	1	1.5
Retirement	1	1.5
Ill health	1	1.5
Expiry of contract	-	-
Other	-	-
Total	**62**	**100**

LABOUR RELATIONS: MISCONDUCT AND DISCIPLINARY ACTION

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

EQUITY TARGET AND EMPLOYMENT EQUITY STATUS

The FSB embraced fair and non-discriminatory employment policies and practices, and was committed to identifying and eliminating any unfair discrimination which may have existed in its processes. To monitor progress on this commitment, the HR department provided quarterly updates on the progress made to the Board, Management and staff with respect to the implementation of the approved FSB employment equity plan and targets.

The table below indicates the FSB Employment Equity profile as at 31 March 2018. Efforts are being made through various staff development programmes to advance constituencies where targets are underrepresented. These efforts continue as the FSB transitions into the FSCA.

Levels	Male							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	3	2	1	1	0	1	1	2
Senior management	4	5	2	3	2	0	7	10
Professional qualified	99	73	7	8	4	4	16	13
Skilled	85	68	3	10	1	2	4	2
Semi-skilled	25	59	1	12	1	1	0	0
TOTAL	**216**	**207**	**14**	**34**	**8**	**8**	**28**	**27**

Levels	Female							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	0	1	0	1	0	0	1	0
Senior management	8	6	1	2	1	0	7	8
Professional qualified	84	71	3	7	10	5	31	19
Skilled	76	66	5	8	1	2	9	8
Semi-skilled	50	61	5	8	1	2	7	4
TOTAL	**218**	**205**	**14**	**26**	**13**	**9**	**55**	**39**

Levels	Disabled Staff			
	Male		Female	
	Current	Target	Current	Target
Top management	0	0	0	0
Senior management	0	0	0	1
Professional qualified	1	2	1	0
Skilled	1	2	1	1
Semi-skilled	1	3	1	2
TOTAL	**3**	**7**	**3**	**4**

PART E

FINANCIAL INFORMATION

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

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

CONTENTS

REPORT BY THE MEMBERS OF THE BOARD

FOR THE YEAR ENDED 31 MARCH 2018

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

The Board acknowledges its responsibility for the preparation and integrity of the financial statements and related information included in the annual report. In order for the Board to discharge these responsibilities, as well as those bestowed on it in terms of the Public Finance Management Act 1 of 1999 (PFMA) and other applicable legislation, it has developed and maintains a system of internal control.

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

The FSB ceases to exist on 31 March 2018 and the assets and liabilities will be transferred to the Financial Sector Conduct Authority (FSCA) effective from 1 April 2018. In terms of section 293 (1) of the Financial Sector Regulations (FSR) Act No. 9 of 2017: "At the date on which the section comes into effect, the assets and liabilities of the FSB cease to be assets and liabilities of the Board and become assets and liabilities of the Financial Sector Conduct Authority without any conveyance, transfer or assignment". As a result the FSCA is well placed to manage future funding requirements pertaining to its regulatory activities and has sufficient resources to continue its business for the foreseeable future.

The Board therefore concludes using the going concern basis is appropriate in preparing its financial statements as there are no material uncertainties related to events or conditions that may cast significant doubt about the FSCA's ability to continue as a going concern.

The financial statements for the year ended 31 March 2018, as set out on pages 123 to 171, were recommended by the Audit Committee for approval on 13 July 2018 and were signed on its behalf by:

Mr AM Sithole
Chairperson of the Board

Adv DP Tshidi
Executive Officer

REPORT OF THE AUDITOR-GENERAL TO THE ACCOUNTING AUTHORITY OF FINANCIAL SERVICES BOARD

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

1. I have audited the financial statements of the Financial Services Board set out on pages 123 to 171, which comprise the statement of financial position as at 31 March 2018, and the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Services Board as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act no. 1 of 1999 (PFMA).

Context for the opinion

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

Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

FINANCIAL SERVICES BOARD TRANSITION TO THE FINANCIAL SECTOR CONDUCT AUTHORITY

7. The Financial Services Board has transitioned to the Financial Sector Conduct Authority in terms of the new Financial Sector Regulation Act effective 01 April 2018. Further details of the transition are disclosed in the Chairman's report, Executive Officer's report and note 39 of the financial statements in the Annual Report.

Responsibilities of accounting authority for the financial statements

8. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the PFMA and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the financial statements, the accounting authority is responsible for assessing the Financial Services Board's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

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

10. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of Auditing (ISAs) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

11. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

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

14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2018:

Objectives	Pages in the annual performance report
Strategic objective 1 – Empowered consumers of financial products and services	34 – 36
Strategic objective 3 – Ensure sound financial institutions	37 – 38
Strategic objective 5– Effective transition to market conduct regulator	39

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

16. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:
    - Strategic objective 1 – Empowered consumers of financial products and services
    - Strategic objective 3 – Ensure sound financial institutions
    - Strategic objective 5 – Effective transition to market conduct regulator

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

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

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

OTHER INFORMATION

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

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

21. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

22. If, based on the work I have performed, I conclude that there is a material misstatement in this other information; I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

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

OTHER REPORTS

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

25. The Board of FSB commissioned an investigation to establish whether there was any likelihood that any pension fund or its members suffered financial prejudice as a result of action taken by the registrar to cancel the registration of dormant and other inactive pension funds during the period between 01 January 2007 and 31 December 2013, in terms of section 27 of the Pension funds Act, as amended. The matter is still before the Constitutional Court and the investigation is ongoing.

Auditor-General

Pretoria
31 July 2018

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

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

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
   - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Financial Services Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Cash and cash equivalents	3	406 132 313	361 306 505
Receivables from exchange transactions	4	6 147 940	6 401 258
Statutory receivables from exchange transactions	5	5 068 305	3 824 485
Statutory receivables from non-exchange transactions	6	14 242 257	14 678 176
Prepayments	7	3 538 314	3 866 032
Financial assets at fair value	10	515 950	875 778
		435 645 079	**390 952 234**
Non-Current Assets			
Property, plant and equipment	8	65 073 221	39 358 204
Intangible assets	9	15 865 223	9 362 150
Financial assets at fair value	10	66 257 087	64 889 933
		147 195 531	**113 610 287**
Total Assets		**582 840 610**	**504 562 521**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	71 722 272	44 177 121
Levies and fees received in advance	12	35 471 607	32 924 548
Provisions	13	9 656 413	7 665 901
Finance lease obligation	14	625 788	617 459
		117 476 080	**85 385 029**
Non-Current Liabilities			
Provisions	13	3 777 774	3 966 514
Finance lease obligation	14	508 913	1 134 702
Operating lease liability		14 481 518	4 805 995
Post-retirement benefit obligations	15&16	51 419 952	50 208 853
		70 188 157	**60 116 064**
Total Liabilities		**187 664 237**	**145 501 093**
Net Assets		**395 176 373**	**359 061 428**
Contingency reserve	17	75 305 818	72 547 487
Discretionary reserve	17	32 253 903	31 689 583
Accumulated funds		287 616 652	254 824 358
Total Net Assets		**395 176 373**	**359 061 428**

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2018

Figures in Rand	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions	21	85 323 473	87 817 585
Revenue from non-exchange transactions	22	716 970 594	694 826 758
Total revenue		**802 294 067**	**782 644 343**
Expenses			
Advisory and other committee fees		(4 863 124)	(5 965 759)
Contribution towards funding of the Office of the Ombud for FSPs	23	(49 421 161)	(39 127 718)
Contribution towards funding of the Office of the PFA	23	(59 037 927)	(52 315 934)
Depreciation and amortisation	8&9	(13 874 313)	(10 738 633)
Executive management remuneration	24	(29 918 740)	(33 312 902)
External audit fees	25	(2 522 451)	(3 583 727)
Fair value adjustment	10	(191 090)	(1 620 941)
Finance costs	14	(176 971)	(74 549)
Internal audit fees		(980 343)	(536 081)
Legal fees		(12 304 589)	(14 969 066)
Loss on disposal of assets		(78 427)	(49 216)
Non-executive board members fees	24	(1 740 613)	(1 730 033)
Operating lease rentals - buildings		(62 384 981)	(47 760 298)
Other operating expenses	26	(63 518 161)	(62 152 858)
Professional and consulting fees		(17 510 339)	(22 895 643)
Provision for credit losses	27	(7 656 882)	(5 612 963)
Post retirement medical aid fund expense	15	(1 211 099)	(4 943 224)
Salaries, staff benefits, training and other staff expenses		(438 787 911)	(397 148 379)
Total expenditure		**(766 179 122)**	**(704 537 924)**
Surplus for the year		**36 114 945**	**78 106 419**
Surplus from continuing functions		28 706 285	62 535 166
Surplus from functions to be transferred	39	7 408 660	15 571 253

STATEMENT OF CHANGE IN NET ASSETS

for the year ended 31 March 2018

Figures in Rand	Discretionary reserve	Contingency reserve	Total reserves	Accumulated funds	Total net assets
Balance at 31 March 2016	**23 081 785**	**65 630 031**	**88 711 816**	**192 243 193**	**280 955 009**
Changes in net assets					
Surplus for the year	-	-	-	78 106 419	78 106 419
Transfer from accumulated funds to contingency reserve	-	6 917 456	6 917 456	(6 917 456)	-
Transfer from accumulated funds to discretionary reserve	8 607 798	-	8 607 798	(8 607 798)	-
Total changes	8 607 798	6 917 456	15 525 254	62 581 165	78 106 419
Balance at 31 March 2017	**31 689 583**	**72 547 487**	**104 237 070**	**254 824 358**	**359 061 428**
Changes in net assets					
Surplus for the year	-	-	-	36 114 945	36 114 945
Transfer from accumulated funds to contingency reserve	-	2 758 331	2 758 331	(2 758 331)	-
Transfer from accumulated funds to discretionary reserve	564 320	-	564 320	(564 320)	-
Total changes	564 320	2 758 331	3 322 651	32 792 294	36 114 945
Balance at 31 March 2018	**32 253 903**	**75 305 818**	**107 559 721**	**287 616 652**	**395 176 373**
Notes	17	17			

CASH FLOW STATEMENT

for the year ended 31 March 2018

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Cash received from industry		761 867 435	739 484 323
Interest income		32 159 792	27 879 880
Dividends received		1 212 890	1 384 745
		795 240 117	768 748 948
Payments			
Employee costs		(462 910 390)	(429 140 611)
Suppliers		(114 347 338)	(144 619 723)
Finance costs		(206 401)	(25 344)
Other payments		(124 963 475)	(124 932 561)
		(702 427 604)	(698 718 239)
Net cash flows from operating activities	28	**92 812 513**	**70 030 709**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(38 315 517)	(7 651 649)
Proceeds from sale of property, plant and equipment	8	6 877	-
Finance leased payments		(617 460)	(193 680)
Purchase of other intangible assets	9	(7 862 190)	(4 724 670)
Purchase of financial assets	10	(12 141 281)	(5 930 102)
Proceeds from sale of financial assets	10	10 942 866	6 859 895
Net cash flows from investing activities		**(47 986 705)**	**(11 640 206)**
Net increase in cash and cash equivalents		**44 825 808**	**58 390 503**
Cash and cash equivalents at the beginning of the year		361 306 505	302 916 002
Cash and cash equivalents at the end of the year	3	**406 132 313**	**361 306 505**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

for the year ended 31 March 2018

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions	52 367 072	-	**52 367 072**	85 323 473	**32 956 401**	38
Revenue from non-exchange transactions	713 008 292	-	**713 008 292**	716 970 594	**3 962 302**	
Total revenue	**765 375 364**	**-**	**765 375 364**	**802 294 067**	**36 918 703**	
Expenses						
Advisory and other committee fees	(7 231 340)	-	**(7 231 340)**	(4 863 124)	**2 368 216**	38
Contribution toward funding of the Office of the Ombud for FSPs	(47 980 617)	(1 440 544)	**(49 421 161)**	(49 421 161)	**-**	
Contribution towards funding of the Office of the PFA	(59 037 927)	-	**(59 037 927)**	(59 037 927)	**-**	
Depreciation and amortisation	(21 172 833)	-	**(21 172 833)**	(13 874 313)	**7 298 520**	38
Executive management remuneration	(34 111 347)	-	**(34 111 347)**	(29 918 740)	**4 192 607**	38
External audit fees	(3 268 151)	-	**(3 268 151)**	(2 522 451)	**745 700**	38
Fair value adjustment	-	-	**-**	(191 090)	**(191 090)**	38
Finance costs	(176 971)	-	**(176 971)**	(176 971)	**-**	
Internal audit fees	(1 200 000)	-	**(1 200 000)**	(980 343)	**219 657**	38
Legal fees	(16 856 471)	-	**(16 856 471)**	(12 304 589)	**4 551 882**	38
Loss on disposal of assets	-	-	**-**	(78 427)	**(78 427)**	
Non-executive board members fees	(2 449 761)	-	**(2 449 761)**	(1 740 613)	**709 148**	38
Operating lease rental - buildings	(58 516 348)	-	**(58 516 348)**	(62 384 981)	**(3 868 633)**	38
Other operating expenses	(75 598 302)	-	**(75 598 302)**	(63 518 161)	**12 080 141**	38
Professional and consulting fees	(31 253 834)	-	**(31 253 834)**	(17 510 339)	**13 743 495**	38
Provision for credit losses	-	-	**-**	(7 656 882)	**(7 656 882)**	38
Post retirement medical aid fund expense	-	-	**-**	(1 211 099)	**(1 211 099)**	38
Salaries, staff benefits, training and other staff expenses	(457 079 087)	-	**(457 079 087)**	(438 787 911)	**18 291 176**	
Total expenditure	**(815 932 989)**	**(1 440 544)**	**(817 373 533)**	**(766 179 122)**	**51 194 411**	
(Deficit) / Surplus for the year	**(50 557 625)**	**(1 440 544)**	**(51 998 169)**	**36 114 945**	**88 113 114**	**37**

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

1. Basis of preparation

Reporting entity

The Financial Services Board (FSB) is a National Public Entity, as specified in Schedule 3A of the Public Finance Management Act (PFMA) 1999 (Act No. 1 of 1999), (as amended by Act No.29 of 1999). The FSB is mandated by the South African government to supervise and enforce compliance with specific laws regulating financial institutions and to promote financial education and awareness about financial products, institutions and services in South Africa. Effective from 1 April 2018 the FSB will transform into the Financial Sector Conduct Authority (FSCA) with a revised mandate.

Basis of accounting

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

The FSB's financial statements are prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), as set out in the Accounting Standards Board (ASB) Directive 5 (Determining the GRAP Reporting Framework) and the PFMA (as amended by Act No 29 of 1999). The financial statements are presented in South African Rand.

Notwithstanding that this is the last year of the FSB existence, these financial statements are prepared in concurrence with the going-concern principle and, on an accrual basis, in line with the measurement base applied, being the historical cost unless stated otherwise. Refer to note 38.

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

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

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

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

Standards and amendments to standards issued but not yet effective

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

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

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

Standard	Summary and impact	Effective date
GRAP 38 - Disclosure of Interest in Other Entities	The objective of this standard is to require an entity to disclose information on interest in other entities to enable users to do a proper evaluation. The FSB does not have interest in other entities, therefore no impact is envisaged when the standard is effective.	Issued by the ASB March 2016 No effective date has been determined by the Minister of Finance.
GRAP 108 Statutory Receivables	This standard prescribes the accounting treatment and disclosure for statutory receivables. The impact on the financial results and disclosure is considered to be minimal.	Issued by the ASB September 2013 No effective date has been determined by the Minister of Finance.
GRAP 109 Accounting by Principal and Agents	This standard outlines principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The impact on the financial results and disclosure is considered to be minimal.	Issued by the ASB July 2015 No effective date has been determined by the Minister of Finance.
GRAP 110 Living and Non-living Resources	This standard outlines principles for the recognition, measurement, presentation and disclosure requirements for living resources and disclosure for non-living resources. The financial results and disclosure are not likely to be affected when the statement is adopted.	Issued by the ASB March 2016 No effective date has been determined by the Minister of Finance.
IGRAP 17 - Service Concession Arrangements Where a Grantor Controls a significant Residual Interest in an Asset	The objective of this Standard is to interpret accounting principles for the service concession arrangements where a grantor controls a significant residual interest in an asset. The financial results and disclosure are not likely to be affected when the standard is adopted.	Issued by the ASB Aug 2013 Effective date for this interpretation is 1 April 2019.
IGRAP 18 Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	The objective of this Standard is to interpret accounting principles for the recognition and derecognition of land. The financial results and disclosure are not likely to be affected when the standard is adopted.	Issued by the ASB March 2017 Effective date for this interpretation is 1 April 2019.
IGRAP 19 Interpretation of the Standard of GRAP on Liability to Pay Levies	The objective of this Standard is to provide guidance on the accounting for levies in the financial statements of the entity that is paying the levy. The financial results and disclosure are not likely to be affected when the interpretation is adopted.	Issued by the ASB August 2017 Effective date for this interpretation is 1 April 2019.

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

1.1 Significant accounting judgements and estimates

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

Significant accounting estimates and assumptions

Provisions

Provisions were raised based on management's determined estimate using the information available. The accounting policy for provisions is disclosed under note 1.12 and additional disclosure of these estimates of provisions are included in note 13.

Depreciation and amortisation

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

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

Impairment of receivables

Management conducts annual tests to determine whether receivables have suffered any impairment (refer to note 1.4. and note 1.5).

Post employment benefits

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

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

1.2 Property, plant and equipment

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

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

At initial recognition an item of property, plant and equipment is measured at cost. An asset acquired through a non-exchange transaction is recognised at its fair value at date of acquisition. Subsequently all items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Depreciation commences when the item of property, plant and equipment is available for use. Property, plant and equipment items are tested for impairment when there is an indicator that the asset or assets should be impaired, refer to note 1.9.

Leasehold improvements and finance leased assets are written off over the expected period of the relevant lease agreements. All other items of property, plant and equipment are depreciated on a straightline basis at rates that will reduce their carrying value to estimated residual value over their estimated useful lives.

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

Item	Depreciation method	Average useful life
Leasehold improvements and finance leased assets	Straight line	Expected period of relevant lease
Furniture, fittings, equipment and paintings	Straight line	5 to 50 years
Motor vehicles	Straight line	11 years
Computer equipment	Straight line	3 to 20 years

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

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

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

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

Maintenance and repairs, which neither materially add to the value of assets nor prolong their useful lives, are charged against the statement of financial performance. The entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8).

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

1.3 Intangible assets

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

An intangible asset is recognised when:

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

At initial recognition intangible assets are measured at cost. An intangible asset acquired through a non-exchange transaction is recognised at its fair value at date of acquisition. Subsequently all intangible assets are measured at cost less accumulated amortisation and any impairment losses. Amortisation commences when the intangible asset is available for use.

Intangible assets are tested for impairment annually when there's an indicator that the asset or assets should be impaired. Intangible assets under development and/or not available for use are tested for impairment at reporting date, refer to note 1.9.

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

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

Item	Useful life
Computer software, other	3 to 25 years

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

1.4 Financial instruments

Financial instruments are classified in the following categories:

Financial assets at fair value - Investments

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

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred or when substantially all risks and rewards of ownership have been transferred.

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

1.4 Financial instruments (continued)

Receivables

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

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

Payables

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

Cash and cash equivalents

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

1.5 Statutory receivables

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

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

Statutory receivables are recognised as follows:

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

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

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

1.5 Statutory receivables (continued)

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

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

1.6 Leases

Finance leases - lessee

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

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

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

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

Operating leases - lessee

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

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

1.7 Related parties

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

1.8 Prepayments

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

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

1.9 Impairment of non-cash-generating assets

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

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

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

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

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.10 Levies and fees received in advance

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

1.11 Employee benefits

Short-term employee benefits

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

Retirement benefits

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

The pension fund is a defined contribution plan with a defined benefit guarantee for pensioners who were members of the fund at 31 March 2000. A decision was taken by the Trustees of the Fund to restructure all employees who were entitled to a defined benefit underpin to a defined contribution basis. As at 31 March 2018 there are no active members on the fund.

Pension fund

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of financial performance in the period in which they arise.

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

1.11 Employee benefits (continued)

Post-retirement medical aid plan

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of financial performance in the period in which they arise.

1.12 Provisions

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate used to determine the present value is a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised as provisions. Contingencies are disclosed in note 31.

Performance bonus

Performance bonus is a short term employee benefit which is expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. A liability for performance bonus is accrued on a proportionate basis as services are rendered. A liability for performance bonus is raised on the estimated amount payable in terms of the incentive scheme which is based on the business and employee’s performance in the applicable year. Performance bonuses are expected to be settled within 12 months from reporting date.

SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 March 2018

1.12 Provisions (continued)

Long service awards

Long service awards are provided to employees who achieve certain predetermined milestones of service within the entity. The entity's obligation under this plan is valued by actuaries periodically and the corresponding liability is accordingly raised. Payments are set-off against the liability resulting from the valuation by the actuaries and are charged against the statement of financial performance. Long service awards are settled as and when employees achieve certain predetermined milestones of service.

Legal fees

Legal fees are provided for legal matters where it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably measured.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. Commitments are not recognised in the statement of financial position but disclosed in the notes to the annual financial statements. Refer to note 30.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue is recognised when the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the FSB and specific criteria have been met as described below.

Revenue from exchange transactions comprises of fees and service charges, interest and dividends as well as other recoveries.

Fees and service charges are raised in terms of the regulations published in the Government Gazette and are recognised according to the percentage of completion method. Interest from government bonds is recognised based on the coupon rate. Interest income from short term investment is recognised on a time-proportion basis using the effective interest method. Dividends are recognised when the right to receive payment is established, which is normally on the last day to register.

1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is recognised when the asset is recognised and if an obligation arises from the receipt of the asset, the revenue is recognised to the extent that there is no further obligation. Revenue from non-exchange transactions comprises of levies, penalties and other income.

1.15 Revenue from non-exchange transactions (continued)

All registered entities are required to pay annual levies to maintain their licenses in terms of the Financial Services Board Act, 97 of 1990. Levies are raised in terms of the regulations published in the Government Gazette and are accounted for on an accrual basis.

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

Fines and penalties raised for late submission of returns are recognised on an accrual basis less any impairments. The income from fines and penalties is credited to the statement of financial performance, but as this income is not considered to form part of the normal operating activities of the FSB, it is transferred to the discretionary reserve.

Services in-kind are recognised as assets and revenue when they are significant to operations and/or service delivery objectives and it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets and revenue can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the nature and type of services in-kind received during the reporting period are disclosed in the notes to the annual financial statements.

1.16 Finance costs

Finance costs are charges incurred by the FSB in connection with the finance lease liability.

Finance costs are recognised as an expense in the period in which they are incurred.

1.17 Foreign currency transactions

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance.

1.18 Accumulated funds and reserves

Accumulated funds

Accumulated funds are used to fund working capital requirements, capital expenditure, budgeted deficits (if any), as well as other unforeseen events. Accumulated funds are maintained at approximately 2 to 4 months' operational expenditure. National Treasury approval is obtained at the end of every financial year in order to retain the accumulated funds. Accumulated Funds include non-cash amounts such as invoiced income not recovered, hence the full balance at year end is not always represented by actual cash.

Contingency reserve

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

1.18 Accumulated funds and reserves (continued)

Discretionary reserve

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

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and where recovered it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Transfer of functions between entities not under common control

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity. A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential. A function can either be a part or a portion of an entity or can consist of the whole entity

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function. As at the transfer date, the assets transferred and the liabilities relinquished are derecognised from the financial statements at their carrying amount.

Until the transfer date, the assets and liabilities are measured in accordance with the applicable GRAP Standards.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

2. Financial risk management

Financial risk factors

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

2.1 Market risk

Foreign exchange risk

The FSB does not operate internationally but is exposed to foreign currency risk arising from various currency exposures. Its exposure is limited to foreign membership and subscription fees, foreign travelling expenses, foreign exchange denominated operating expenses as well as investments in off-shore portfolios. The risk relating to off-shore investment portfolios is managed by an investment manager in terms of an approved mandate. Accordingly, the FSB's exposure to foreign currency risk is minimal.

The following sensitivity analysis has been performed:

At 31 March 2018, if the currency had weakened or strengthened by 10% against the US dollar with all other variables held constant, the deficit for the year would have been R189 001 (2017: R1 064 277) higher or lower on foreign exchange gains or losses upon translation of US dollar-denominated transactions.

The off-shore investment portfolios would have been R2 014 459 (2017: R154 311) higher or lower arising from unrealised foreign exchange gains or losses upon translation of US dollar denominated off-shore investment portfolios.

At 31 March 2018, if the currency had weakened or strengthened by 10% against the Euro with all other variables held constant, the deficit for the year would have been R33 888 (2017: R130 241) higher or lower on foreign exchange gains or losses upon translation of Euro-denominated transactions.

At 31 March 2018, if the currency had weakened or strengthened by 10% against the UK pound with all other variables held constant, the deficit for the year would have been R33 069 (2017: R12 046) higher or lower on foreign exchange gains or losses upon translation of UK pound-denominated transactions.

Asset price risk

The FSB is exposed to equity securities price risk because of investments held by the FSB, which are classified on the statement of financial position as financial assets at fair value. These investments are managed by an investment manager in terms of an approved mandate. The investment manager manages the price risk arising from investments in equity securities through diversification of the portfolio in accordance with the mandate that gives the manager full discretion.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

2. Financial risk management (continued)

The FSB's investments in equity of other entities that are publicly traded are included in the All Share Index of the JSE Securities Exchange Limited (All Share Index). The table below summarises the impact of increases/decreases of the All Share Index on the FSB's surplus for the year and on reserves. The analysis is based on the assumption that the All Share Index had increased/ decreased by 4% (2017:4%) with all other variables held constant and that all the FSB's investments moved according to the historical correlation with the index:

Economic entity

	Impact on surplus for the year		Impact on investment portfolio	
	2018	2017	2018	2017
All share index	1 484 728	1 527 074	1 484 728	1 527 074

Cash flow and fair value interest rate risk

The FSB has significant cash and cash equivalents and its income and operating cash flows are dependent on changes in market interest rates. This is managed in line with movements in money market rates. The FSB does not have any interest bearing borrowings and therefore there is no adverse exposure relating to interest rate movements in borrowings. Should the balances held on short-term deposit remain constant, the FSB's interest income will fluctuate by R944 938 for every 25 basis point fluctuation in the prime interest rate.

2.2 Credit risk

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

The FSB invests funds in excess of the FSB's immediate requirements (i.e short term deposits excluding current account balances) with the Corporation for Public Deposits (CPD). The table below shows the total amount invested in CPD at reporting date:

	2018		2017	
	%	R	%	R
Corporation for Public Deposits	100.0 %	377 975 239	100.0 %	341 780 311
		377 975 239		341 780 311

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

2. Financial risk management (continued)

2.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient liquid resources and the ability to settle debts as they become due. In the case of the FSB, liquid resources consist of mainly cash and cash equivalents. The FSB maintains adequate resources by monitoring rolling cash flow forecasts of the cash and cash equivalents on the basis of expected cash flow. Forecasted liquidity reserve as at 31 March 2018 is as follows:

	2018 R	Period 2019 to 2022 R
Opening balance for the period	361 306 505	406 132 313
Operating proceeds	795 240 117	1 185 625 121
Operating cash outflows	(702 427 604)	(1 047 250 755)
Cash outflow for investments	(58 929 571)	(87 858 219)
Proceeds from sale of investments	10 942 866	16 314 742
	406 132 313	**472 963 202**

The table below analyses the FSB's financial liabilities at statement of financial position date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2018				
Trade and other payables	48 507 339	-	-	-
At 31 March 2017				
Trade and other payables	24 005 350	-	-	-

Capital risk management

The FSB's objectives when managing its funds and reserves are to safeguard the ability to continue as a going concern. The FSB maintains various funds and reserves which serve different purposes, refer to note 1.18.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices (level 1) at the statement of financial position date. The quoted market price used for financial assets held by the FSB is the current bid price.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

	2018	2017

3. Cash and cash equivalents

Short-term deposits	377 975 239	341 780 311
Cash at bank and on hand	28 157 074	19 526 194
	406 132 313	**361 306 505**

Included in cash at bank and on hand above is an amount of R7 236 022 (2017: R6 797 551), which is ear-marked to fund the post-retirement medical aid plan. Also included in cash and cash equivalents is an amount of R36 219 874 (2017: R28 708 380) relating to the discretionary funds that are used to fund consumer education and consumer protection related expenses. In addition, the FSB maintains a contingency fund which is included under short-term deposits of R116 218 493 (2017: R101 185 294) to fund capital requirements and to protect operating capacity against the effects of inflation and unforeseen events.

4. Receivables from exchange transactions

Staff debtors - study loans	5 265 995	4 532 634
Less: Provision for credit losses	(33 954)	(28 769)
	5 232 041	4 503 865
Interest receivable	81 896	57 631
Other receivables	834 003	1 839 762
	6 147 940	**6 401 258**
Reconciliation of provision for credit loss of receivables from exchange transactions		
Opening balance	28 769	-
Utilised	(24 044)	-
Charged to the Statement of Financial Performance	29 229	28 769
Closing balance	**33 954**	**28 769**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

	2018	2017

5 Statutory receivables from exchange transactions

	2018	2017
Legal fees recoveries	3 605 158	3 731 857
Less: Provision for credit losses	(3 605 158)	(3 597 907)
	-	133 950
Recoverable legal fees	4 721 967	3 348 085
Other receivables	346 338	342 450
Net statutory receivables from exchange transactions	**5 068 305**	**3 824 485**

Reconciliation for impairment of statutory receivables from exchange transactions

	2018	2017
Opening balance	3 597 907	3 597 907
Utilised	(406 134)	-
Charged to the statement of financial performance	413 385	-
	3 605 158	**3 597 907**

6. Statutory receivables from non-exchange transactions

	2018	2017
Levy debtors	14 460 614	11 867 654
Less: Provision for credit losses	(6 505 777)	(8 725 608)
	7 954 837	3 142 045
Inspection cost debtors	7 096 540	10 305 178
Less: Provision for credit losses	(7 096 540)	(10 112 743)
	-	192 435
Penalty debtors	20 778 511	25 093 130
Less: Provision for credit losses	(14 491 091)	(13 749 434)
	6 287 420	11 343 696
Net statutory receivables from non-exchange transactions	**14 242 257**	**14 678 176**

Reconciliation for impairment of statutory receivables from non-exchange transactions

	2018	2017
Opening balance	32 587 785	42 195 525
Provision utilised	(11 708 644)	(15 191 934)
Reversal of prior year provision	(344 744)	(1 065 392)
Charged to the statement of financial performance	7 559 011	6 649 586
	28 093 408	32 587 785

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

7. Prepayments

Prepayments comprise of membership fees and software licenses.

8. Property, plant and equipment

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Leasehold improvements	2 920 537	(1 789 123)	1 131 414	2 403 837	(1 657 956)	745 881
Furniture, fittings, equipment and paintings	28 296 568	(16 679 903)	11 616 665	26 861 277	(14 960 496)	11 900 781
Motor vehicles	1 503 310	(415 014)	1 088 296	645 174	(345 600)	299 574
Computer equipment	103 909 595	(53 729 974)	50 179 621	70 461 247	(45 765 970)	24 695 277
Finance leased assets	1 978 398	(921 173)	1 057 225	1 978 398	(261 707)	1 716 691
Total	**138 608 408**	**(73 535 187)**	**65 073 221**	**102 349 933**	**(62 991 729)**	**39 358 204**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold improvements	745 880	516 701	-	(131 167)	1 131 414
Furniture, fittings, equipment and paintings	11 900 778	1 872 328	(22 975)	(2 133 466)	11 616 665
Motor vehicles	299 574	858 136	-	(69 414)	1 088 296
Computer equipment	24 695 281	35 068 352	(62 329)	(9 521 683)	50 179 621
Finance leased assets	1 716 691	-	-	(659 466)	1 057 225
	39 358 204	**38 315 517**	**(85 304)**	**(12 515 196)**	**65 073 221**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold improvements	841 394	16 550	-	(112 064)	745 880
Furniture, fittings, equipment and paintings	13 271 284	527 684	(14 277)	(1 883 913)	11 900 778
Motor vehicles	343 873	-	-	(44 299)	299 574
Computer equipment	24 220 824	7 107 415	(34 935)	(6 598 023)	24 695 281
Finance leased assets	115 117	1 812 630	-	(211 056)	1 716 691
	38 792 492	**9 464 279**	**(49 212)**	**(8 849 355)**	**39 358 204**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

8. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

	2018	2017
Contracted services	331 125	155 717
General expenses	41 542	77 079

The useful lives and residual values of the various categories of property, plant and equipment were assessed during the current financial year and resulted in a change in accounting estimate. Refer to note 33.

9. Intangible assets

	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and intangible assets under development	22 579 610	(6 714 387)	15 865 223	14 717 419	(5 355 269)	9 362 150

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	5 456 540	561 683	-	(1 359 117)	4 659 106
Intangible assets under development	3 905 610	7 300 507	-	-	11 206 117
	9 362 150	**7 862 190**	**-**	**(1 359 117)**	**15 865 223**

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	6 526 758	819 060	(1 889 278)	5 456 540
Intangible assets under development	-	3 905 610	-	3 905 610
	6 526 758	**4 724 670**	**(1 889 278)**	**9 362 150**

The useful lives of the various computer software were assessed during the current financial year and resulted in a change in accounting estimate.Refer to note 33.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

10. Financial assets at fair value

	2018	2017
Designated at fair value		
Non-current investments	66 257 087	64 889 933
Current investments	515 950	875 778
	66 773 037	**65 765 711**

Movement for the year ended 31 March 2018

	Shares	Gilts and bonds	Off-shore collective investment schemes	Closing balance
Opening balance	38 176 852	6 813 630	20 775 230	65 765 712
Acquisitions	8 939 370	3 201 911	-	12 141 281
Disposals	(10 073 866)	(869 000)	-	(10 942 866)
Fair value adjustment	75 837	363 716	(630 643)	(191 090)
	37 118 193	**9 510 257**	**20 144 587**	**66 773 037**

Movement for the year ended 31 March 2017

	Shares	Gilts and bonds	Odd-shore collective investments schemes	Closing balance
Opening balance	41 015 590	6 877 085	20 423 770	68 316 445
Acquisitions	5 930 102	-	-	5 930 102
Disposals	(6 639 528)	(220 367)	-	(6 859 895)
Fair value adjustment	(2 129 312)	156 911	351 460	(1 620 941)
	38 176 852	**6 813 629**	**20 775 230**	**65 765 711**

Hierarchy of financial assets at fair value

The fair value of financial instruments traded in active markets is based on quoted market prices (level1) at the statement of financial position date. The quoted market price used for financial assets held by the FSB is the current bid price.

11. Payables from exchange transactions

	2018	2017
Accounts payable	32 884 691	10 827 813
Leave accrual	23 214 933	20 171 771
Accruals	14 628 831	12 159 842
Other payables	993 817	1 017 695
	71 722 272	**44 177 121**

12. Levies and fees received in advance

Levies received in advance	1 783 615	1 249 867
Fees received in advance	33 687 992	31 674 681
	35 471 607	**32 924 548**

13. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Provision for bonus	6 609 901	9 038 413	(6 609 901)	9 038 413
Provision for long service awards	5 022 514	411 260	(1 038 000)	4 395 774
	11 632 415	**9 449 673**	**(7 647 901)**	**13 434 187**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Provision for bonus	6 157 245	6 609 901	(6 157 245)	6 609 901
Provision for long service awards	4 683 886	1 514 628	1 176 000)	5 022 514
	10 841 131	**8 124 529**	**(7 333 245)**	**11 632 415**

Current liabilities	9 656 413	7 665 901
Non-current liabilities	3 777 774	3 966 514
	13 434 187	**11 632 415**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

	2018	2017

14. Finance lease obligation

Minimum lease payments due		
- within one year	726 289	794 431
- in second to fifth year inclusive	534 127	1 260 417
	1 260 416	2 054 848
less: future finance charges	(125 715)	(302 687)
Present value of minimum lease payments	**1 134 701**	**1 752 161**
Present value of minimum lease payments due		
- within one year	625 788	617 459
- in second to fifth year inclusive	508 913	1 134 702
	1 134 701	**1 752 161**
Current liabilities	625 788	617 459
Non-current liabilities	508 913	1 134 702
	1 134 701	**1 752 161**
Finance costs charged for the year	176 971	74 549

The FSB leases its multifunctional machinery under a finance lease. The period of the leases is 36 months. There are no escalations to the lease agreement as all the machines are leased at the fixed rate for the duration of the lease.

15. Post-retirement benefit obligations (Medical aid fund)

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

The actuary evaluates the liability on an annual basis, allowing for expected future medical cost inflation, investment returns, staff turnover and mortality. The FSB contributes 100% of the medical contribution for its retired employees as well as 100% of the future medical aid contributions for their spouses and dependants. The last actuarial valuation of this liability was performed on 31 March 2018. It is the policy of the FSB to match this liability with appropriate non-current investments and short-term notice deposits. Accordingly, the funds have been placed with an asset management company for investment in accordance with long-term prudential principles.

For disclosure purposes, an amount of R7 236 022 (2017: R6 797 551) representing cash on call, has been included with cash and cash equivalents. A certain portion of the post-retirement medical aid is payable within twelve months, however the value thereof is not readily determinable and thus the full liability has been disclosed as non-current. The main actuarial assumption is a long-term increase in health costs of 8.28% a year (2017: 8.79%).

15. Post-retirement benefit obligations (Medical aid fund) (continued)

	2018	2017
Amounts recognised in the statement of financial position were determined as follows:		
Present value of unfunded obligations	51 419 952	50 208 853
Liability in the statement of financial position	**51 419 952**	**50 208 853**
The movement in the present value of the unfunded obligation for the year is as follows:		
Opening balance	50 208 853	45 265 629
Current service cost	945 020	832 388
Interest cost	4 875 721	4 381 713
Actuarial (gain) / loss	(519 635)	1 458 925
Benefits paid	(1 870 641)	(1 729 802)
Curtailment of Prudential Authority transfers	(2 219 366)	-
Closing balance	**51 419 952**	**50 208 853**
The amounts recognised in the statement of financial performance are as follows:		
Current service cost	945 020	832 388
Interest cost	4 875 721	4 381 713
Benefits paid	(1 870 641)	(1 729 802)
Net actuarial (gain) / loss recognised during the year	(519 635)	1 458 925
Curtailment of Prudential Authority transfers	(2 219 366)	-
Net expenses included in staff costs	**1 211 099**	**4 943 224**

	2018	2017

15. Post-retirement benefit obligations (Medical aid fund) (continued)

The principal actuarial assumptions used were as follows:

Financial assumptions

Discount rate:	9.37% (2017: 9.83%) per annum compound.
Rate of medical aid contribution increases:	8.28% (2017: 8.79%) per annum compound.
Rate of general price inflation:	6.78% (2017: 7.29%) per annum compound.

Mortality assumptions

Mortality - Active employee

Before retirement:	Nil
After retirement:	PA (90) Mortality Tables with an age reduction of two years.

Mortality - Pensioners

PA (90) Mortality Tables with an age reduction of two years
The effects of a 1% movement in the assumed medical cost trend rate are as follows:

	Decrease	Increase
Effect on the aggregate service cost and interest cost	(699 211)	857 409
Effect on the accumulated benefit obligation	(5 686 438)	6 928 662
	(6 385 649)	**7 786 071**

Amount for the current year and previous four years:

	2018	2017	2016	2015	2014
Present value of unfunded obligation recognised in the statement of financial position	51 419 952	50 208 853	45 265 629	43 326 962	36 627 919

16. Post-retirement benefit obligations

Pension fund

The pension fund for permanent employees of the FSB is registered in terms of the Pension Fund Act, 1956 (Act No. 24 of 1956). Prior to April 2000, the fund was a defined benefit plan for the benefit of all employees. New employees who joined the fund on or after 1 April 2000 were entitled to receive retirement and resignation benefits from the accumulation of defined contributions. Employees who were in the employ of the FSB at 31 March 2000 were entitled to the higher of either the defined contribution accumulation to the date of exit or the value of the defined benefit applicable on exit in terms of the rules in force as at 31 March 2000.

Over the inter-valuation period, Trustees confirmed their decision to implement the restructuring of all members entitled to a defined benefit underpin to a pure defined contribution basis. The Underpin Restructuring was effective 1 January 2017, being the beginning of the financial year of the Fund.

Allocations to members included the additional value which arose as a result of the minimum benefit guarantee and the solvency reserve value which had been set aside in respect of the minimum guarantee promise. Following the restructuring, the defined benefit account had a residual surplus which was allocated to all active members and pensioners.

Due to the restructuring, there is therefore zero active membership as at 31 March 2018 for the purpose of this valuation. The actuarial valuation of the benefit obligation which took into account the effects of the restructuring was performed on 31 March 2018.

Amounts recognised in the statement of financial position are as follows:

	2018	2017
Carrying value		
Present value of the defined benefit obligation-partly or wholly funded	56 062 000	86 559 000
Fair value of plan assets	(56 884 000)	(146 907 000)
Fair value of reimbursement rights	(822 000)	(60 348 000)
Asset not recognised	822 000	60 348 000
	-	-

The FSB does not have an unconditional right to any surplus that may accrue in the fund and therefore cannot recognise an asset in the statement of financial position.

	2018	2017

16. Post-retirement benefit obligations (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

Changes in the present value of the defined benefit obligation are as follows:

	2018	2017
Opening balance	86 559 000	79 606 000
Current service cost	649 000	1 165 000
Interest cost	7 261 000	8 270 000
Actuarial (gain)/loss	(4 073 000)	1 995 000
Benefits paid	(4 537 000)	(4 477 000)
Settlement cost	62 444 000	-
Settlements	(92 241 000)	-
	56 062 000	**86 559 000**

Changes in the fair value of plan assets are as follows:

	2018	2017
Opening balance	146 907 000	144 034 000
Expected return on assets	11 145 000	14 983 000
Actuarial gain (loss)	2 258 000	(8 603 000)
Settlements	(92 241 000)	-
Contributions by employer	-	970 000
Transfers	(6 648 000)	-
Benefits paid	(4 537 000)	(4 477 000)
	56 884 000	**146 907 000**

Components of pension cost for the year are as follows:

	2018	2017
Current service cost	649 000	1 165 000
Interest cost	7 261 000	8 270 000
Actuarial (gain) loss	(6 331 000)	10 598 000
Transfer allowance	6 648 000	-
Settlement allowance	62 444 000	-
Change in asset restriction	(59 526 000)	(4 080 000)
Expected return on plan assets	(11 145 000)	(14 983 000)
	-	**970 000**

	2018	2017

16. Post-retirement benefit obligations (continued)

Calculation of actuarial gains and losses

	2018	2017
Actuarial (gains) losses – Obligation	(4 073 000)	1 995 000
Actuarial (gains) losses – Plan assets	(2 258 000)	8 603 000
	(6 331 000)	**10 598 000**

Assumptions used at the reporting date

Assumptions regarding the future mortality experience are set, based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at the age of 63 at the statement of financial position date is as follows:

	Average life expectancy 2018	Average life expectancy 2017
Effect on the aggregate of the service cost and interest cost	17 years 4 months	17 years 4 months
Effect on defined benefit obligation	21 years 8 months	21 years 8 months

Amounts for the current year and previous four years are as follows:

	2018	2017	2016	2015	2014
Defined benefit obligation	56 062 000	86 559 000	79 606 000	76 947 000	59 509 000
Fair value of plan assets	(56 884 000)	(146 907 000)	(144 034 000)	(128 611 000)	(107 298 000)
Statement of financial position restriction	822 000	60 348 000	64 428 000	51 664 000	47 789 000
	-	-	-	-	-

Other assumptions

Key financial assumptions at valuation date

Discount rate: This is set having regard to the market yield on government bonds, using a weighted average discount rate that reflects the timing and amount of benefit payments - see discussion below. A rate of 8.93% per annum has been used (A rate of 10.34% was used at 31 March 2017.)

Long-term price inflation rate: We have assumed a long-term future inflation rate of 6.11% per annum. This was calculated to reflect the difference between the yields on nominal government bonds and index-linked government bonds (at the appropriate duration) after allowing for an inflation risk premium of 0.50% on the basis that nominal bond yields include an inflation risk premium (being the additional return an investor seeks in compensation for the inflation risk taken on) and therefore that the implied inflation rate is lower than that suggested by the differential between nominal and index-linked bond yields (7.25% used at 31 March 2017).

16. Post-retirement benefit obligations (continued)

Salary inflation: It has been assumed that salary increases will take place at a rate of 1.00% per annum in excess of price inflation, i.e. 8.44% per annum (8.25% used at 31 March 2017).

Pension increases: It has been assumed that pension increases will take place at a rate of 4.58% per annum (5.44% used at 31 March 2017). This represents some 75% of the expected inflation rate above and is in line with Pension Increase Policy of the Fund.

Expected return on plan assets: It has been assumed that the long-term expected return on plan assets is equal to the discount rate of 8.93% per annum, following the approach adopted in the previous disclosure. This is consistent with the approach set out in the IAS 19. GRAP 25 indicates that "the expected return on plan assets is based on the market expectations, at the beginning of the reporting period, for returns over the entire life of the related obligation". It could be argued that on a risk-adjusted basis, it is reasonable to set this rate equal to the discount rate, but the employer may wish to consider the implications of this assumption and its consistency with the requirements of the GRAP 25 standard.

Experience adjustments	**2018**	**2017**	**2016**	**2015**	**2014**
Active liabilities at end of year	-	34 667 000	26 223 000	30 779 000	27 265 000
Pensioner liabilities at end year	56 062 000	51 892 000	53 383 000	46 168 000	32 244 000
Combined assets at end of year	(56 884 000)	(146 907 000)	(144 034 000)	(128 611 000)	(107 298 000)
Funded status at year end	**(822 000)**	**(60 348 000)**	**(64 428 000)**	**(51 664 000)**	**(47 789 000)**
Gain/(loss) on liabilities through experience	5 817 000	(3 776 000)	(2 139 000)	5 847 000	12 469 000
Gain/(loss) on liabilities through assumptions	(1 744 000)	1 781 000	12 600 000	(9 270 000)	8 203 000
Gain/(loss) on liabilities	**4 073 000**	**(1 995 000)**	**10 461 000**	**(3 423 000)**	**20 672 000**
Gain/(loss) on plan assets	**(2 258 000)**	**8 603 000**	**3 643 000**	**4 422 000**	**7 022 000**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

	2018	2017

17. Reserves

Contingency reserve

	2018	2017
Opening balance	72 547 487	65 630 031
Transfer from accumulated funds	2 758 331	6 917 456
	75 305 818	**72 547 487**

An amount of R2 758 331 (2017: R6 917 456) was transferred from accumulated funds to maintain the reserve at 10% of annual levy and fee income.

Discretionary reserve

	2018	2017
Opening balance	31 689 583	23 081 785
Net transfer from accumulated funds	564 320	8 607 798
	32 253 903	**31 689 583**

The transfer (to)/from accumulated funds for the year, as reflected in the statement of changes in net assets is calculated as follows:

	2018	2017
Income from fines and penalties	8 649 448	14 908 797
Other income	-	605 764
Provision	(4 220 080)	(5 339 893)
Interest allocated to this reserve	347 005	2 051 794
Expenses in respect of consumer education	(4 266 412)	(4 339 032)
Reversal provision	54 359	720 367
Net transfer to discretionary reserve	**564 320**	**8 607 798**
Total Reserves	**107 559 721**	**104 237 070**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

18. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2018	Financial assets at amortised costs	Fair value through surplus or deficit	Total
Financial assets at fair value	-	66 773 037	66 773 037
Receivables	6 147 940	-	6 147 940
Cash and cash equivalents	406 132 313	-	406 132 313
	412 280 253	66 773 037	479 053 290

2017	Financial assets at amortised costs	Fair value through surplus or deficit	Total
Financial assets at fair value	-	65 765 711	65 765 711
Receivables	6 401 258	-	6 401 258
Cash and cash equivalents	361 306 505	-	361 306 505
	367 707 763	**65 765 711**	**433 473 474**

19. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2018	Other financial liabilities	Total
Payables	48 507 339	48 507 339

2017	Other financial liabilities	Total
Payables	24 005 350	24 005 350

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

20. Credit quality of receivables

	2018	2017
Trade receivables		
Group 1	9 508 116	13 742 434
Group 2	591 710	431 730
Group 3	47 091 196	46 944 216
Total trade receivables	**57 191 022**	**61 118 380**

Group 1 - debtors outstanding for less than 90 days and with no defaults
Group 2 - new debtors outstanding for more than 90 days and with no defaults
Group 3 - existing debtors outstanding for more than 90 days and with some defaults

The total gross carrying amount of the impaired receivables as at reporting date is R46 014 678 (2017: R51 034 394) and the associated total impairment is R31 732 520 (2017: R36 214 461) see note 4 and 6. Of these debtors, the recovery of R22 792 268 (2017: R28 443 020) has been handed over for collection. Refer to the accounting policy note 1.4 for factors management considered in determining whether receivables are impaired.

Cash and short-term deposits are held with banking institutions and the CPD and are regarded as having insignificant credit risk. The FSB invests its surplus cash in the short term deposits accounts with CPD. The interest rates on these accounts fluctuates in line with the movements in current money market rates.

21. Revenue from exchange transactions

	2018	2017
Fees and service charges	45 624 200	49 304 447
Legal fees and other cost recoveries	2 936 454	4 046 503
Interest received	31 111 096	26 576 702
Dividends received	1 201 364	1 207 400
Other income	4 327 838	4 388 669
Bad debts recovered	-	2 008 591
Compensation from insurance	122 521	285 273
	85 323 473	**87 817 585**

22. Revenue from non-exchange transactions

FSB Levies	607 890 716	586 502 854
PFA Levies	58 007 853	52 438 526
FAIS Ombud levies	41 535 408	37 229 040
Penalties	6 310 641	14 908 797
Other income	3 225 976	3 747 541
	716 970 594	**694 826 758**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

23. Related parties

	2018	2017
Related party balances		
Year-end balances arising from services provided to/(by) related parties		
Office of the Pension Funds Adjudicator	(5 619 188)	(3 515 055)
Office of the Ombud for Financial Services Provider	(1 055 541)	42 918
	(6 674 729)	**(3 472 137)**

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

	2018	2017
Contribution towards funding of the office	59 037 927	52 315 934

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

	2018	2017
Contribution towards funding of the office	49 421 161	39 127 718
Revenue received from related parties		
Income received for IT services from Pension Fund Adjudicator	4 032 000	3 717 120
Cost recoveries for professional fees from South African Reserve Bank	-	607 435
Income received for IT services from Ombud for Financial Services Providers	159 994	236 376
	4 191 994	**4 560 931**

The Financial Services Board, National Treasury and the other listed entities as per above are state-controlled.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

24 Key management remuneration

Executive management remuneration

31 March 2018	Salary	Incentive bonus	Leave commutation paid	Long service award	Total
DP Tshidi, EO	5 622 361	900 000	762 121	-	7 284 482
*JA Boyd, DEO: CIS	3 851 712	461 240	-	-	4 312 952
*CD Da Silva, DEO: FAIS	3 482 657	423 588	-	-	3 906 245
JI Dixon, DEO: Insurance (resigned 31 August 2017)	1 389 157	-	760 877	-	2 150 034
*MM Du Toit, Chief Actuary	3 747 889	407 586	-	12 000	4 167 475
O Makhubela, Acting DEO: Retirement Funds (appointed 01 October 2017)	1 381 900	-	-	-	1 381 900
R Harichunder, CRO	2 328 426	-	-	-	2 328 426
TG Ramuthaga, CIO (resigned 30 June 2017)	741 383	-	237 920	-	979 303
LP Kekana, CFO	2 830 723	407 586	169 614	-	3 407 923
	25 376 208	**2 600 000**	**1 930 532**	**12 000**	**29 918 740**

31 March 2017	Salary	Incentive bonus	Leave commutation paid	Total
DP Tshidi, EO	5 299 318	886 773	300 164	6 486 255
JA Boyd, DEO: CIS	3 202 737	480 749	-	3 683 486
CK Chanetsa, DEO: Investment Institutions (contract ended 31 December 2016)	2 275 926	115 380	389 921	2 781 227
CD da Silva, DEO:FAIS	2 896 623	346 139	-	3 242 762
JI Dixon, DEO: Insurance	3 185 782	519 209	-	3 704 991
MM Du Toit, Chief Actuary	3 148 460	423 059	-	3 571 519
RT Hunter, DEO: Retirement Funds (contract ended 31 July 2016)	883 333	-	177 877	1 061 210
TG Ramuthaga, CIO	2 839 716	499 978	-	3 339 694
R Harichunder, CRO	2 402 749	-	-	2 402 749
LP Kekana, CFO	2 615 950	423 059	-	3 039 009
	28 750 594	**3 694 346**	**867 962**	**33 312 902**

* Included in the current year's salaries are acting allowances for J Boyd R453 739.05, M Du Toit R 407 501.06 and CD Da Silva R208 156.48 .

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

24. Key management remuneration (continued)

Non-executive board members fees

31 March 2018	Board members' fees	Legislative Committee fees	Licensing Committees fees	Litigation Committees fees	Human Resources and Remuneration Committees fees	Audit Committees fees	Risk Committees fees	Other	Total
AM Sithole (Chairperson)	95 005	40 181	-	-	11 524	-	-	-	146 710
HS Wilton (Deputy Chairperson)	75 994	-	-	-	19 936	34 265	22 741	-	152 936
ZBM Bassa	75 994	-	-	-	17 132	-	11 524	-	104 650
J Mogadime	75 994	-	150 308	-	-	40 181	33 957	22 432	322 872
D Msomi	75 994	-	136 287	28 040	-	40 181	-	14 861	295 363
MH Ratshefola	75 994	34 573	121 497	-	-	-	22 741	28 040	282 845
PJ Sutherland	75 994	28 965	-	51 552	-	34 573	-	-	191 084
DLD Turpin	84 884	45 807	-	77 948	-	-	35 514	-	244 153
	635 853	**149 526**	**408 092**	**157 540**	**48 592**	**149 200**	**126 477**	**65 333**	**1 740 613**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

24. Key management remuneration (continued)

31 March 2017	Board members' fees	Legislation Committees fees	Licensing Committee fees	Litigation Committee fees	Human Resource and Remuneration Committee fees	Audit Committee fees	Risk Committee fees	Other	Total
AM Sithole (Chairperson)	89 489	35 336	-	-	10 878	-	-	18 446	154 149
HS Wilton (Deputy Chairperson)	71 581	-	-	-	18 783	11 216	13 682	2 635	117 897
ZBM Bassa	71 581	-	-	-	21 264	-	18 952	-	111 797
J Mogadime	71 581	-	172 796	-	-	37 904	15 658	2 635	300 574
D Msomi	71 581	-	146 446	61 619	-	32 296	-	32 938	344 880
MH Ratshefola	71 581	15 151	159 621	-	-	-	26 198	15 811	288 362
PJ Sutherland	71 581	28 090	-	61 619	-	37 904	-	2 635	201 829
DLD Turpin	71 581	35 336	-	61 619	-	-	26 198	15 811	210 545
	590 556	**113 913**	**478 863**	**184 857**	**50 925**	**119 320**	**100 688**	**90 911**	**1 730 033**

Makhubela O (resigned 30 September 2017), Momoniat I and Groepe F are serving as board members of the FSB and employed by National Treasury and South African Reserve Bank, respectively. In terms of PFMA, public servants serving as board members in public entities should not be remunerated for their services. Therefore no remuneration was paid to these members.

	2018 R	2017 R

25. Auditors' remuneration

	2018 R	2017 R
Current year - interim fee	642 815	1 099 162
Prior year audit fees	1 879 636	2 484 565
	2 522 451	**3 583 727**

26. Other operating expenses

	2018 R	2017 R
Other operating expenses		
Travelling costs	9 676 422	8 717 328
Telephone and data lines	5 384 986	5 089 221
Advertising and publication	12 221 035	10 807 603
Computer support, maintenance and licensing costs	19 988 653	23 426 209
Insurance	1 965 102	1 694 918
Operational costs	14 281 963	12 417 579
	63 518 161	**62 152 858**

27. Provision for credit losses

	2018 R	2017 R
Current year provision	8 001 625	6 678 355
Reversal of prior year provision	(344 743)	(1 065 392)
	7 656 882	**5 612 963**

28. Reconciliation of net surplus before interest and cash

	2018 R	2017 R
Surplus for the year	36 114 945	78 106 419
Adjustments for:		
Depreciation and amortisation	13 874 313	10 738 633
Loss on sale of assets	78 427	49 216
Fair value adjustment	191 090	1 620 941
Provision for credit losses	7 656 882	5 612 963
Movements in operating lease assets and accruals	9 675 523	429 059
Post-retirement medical expenses	1 211 099	4 943 224
Changes in working capital:		
Increase in receivables	(8 211 464)	(13 787 062)
Prepayments	327 718	(108 332)
(Decrease) / Increase in payables	27 545 150	(17 974 478)
(Decrease) / Increase in levies and fees received in advance	2 547 059	(391 158)
Increase / (Decrease) in provisions	1 801 771	791 284
	92 812 513	**70 030 709**

29. Taxation

The FSB is exempt from income tax in terms of Section 10(1) (cA)(i)(bb) of the Income Tax Act, 1962 (Act No. 58 of 1962)

30. Commitments

Capital commitments

	2018 R	2017 R
Already contracted for but not provided for		
Capital expenditure	23 451 821	17 217 936

The FSB Board has approved capital expenditure of R127 million for the 2018/19 financial year.

Operating lease commitments

Building lease

The FSB leases its office accommodation in Riverwalk Office Park Block B and C. The operating lease rentals exclude charges for operational costs, electricity, rates and taxes. Escalations of 8% have been included in the lease agreements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

30. Commitments (continued)

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

	2018 R	2017 R
Minimum lease payments due for Block B		
Due within one year	32 842 882	30 145 640
Due between two and five years	159 833 199	146 706 801
Later than five years	27 241 837	71 298 787
	219 917 918	**248 151 228**
Minimum lease payments due for Block C - 2nd floor		
Due within one year	4 114 017	3 776 151
Due between two and five years	20 021 280	18 377 020
Later than five years	3 412 410	8 931 142
	27 547 708	**31 084 313**
Minimum lease payments due for Block C - Ground and 1st floor		
Due within one year	9 278 841	-
Due between two and five years	45 265 649	-
Later than five years	7 804 106	-
	62 348 596	**-**

Machinery leases

The FSB leased some of its machinery from different suppliers. The period of the leases varied from 24 to 36 months. No escalations were attached to the lease agreement as all the machines were leased at a fixed rate for the duration of the lease.

	2018 R	2017 R
Minimum lease payments due		
Due within one year	-	57 031

31. Contingent liabilities

The FSB has no contingent liabilities.

32. Assets administered on behalf of third parties

In terms of Section 77(7) of the Security Services Act, 2004, amounts recovered by the FSB from civil action activities are transferred to a special trust account designated for this purpose, as such recoveries do not form part of the normal operating activities of the FSB. The balance of the Directorate of Market Abuse Trust account at the end of the year was R1 420 222 (2017: R2 174 912).

33. Change in accounting estimates

	2018 R	2017 R
Impact of changes in accounting estimates		
Increase in net surplus	943 648	-
Decrease in depreciation on property, plant and equipment	(343 716)	-
Decrease in amortisation on intangible assets	(599 932)	-
	-	-

In the current year management re-assessed the remaining useful lives and residual values of property, plant and equipment and intangible assets. The change in estimate is applied prospectively.

34. Changes in accounting policy

Early adoption of GRAP 108

During the current year, management changed its accounting policy with respect to the treatment of receivables by early adopting GRAP 108- Statutory Receivables to provide reliable and more relevant information to the users of the annual financial statements. The FSB's statutory receivables are made up of levy debtors, inspection costs, penalty debtors, legal fees and other receivables.

The change in accounting policy has been accounted for retrospectively and will have no impact on the net surplus and net cash flow. Prior to adopting GRAP 108, these receivables were initially recognised at fair value and subsequently measured at amortised costs using the effective interest method less provision for credit losses. Based on the new accounting policy, the receivables will be initially recognised at their transaction amount and subsequently at their transaction amount plus any interest or other charges less any accumulated impairment losses.

This change in accounting policy also had an effect on the disclosure note 18 (Financial assets by category) whereby, in the prior years, before the change, these receivables were disclosed as financial assets at amortised costs. With the adoption of GRAP 108, all statutory receivables are no longer disclosed as financial assets at amortised cost. The comparative figures have been adjusted accordingly to reflect the changes.

35. Reclassification of operating lease liability

The operating lease liability has been reclassified from current liabilities to non-current liabilities. This reclassification is aimed to improve the disclosure and fair presentation of the liability. The reclassification has resulted in a decrease in the payables from exchange transaction and an increase in the non-current liabilities by R14 481 518 (2017: R4 805 994). There is no impact on the net cash flows from operating activities and the cash and cash equivalents at the end of the prior year.

36. Services received in kind

The FSB receives services in kind in the form of free training from various organisations which are not significant to operations.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

37. Reconciliation between budget and cash flow statement

Reconciliation of budget deficit with the net cash generated from operating, investing and financing activities:

	2018 R	2017 R
Operating activities		
Actual amount as presented in the budget statement	(51 998 169)	(15 035 862)
Timing differences	144 810 682	85 066 571
Net cash flows from operating activities	**92 812 513**	**70 030 709**
Investing activities		
Actual amount as presented in the budget statement	(124 252 000)	(87 884 857)
Timing differences	76 265 295	76 244 651
Net cash flows from investing activities	**(47 986 705)**	**(11 640 206)**

38. Budget differences

Material differences between budget and actual amounts

The budgetary basis and classification adopted in the budget are the same as those applied in the preparation of the financial statements. The approved budget covers the period from 1 April 2017 to 31 March 2018. Included in this budget are contributions made towards the funding of the offices of the Ombud of the Financial Services Providers and Pension Funds Adjudicator.

Revenue from exchange transactions

The 63% favourable variance to budget is due to the following main contributors:

- Interest received from discretionary, post-retirement funds and other income which are not budgeted for.
- Fee income received is due to increased volume of applications.

Advisory and other committee fees

The favourable variance of 33% is due to decreased number of enforcement hearings and appeal matters.

Depreciation and amortisation

The variance of 34% is due to the delayed procurement of budgeted assets pending Twin Peaks implementation and changes in useful life estimates.

External audit fees

The favourable variance of 23% is mainly as a result of higher budgeted audit hours.

38. Budget differences (continued)

Fair value adjustment

The fair value adjustment relates to the portfolio ear-marked for the post retirement medical fund liability which is not budgeted due to unpredictable changes in the market.

Internal audit fees

The variance representing a saving of 18% is mainly due to the delayed implementation of the plan.

Legal fees

The favourable variance of 27% is mainly due to the number of cases being lower than budgeted and postponement of some court cases.

Operating lease rentals - buildings

The unfavourable variance of 7% is as a result of the smoothing of the operating lease rental payments which is not considered for budgeting.

Other operating expenses

The variance (16%) of actual to budgeted amount is mainly as a result of the following:

- Advertising or recruitment and computer software licenses, the variance on these line items is mainly as a result of Twin Peaks related expenditure being delayed pending the promulgation of the Twin Peaks legislation .
- Underspending on the local travel budget is mainly as a result of fewer onsite visits to the FSB regulated entities.
- The balance of the under spending is attributable to various cost saving initiatives implemented by the cost centre managers.

Professional and consulting fees

The variance of 42% is mainly as a result of Twin Peaks related expenditures which were delayed pending the promulgation of the Twin Peaks legislation.

Provision for credit losses

Provision for credit losses are not budgeted due to the uncertainty surrounding the recoverability of receivables.

Post Retirement Medical Aid fund expense

The post-retirement medical aid fund expense is not budgeted as it is dependent on the annual actuarial valuation.

Executive management remuneration

The favourable variance of 12% is due to the resignation of the DEO: Insurance and the CIO.

Non-executive board members fees

The favourable variance of 29% is due to actual number of committee meetings being less than budgeted for.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

39. Functions to be transferred between entities not under common control

The FSB has been a sector focused on the prudential and market conduct regulation. The FSR Act was signed into law by the President on 21 August 2017 and after signing of the Commencement Notice by the Minister of Finance, the Twin Peaks model of financial sector regulation was formally implemented where the FSB will transform into the FSCA effective from 1 April 2018.

The adoption of the Twin Peaks model of financial regulation as per the FSR Act provides for certain prudential functions which were performed by the FSB to be transferred to the Prudential Authority (PA) located at the South African Reserve Bank (SARB). These prudential functions were performed by Insurance Prudential, Insurance Groups, Solvency Assessment and Insurance Actuarial departments within the FSB. The transfer which will take place in the 2018/19 reporting period will include amongst others, the staff of the FSB, staff costs and the related assets and liabilities.

The remaining functions will be under the FSCA which is to enhance and support the efficiency and integrity of financial markets and protection of financial customers. In accordance with GRAP 106, the transaction relating to the transfer of functions should be accounted for as at the transfer date which is 1 April 2018.

Net surplus of functions to be transferred

Revenue	**2018**	**2017**
Revenue from exchange transactions	9 411 856	7 896 795
Revenue from non-exchange transactions	106 923 988	99 357 830
Expenses		
Professional and consulting fees	(2 254 410)	(2 312 289)
Salaries, staff benefits, training and other staff expenses	(48 530 236)	(45 691 043)
Other operating expenses	(58 142 538)	(43 680 040)
Net surplus of functions to be transferred	**7 408 660**	**15 571 253**

Other information

The revenue from non-exchange transactions will continue to accrue to the FSCA for the 2018/19 financial year until the Money Bill comes into effect, which is expected to be in the 2019/20 financial year. The accumulated surplus for the transferring functions remains with the FSCA and only the assets and liabilities as disclosed below will be transferred to the PA as per the transfer agreement.

Assets and liabilities

	2018	**2017**
Assets to be transferred		
Receivables from exchange transactions	357 386	311 248
Total Assets	**357 386**	**311 248**
Liabilities to be transferred		
Payables from exchange transactions	(442 666)	(407 416)
Difference between the carrying amounts of the assets and liabilites transferred	**(85 280)**	**(96 168)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2018

40. Cash flows to be transferred

	2018 R	2017 R
Cash receipts	357 386	311 248
Cash payments	(442 666)	(407 416)
Net cash flow from operating activities	**(85 280)**	**(96 168)**

NOTES

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