Financial Sector
Conduct Authority

ANNUAL REPORT 2018/2019

FSCA ANNUAL REPORT 2018/2019

ABOUT THE FINANCIAL SECTOR CONDUCT AUTHORITY

WHO WE ARE

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

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

WHAT WE DO

The mandate of the FSCA is to:

- promote fair customer treatment by financial institutions
- enhance the efficiency and integrity of financial markets
- provide financial education and promote financial literacy
- assist in maintaining financial stability

The FSCA focuses exclusively on regulating and supervising the conduct of entities that provide the financial products and services set out in the FSR Act:

- non-banking financial services industry, which includes retirement funds, short-term and long-term insurance companies, collective investment schemes (collective investments and hedge funds), investment institutions (stock markets) and financial advisors and brokers; and
- banking services related to credit and the buying and selling of foreign exchange.

Crucially, the FSR Act includes financial inclusion and transformation of the financial sector in its objectives.

This report is the inaugural annual report of the Financial Sector Conduct Authority (FSCA) and covers the first year of its operations, namely the period between 1 April 2018 to 31 March 2019.

CONTENTS

PART A
General Information

SCOPE OF REPORT

> In this report the Financial Sector Conduct Authority (FSCA) presents a view of its financial and non-financial performance for the year ended 31 March 2019. It follows the annual report of its predecessor, the Financial Services Board (FSB) for the year to 31 March 2018.

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.

With the enactment of the FSR 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. The FSCA was subsequently 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 sector.

As a public entity, its financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the Public Finance Management Act (PFMA as amended by Act 29 of 1999). Non-financial disclosure has been guided by the King IV Report on Corporate Governance for South Africa 2016 and the framework of the International Integrated Reporting Council (IIRC).

As a public entity, the FSCA is monitored stringently. The Auditor-General conducted a comprehensive audit of our financial and non-financial performance against targets and benchmarks, with the FSCA receiving a clean audit in its first year of operation.

STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY OF THE ANNUAL REPORT

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

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

In our opinion the annual report fairly reflects the operations, performance information, human resources information and financial affairs of the FSCA for the financial year ended 31 March 2019.

Adv Dube Tshidi
Executive Head

Abel Sithole
Commissioner

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 (in securities)
CISCA	Collective Investment Schemes Control Act
CISNA	Committee of Insurance, Securities and Non-banking Financial Authorities
CoFI	Conduct of Financial Institutions
CPD	Corporation for Public Deposits
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
the 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 and Advisory 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 Service Provider
FSR	Financial Sector Regulation
GLEIF	Global Legal Entity Identifier Foundation
GRAP	Generally Recognised Accounting Practice
HOD	Head of Department
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
LISP	Linked Investment Service Provider
LTIA	Long-term Insurance Act
LOU	Local operating unit
NLRD	National Learner Records Database
OTC	Over-the-counter
PAA	Public Audit Act
PFA	Pension Funds Adjudicator
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
SARB	South African Reserve Bank
SASAS	South African Social Attitude Survey
SCOF	Standing Committee on Finance
STIA	Short-term Insurance Act
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

FOREWORD BY THE MINISTER

> The Financial Sector Conduct Authority is part of the bright new dawn that is upon us in South Africa.

TWIN PEAKS COME INTO BEING

Between 1991 and 2018, the Financial Services Board contributed significantly to ensuring that the South African financial services industry ranked among the best regulated in the world. This ensured international confidence and enhanced the inflow of direct foreign investment into our economy.

One of the lessons learnt from the global financial crisis in 2007/8 was the need to strengthen the financial regulatory environment to offer even more protection to financial customers, and ensure that the industry continues to be stable. Against this background, the Twin Peaks model of financial regulation emerged as the preferred solution. For good reason, it is favoured by the Basel Committee, the IMF, G20 and the World Bank. In adopting the model, we had to be cognisant of our uniqueness as a country and make the necessary adjustments to make it suitable for our environment. This process gave birth to the Financial Sector Regulation (FSR) Act, 2017 (Act No.9 of 2017), the legislation that created the Prudential Authority (PA) housed in the SARB, and the FSCA, South Africa's first ever conduct regulator for the sector.

FIRST IN AFRICA

It is important to note that South Africa is the first developing economy and the sixth economy in the world to implement the Twin Peaks regulatory model. This is a precedent setting move that seeks to ensure that South Africans benefit from a fairer financial industry.

Fortunately, we are able to learn lessons from the world's most modern and responsive economies that were the early adopters of the model. In so doing, we have looked to avoid some of the pitfalls and challenges they experienced in establishing and managing two independent but interrelated financial regulatory bodies. In fact, the South African iteration of the Twin Peaks regulatory architecture – and the two pieces of legislation that will give effect to it – features some innovations that are geared to produce better outcomes for consumers of financial products.

Now that the FSR Act is in place and the twin regulators, the FSCA and PA have been established, the second phase of the transition involves passing the second piece of legislation: the Conduct of Financial Institutions (CoFI) Bill.

In terms of CoFI, the FSCA will have extensive powers to investigate and to take far-reaching corrective and, where necessary, disciplinary action across every facet of the lifecycle of a financial product and across every permutation of financial advice. The Bill is expected to be tabled in Parliament and signed into law this year.

Tito Mboweni
Minister of Finance

EXCELLENCE IN FIRST YEAR OF EXISTENCE

It is encouraging to see that the FSCA has made progress in its first year of existence, as evidenced in the pages of this annual report. The performance recorded herein demonstrates that the FSCA is hard at work on its critical roles of ensuring that financial customers are treated fairly, and that the industry plays its part in helping to address the national imperative of reducing poverty, inequality and underdevelopment.

Within six months of coming into existence, the FSCA published its regulatory strategy that will chart its trajectory as the country's first dedicated financial conduct authority over the next three years. It is clear that during 2018/19, as a statutory body performing a public function, the FSCA performed its duties without fear, favour or prejudice.

ACKNOWLEDGEMENTS & CONCLUSION

I would like to express my gratitude to the FSCA Commissioner, Abel Sithole, the Executive Head, Adv. Dube Tshidi, the Transitional Management Committee, and the executive of the FSCA for ensuring a smooth transition from FSB to FSCA and ushering in the new regulatory landscape.

I would also like to express my gratitude to the staff of the FSCA for their hard work in ensuring a fair and stable financial market where consumers are informed and protected, and where those that jeopardise the financial well-being of consumers are held accountable.

As President Cyril Ramaphosa said in February 2018, "Together, we are going to make history. We have done it before and we will do it again."

Tito Mboweni
Minister of Finance

COMMISSIONER'S REPORT

> "Prudent financial management and corporate governance enable the FSCA to effectively and efficiently deliver on its mandate. The FSCA has committed itself to good governance practices. It complies, and will continue to comply, with the prescripts of the Public Finance Management Act (PFMA) and Treasury Regulations."

It is my privilege to present the first annual report of the Financial Sector Conduct Authority (FSCA) that, after much preparation and planning, started operating on 1 April 2018.

THE MOST PROGRESSIVE AND EXTENSIVE CONSUMER PROTECTION IN THE WORLD

The importance of the establishment of the Financial Sector Conduct Authority as part of the Twin Peaks model of financial regulation is so far reaching that financial media outlet Fin24.com called it, "The Big Bang of SA's Financial Industry".

We believe that the FSCA will serve the public, the industry and our country well. This will be done through a dedicated focus on our objectives as stipulated in the Financial Sector Regulations (FSR) Act, 2017 (Act No. 9 of 2017) which are to:

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

The scope of the FSCA mandate is much wider than that of its predecessor, the Financial Services Board (FSB), as the FSCA has oversight over the market conduct of banks and services related to credit providers. The broadened scope potentially brings a large number of approximately 23 093 of additional entities into the regulatory net of the FSCA.

Although the regulation of market conduct is the core mandate of the FSCA, the FSCA considers stakeholders in the financial sector such as government, private entities as well as other associations and policy authorities as collaborators in achieving the goals set out in meeting its statutory objectives.

SETTING REGULATORY STRATEGY

On 1 October 2018, we released the regulatory strategy that will chart our trajectory as the country's first dedicated financial conduct regulator over the next three years. This was in accordance with the FSR Act requirement that the FSCA Executive Committee adopt and publish its regulatory strategy within six months of the authority coming into existence.

The regulatory strategy is the culmination of an incredible amount of work by key stakeholders, particularly the staff, committees and the board of the

Abel Sithole
Commissioner of the Financial Sector Conduct Authority

erstwhile FSB – to whom I here, once again, extend my sincere gratitude. The regulatory strategy, in summary, sets out the following:

- Our regulatory and supervisory priorities for the first three years.
- The intended key outcomes of the strategy.
- Guiding principles and matters we should have regard to when performing our functions.
- Our approach to administrative actions.
- How we will give effect to requirements of openness to consultation, accountability, consistency with relevant international standards, and generally perform our functions under the FSR Act.

The Minister of Finance, the Prudential Authority and the National Credit Regulator were afforded the opportunity to review the strategy. The FSCA Regulatory Strategy document is also available to the public and interested parties on our website www.fsca.co.za.

STARTING WITH STRATEGIC PRIORITIES

I am happy to report that during our first financial year, we made progress on each of the six areas that are identified in the FSCA Regulatory Strategy as being strategic priorities. Detailed information on this progress and the performance of our 10 divisions can be found in the various sections of this annual report, of which I would like to briefly highlight:

BUILDING A NEW ORGANISATION

Building a new organisation was our first area of focus during the year under review. We dedicated our energies to laying a solid foundation. We had a necessary level of internal focus to build an organisation that is appropriately structured, and adequately resourced to achieve our expanded mandate. The new environment requires that we recruit specialist skills in areas like banking, data analytics, and financial technology. To this end, the FSCA undertook an organisational redesign and capacity building programme, which helped to ensure a smooth transition from FSB to the new regulatory environment.

AN INCLUSIVE AND TRANSFORMED FINANCIAL SECTOR

The FSCA priority areas support the National Development Plan goals of eliminating poverty and reducing inequality by 2030, and thus transformation and inclusion are prominent parts of our strategy. During the year under review, we focused particularly on the role the FSCA can and must play to drive the national policy imperative to achieve broad-based black economic empowerment for all South Africans.

We also established a dedicated small medium enterprise (SME) support unit under our Regulatory Policy Unit which will look at supporting small businesses from a compliance perspective, feeding into the regulatory framework to remove barriers to entry. The unit will also put together training programmes, examination support and communication specific to this sector.

INFORMED FINANCIAL CUSTOMERS

The Financial Sector Regulation Act introduces a world first for financial consumer education in that it empowers the conduct authority to write standards for consumer education in the financial sector.

During the year under review, we started informally consulting with the sector in this regard and acknowledge that this is an ongoing process. Furthermore, to fulfil the requirements set out in the FSR Act, we have committed to:

- provide financial education programmes to existing and potential financial customers, making sure to include small businesses and emerging entrepreneurs in the impact of such educational outreach programmes
- promote financial literacy to the wider society so that existing and future financial customers can be equipped with the knowledge and tools necessary for making informed and beneficial financial decisions. This financial literacy will not only protect the consumers, but also help them to make financial decisions that are sound and contribute to securing their financial stability going forward.

OVERSIGHT

In the absence of a permanent commissioner and deputy commissioners, oversight during the transitional period was provided by a Transitional Management Committee (TMC) which is temporarily headed by me as the commissioner, while a permanent incumbent is being sourced by National Treasury.

Prudent financial management and corporate governance enable the FSCA to effectively and efficiently deliver on its mandate. The FSCA has committed itself to good governance practices. It complies, and will continue to comply, with the prescripts of the Public Finance Management Act (PFMA) and Treasury Regulations. The FSCA obtained a clean audit in its first year of operation and aims to maintain a clean audit going forward.

FUTURE OUTLOOK

We are excited to be forging ahead as a conduct regulator whose main and ultimate focus is the protection of the ordinary man and woman on the street. We will continue to work diligently and smartly to achieve our objectives and look forward to reporting on these in the next financial year.

APPRECIATION

I wish to extend my gratitude to the Transitional Management Committee, the Operational Executive Committee, led by Adv Dube Tshidi, and to the honourable Minister of Finance and National Treasury for providing guidance and clear policy direction during this period. I am also most grateful to the staff of the FSCA for their dedication in ensuring that we lay the necessary foundation for the FSCA.

Abel Sithole
Commissioner

OVERVIEW BY THE EXECUTIVE HEAD

> The FSCA is responsible for improving customer protection in the financial sector, driving better customer outcomes, and enhancing the efficiency and integrity of financial markets, ensuring that the sector serves South Africans better.

The Financial Sector Conduct Authority (FSCA) has been in existence for a year and as can be gleaned from this first annual report, the authority has already made major strides.

When looking at the FSCA's performance over the past 12 months, it is clear that, without missing a beat, every executive and every committee member and member of staff swung into action on 1 April 2018 to fulfil the authority's mandate.

The FSR Act, 2017 paved the way for a shift in the legislative architecture for financial sector conduct from the current sectoral laws to a holistic, cross-cutting conduct framework that promotes fair customer treatment.

Although it is early days, the FSCA has started supervising the way financial institutions conduct their business and treat customers. It is responsible for improving customer protection in the financial sector, driving better customer outcomes, and enhancing the efficiency and integrity of financial markets ensuring that the sector serves South Africans better.

As required by the FSR Act, we released our regulatory strategy within the first six months of our existence, which intended to achieve the following:

- Share our strategic priorities for the next three years.
- Confirm our approach to regulation and supervision.
- Ensure that our stakeholders are appraised of the full scope of the work of the FSCA.

With 2018/19 being the first of the three years outlined in our strategy, the year served as a bridging year for transitioning from our predecessor the Financial Services Board into the FSCA. During the 2018/19 financial year, the focus was on completing some of the work we did as the Financial Services Board, whilst also spending time on the strategic priorities of the FSCA, which are:

- Building a new organisation
- An inclusive and transformed financial sector
- A robust regulatory framework that promotes fair customer treatment
- Informed financial customers
- Strengthening the efficiency and integrity of our financial markets
- FinTech – understanding new ways of doing business and disruptive technologies

Regulating the conduct of banks is a new area for us – it fell outside the ambit of our predecessor the Financial Services Board – and we are currently engaging the sector, and recruiting the requisite skills to make us an effective regulator in this space. These discussions have been very fruitful, and we intend to continue with them as we finalise our conduct standard for banks.

LEGISLATIVE MATTERS

Once passed into law, the Conduct of Financial Institutions (CoFI) Bill will be the second piece of legislation in the Twin Peaks regulatory architecture, the first being the FSR Act passed in 2017.

The Bill, which is currently going through the necessary consultative processes, is the result of several years of collaboration and consultation with the public and industry participants. It is born of the need to address and prevent poor outcomes for financial customers, and outlines what customers can expect of financial institutions. It further seeks to streamline the legal

Adv Dube Tshidi
Executive Head of the Financial Sector Conduct Authority

framework for the regulation of the conduct of financial institutions.

The FSCA provided and will continue to provide substantial technical support to National Treasury in the development of the Bill. During the period under review, the FSCA actively participated in public engagement workshops to assist in explaining and providing clarity on some of the aspects of this Bill.

What is encouraging about the CoFI Bill is that it seeks to provide the regulatory flexibility necessary to respond to changes within our dynamic sector and provide the FSCA with the opportunity to support new financial institutions, products and services. FinTech offerings that demonstrate opportunities for improved financial inclusion will be supported.

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

OPERATIONAL HIGHLIGHTS

Great strides have been made to achieve our operational targets in this first year. Internally, we made key appointments to the executive team; provided support in the development of primary legislation; drafted and published several regulatory instruments; and assisted the industry to navigate the changes in regulation and legislation.

We also prioritised engagements with our key stakeholders, as it remains our belief that it is only through a collaborative approach that we can effectively regulate the sector.

We've taken other notable steps to further strengthen the efficiency and integrity of financial markets by concluding memoranda of understanding (MOUs) with several fellow regulators. These MOUs will serve as a basis for more collaborative initiatives over the next few years.

Furthermore, under the new mandate our Investigations and Enforcement Division has been given more capacity, and that intervention is already yielding great results. A total of 18 cases were finalised in our first year. In some of these cases, material misconduct was uncovered and we are working closely with the prosecuting authorities to hold the offenders accountable. The divisional performance reports contain more details on these and other operational highlights.

APPRECIATION

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

Adv Dube Tshidi
Executive Head

STRATEGIC OVERVIEW

VISION

To ensure an efficient financial sector where customers are informed and treated fairly.

MISSION

To ensure a fair and stable financial market, where consumers are informed and protected, and where those that jeopardise the financial well-being of consumers are held accountable.

VALUES

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

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

LEGISLATIVE AND OTHER MANDATES

The FSCA was created by the Financial Sector Regulation (FSR) Act, 2017 (Act No.9 of 2017) from which it derives its legislative mandate.

As a statutory body performing a public function in the field of market conduct regulation and supervision of the financial sector, the FSCA is independent and impartial, exercises its powers, and performs its duties without fear, favour or prejudice.

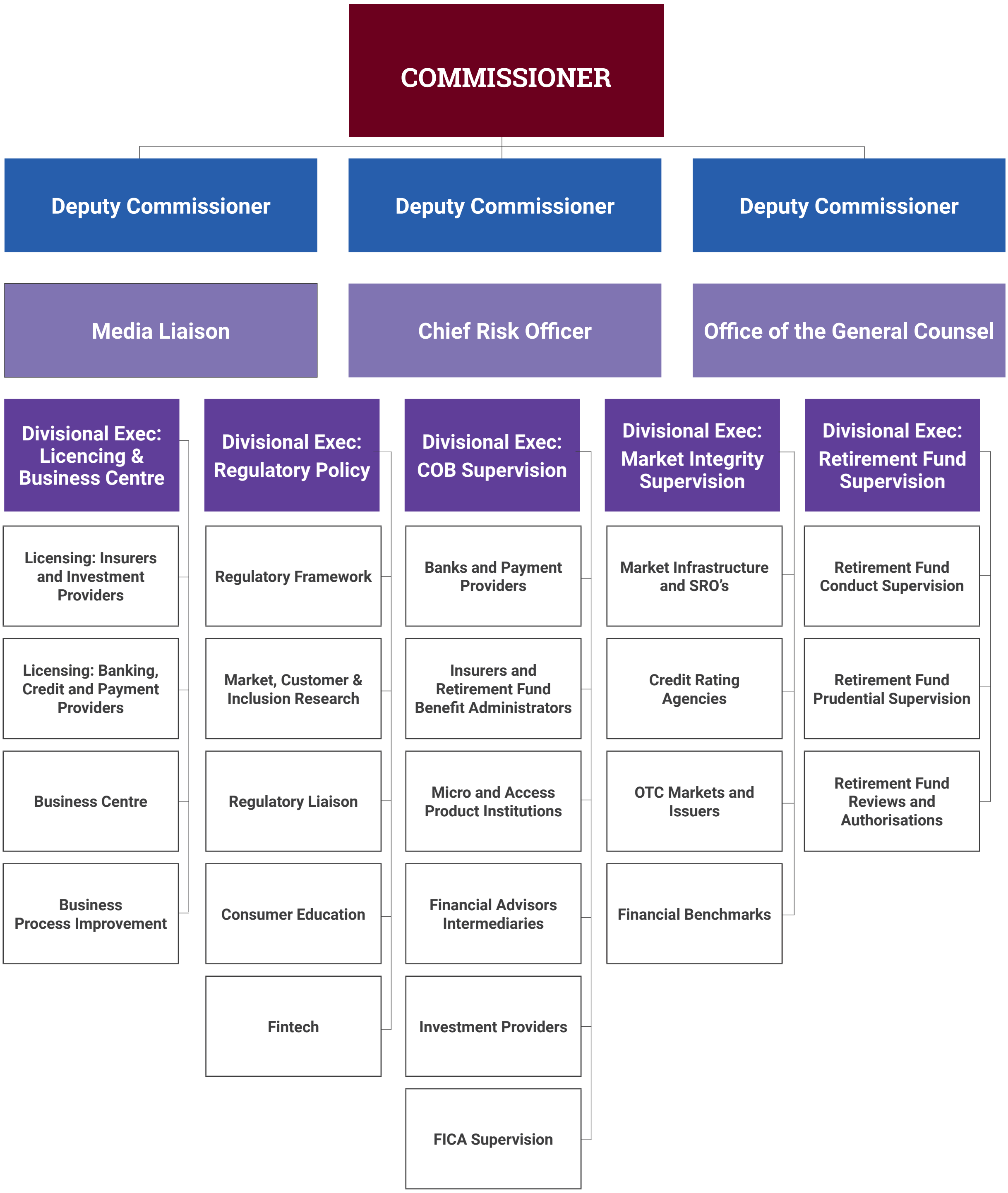
It is governed by the democratic values and principles enshrined in the Constitution, and seek to maintain high standards of professionalism and ethics. The FSCA reports to the Minister of Finance and is accountable to Parliament.

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

- Collective Investment Schemes Control Act, 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 Markets Act, 2012 (Act No. 19 of 2012).
- Friendly Societies Act, 1956 (Act No .25 of 1956).
- Pension Funds Act, 1956 (Act No. 24 of 1956).
- Long-term Insurance Act, 1998 (Act No. 52 of 1998) [for matters within the objectives of the FSCA].
- Short-term Insurance Act, 1998 (Act No. 53 of 1998) [for matters within the objectives of the FSCA].

ORGANISATIONAL STRUCTURE

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



Divisional Exec: Specialist Support

- Actuarial Services
- Business Model & Product Analysis
- Data Analysis
- Disclosure, Advertising & Marketing
- Supervisory Framework

Divisional Exec: Investigations and Enforcement

- Enforcement Assessment
- Investigations
- Complex Enforcement Cases
- Market Abuse

Division Exec: Corporate Centre

- Human Resources
- Communication & Language Services
- Facilities and Security

CFO

- Treasury & Management Accounting
- Financial Management
- Supply Chain Management
- Expenditure Management

CIO

- ICT Security
- ICT Governance Business Relationship & Risk
- ICT Applications and Operations
- ICT Sourcing & Asset Management
- Project Management Office
- Knowledge and Information Management
- Enterprise Information Governance Office

PART B
Performance Information

CHIEF FINANCIAL OFFICER'S OVERVIEW

Paul Kekana
Chief Financial Officer

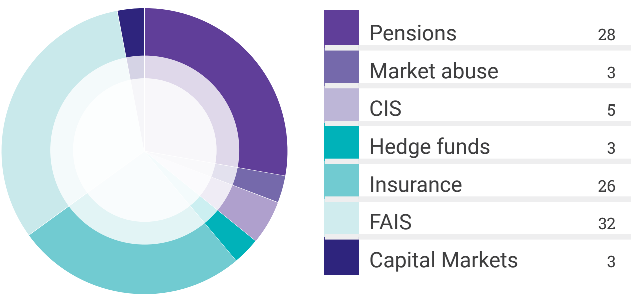
This marks the first year of the operations of the Financial Sector Conduct Authority (FSCA). It has been a challenging yet exciting year as we move forward in building our new organisation.

Our country's economic growth continues to decelerate, impacting negatively on the industry we operate in. With the contracting economy, efficiencies in our operations remain imperative in containing costs of regulation for the industry.

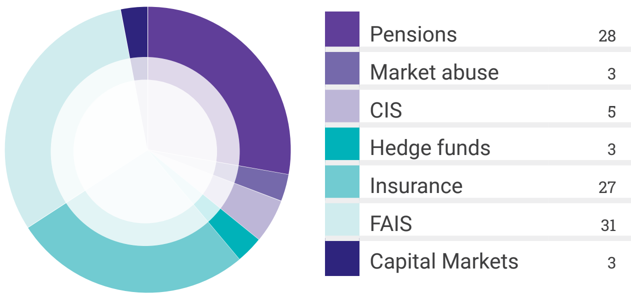
Building on the successes of the Financial Services Board, we remain financially sound with total net assets improving from R395 million to R440 million and cash and cash equivalents from R406 million to R481 million for the financial year. The working capital ratio remains favourable at 3.3:1 (2018: 3.7:1) enabling us to meet our financial obligations when they fall due.

LEVIES BY INDUSTRY

2019 Levy Contribution R773 million



2018 Levy Contribution R707 million

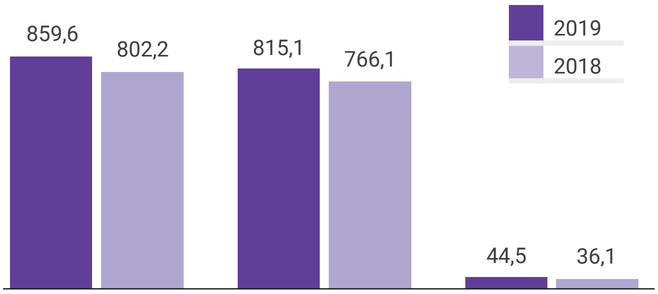


The Financial Advisory and Intermediary Services (FAIS), Pensions and Insurance industries continued to be the major contributors to the levy income, accounting for 86% in both the 2019 and 2018 financial years.

Chief Financial Officer's Overview

FINANCIAL PERFORMANCE

Overview of the Financial Performance



REVENUE

The FSCA recorded revenue of R859 million for the year (2018: R802 million) against a budget of R803 million. The favourable variance is mainly due to higher investment income of R19 million, R2 million penalty income which by its nature cannot be budgeted for, fee income of R4 million, with the balance made up of other income and recoveries.

OPERATING COSTS

The FSCA recorded operating costs of R815 million for the year (2018: R766 million) against a budget of R935 million. The favourable variance is as a result of cost management measures and the time lag in implementing the new FSCA operating model and structure.

The FSCA contribution to the funding of the offices of the FAIS Ombud for Financial Services Providers and the Pension Fund Adjudicator amounted to 6.7% and 7.9% respectively of the total operating costs.

SURPLUS

The FSCA recorded a surplus of R45 million for the year (2018: R36 million) against a budgeted deficit of R132 million. Accumulated surplus increased to R323 million (2018: R288 million) and contingency and discretionary reserves to R116 million (2018: R108 million). In terms of section 53(3) of the Public Finance Management Act (PFMA), the FSCA will be requesting approval from National Treasury to retain the surplus for implementing the new operating model and planned capital expenditure.

The FSCA maintains two reserve accounts: the contingency and discretionary reserves, currently at R81 million (2018: R77 million) and R35 million (2018: R32 million) respectively. The contingency reserve is maintained at a maximum of 10% of levy and fee income which is held to protect the FSCA against the risk of unforeseen events. The discretionary reserve is a depository for fines and penalty income for funding consumer education related expenses. The FSCA made a request to National Treasury to retain the fines and penalty income for Consumer Education transitional funding pending the implementation of the Money Bill.

CAPITAL INVESTMENTS

Capital investments comprise of Property, Plant and Equipment (PPE) and intangible assets amounting to R82 million (2018: R81 million). These investments are managed through an asset management policy that is applied uniformly throughout the FSCA as prescribed by the PFMA and Treasury regulations.

WORKING CAPITAL MANAGEMENT

The FSCA effectively manages working capital to ensure 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 R364 million (2018: R318 million).

TRADE AND OTHER PAYABLES

The FSCA targets to settle trade payables within thirty (30) days of receiving suppliers' invoices in line with National Treasury regulations. In this regard we have achieved an average of twenty three (23) days for the year (2018: 22 days) which is well within the thirty (30) days as prescribed by National Treasury. At the financial year end, trade payables amounted to R14 million (2018: R33 million).

TRADE RECEIVABLES

At the financial year end, the levy trade receivables amounted to R13 million (2018: R14 million), representing 1.66% of the levies income (2018: 2.04%). Levy trade receivables collection improved for the year as a result of the co-operation of the industry.

The penalty and inspection receivables reduced to R19 million (2018: R28 million) partly as a result of improved collection efforts. Penalty and inspection receivables collection remains a challenge as these debts by their nature are not planned for and are often appealed, resulting in collection uncertainties and delays.

FINANCIAL OUTLOOK

In terms of the FSR Act, effective from 01 April 2018, the legislative mandate of the FSCA makes it the regulator of market conduct for the financial sector. This required the FSCA to re-align its operating model to cater for the expanded regulatory mandate.

The FSCA will continue to carry out its legislative mandate with funding from levies and fees charged to the industry. The Money Bill, expected to be enacted and operationalised in the 2020/21 financial year, introduces a new levying model for the FSCA.

Our operating environment remains dynamic especially with the disruptive technologies brought about by the fourth industrial revolution. We are geared to meet the challenges arising from our new operating model and the ICT capital expenditure necessary to improve on our efficiencies and regulatory oversight.

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

SERVICE DELIVERY ENVIRONMENT

Notwithstanding the considerable amount of time and resources invested over the previous years in the planning for the transition of the business operations of the FSB to the FSCA, the implementation still presented several challenges.

The FSR Act extends the jurisdiction of the FSCA to include regulatory oversight of financial products and services not previously overseen by the FSB, amongst others, banking services, services relating to the buying and selling of foreign exchange, services related to the provision of credit and the payments systems. It also dictates a change in approach from the FSB's traditional compliance driven model to a proactive, pre-emptive, risk-based and outcomes-focused model. The scale of change is significant, impacting on how the FSCA is structured, resourced and skilled, and how regulatory and supervision frameworks are designed to enable the entity to deliver on its mandate and so build confidence in the financial services sector. This needed to be achieved while maintaining supervision over current institutions in terms of existing laws.

The aforementioned regulations also created the Transitional Management committee (TMC) to oversee the winding down of the operations of the FSB and the establishment of the FSCA. The members of the Executive Committee of the FSB were appointed as members of the TMC together with an interim chairperson and an expert on conduct.

During the first six months of the FSCA's existence, there were no changes in the operational status quo nor in the business processes of the newly established Authority from that of the FSB. This enabled management to ensure that there were no lapses in day-to-day service delivery while a new activity-based functional structure, designed for operationalising the FSCA was being implemented. The new functional structure comprises 10 divisions, including finance and information systems divisions, with oversight being provided by the TMC. The task of recruiting and appointing the divisional executives was completed only in February 2019. Due primarily to the scarcity of the required experience and skills, certain senior positions are still vacant, including those of the commissioner and deputy commissioners (all of whom are to be appointed by the Minister of Finance). Certain departments are also not yet fully operational.

Therefore, it was business as usual while the staff of the erstwhile FSB was being transferred to their new positions in the FSCA and recruitment processes were in progress to fill vacant positions, including those required by the new functions of the FSCA. The FSR Act required the FSCA to publish its regulatory strategy for the next three years within six months of the establishment of the FSCA. Accordingly, the FSCA published its three-year regulatory strategy by 1 October 2018, thereby meeting its deadline. The activity-based functional operating structure designed for the new regulator was also formally implemented on the same date and some divisional executives and heads of departments assumed their new roles and responsibilities on that date.

When the FSCA Regulatory Strategy was designed, it was envisaged that the first three years following its establishment would be dedicated to establishing, developing and resourcing the new entity and ensuring a legislative framework that enables it to deliver on its mandate. This is reflected in both the Regulatory Strategy and the Annual Performance Plan of the entity and in the reporting of actual performance for the financial year ended on 31 March 2019.

Accordingly the FSCA Regulatory Strategy identified six strategic priority focus areas for the next three years. These priority focus areas, as set out in the Executive Head's overview, have guided performance since the publication of the strategy and the establishment of the functional operating model. The priority focus areas will continue to guide the operations of the regulator over the three years covered by the FSCA Regulatory Strategy.

ORGANISATIONAL ENVIRONMENT

During the first six months of its existence, the FSCA continued working towards achieving the performance targets set out in the approved FSB Annual Performance Plan (APP) for the 2018/19 year, as the newly established FSCA did not have an approved annual performance plan of its own. The FSCA APP for 2018/19 was only drafted and approved after the three-year regulatory strategy for the FSCA was approved and published on 1 October 2018. This APP incorporated applicable performance targets from the approved 2018/19 FSB APP as well as new objectives and targets set for the FSCA for the remainder of the current financial year. The FSCA has worked diligently towards achieving its strategic objectives.

A new activity-based functional operational structure and business model was designed to meet the needs of the expanded jurisdiction of the FSCA and the intrusive regulatory approach envisaged in the Act. This new operational structure and business model was implemented with effect from 1 October 2018. The transition from the operational structure of the FSB to that of the FSCA is still underway and it is envisaged that the transition will continue into the new financial year.

The FSCA's operations have further been impacted by vacancies in key leadership positions. Its Executive Committee (commissioner and deputy commissioners) is not yet in place and governance oversight is currently being provided by the Transitional Management Committee, whose members, except for the interim chairperson and a National Treasury delegate, are also divisional executives responsible for day-to-day operations. Every effort, however, is being made to fill the vacancies not only in the leadership positions but also those across the organisation.

KEY POLICY DEVELOPMENTS AND LEGISLATIVE CHANGES

The journey to strengthen the South African financial regulatory environment commenced in 2011, in the aftermath of the 2008 global financial crisis, and culminated in the enactment of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) thereby formalising the adoption of the Twin Peaks model for financial regulation.

STRATEGIC OUTCOMES ORIENTED GOALS

Winding down FSB operations and transitioning to the FSCA was the focus of operations during the first half of the financial year. The FSCA Strategic Plan and APP, which flowed from the strategic direction detailed in the Regulatory Strategy, were completed subsequent to the adoption of the FSCA Regulatory Strategy on 1 October 2018. The summary below covers achievements during the second half of the 2018/19 financial year (the first six months of the three-year period covered by the strategic plan).

Summary of achievements during the first six months

Strategic outcome	Achievement to date towards 3-year targets
1. Building a new organisation	
This strategic priority will ensure that there is effective and seamless transition of operations from the FSB to the FSCA with minimum disruption to regulatory oversight and service delivery.	The new functional activity based operational structure for the FSCA is in the process of being implemented. Most of the new departments have been established and recruitment of staff is underway. In this process there has been no disruption to supervisory oversight and service delivery.
2. An inclusive and transformed financial sector	
This strategic priority aims to promote entry to the financial services sector by black and emerging entrepreneurs and broadening access to financial services and products by the previously excluded section of our people.	The FSCA has engaged with the National Treasury (NT) in support of promoting financial inclusion and increased participation of black-owned and managed businesses in the financial sector. It also continued its support to SMMEs and the emerging market with compliance matter.
3. A robust regulatory framework that promotes fair customer treatment	
This strategic priority ensures that the FSCA's regulatory and supervisory frameworks are in line with international standards and best practices. It will also ensue that the conduct supervision process is effective and efficient.	The FSCA continued with its programme of risk based supervision over all entities it regulates. The FSCA is in the process of developing conduct standards for banks, which is a new industry for conduct regulation. Skilled staff for this and other functions (some new) are in the process of being recruited.
4. Informed financial customers	
This strategic priority aims to promote financial education to customers of financial services and products by way of focused financial literacy interventions using the media, workshops, exhibitions and other resources.	The FSCA continued with its planned interventions for consumer education. Its additional responsibilities for consumer education imposed by the FSR Act are being assessed and a position paper on conduct standards for consumer education is being drafted for consultation with stakeholders.
5. Strengthening the efficiency and integrity of our financial markets	
This strategic priority aims to strengthen oversight of financial market efficiency and integrity by the evolving market infrastructure landscape.	The FSCA continued recognising the need for strategic focus and has set out how it will work with policymakers, fellow regulators and market infrastructures to deliver this part of its mandate.
6. Understanding new ways of doing business and disruptive technologies	
This strategic priority focuses on the constant evolvement and new technologies within the financial service by creating opportunities to improve efficiencies, reach more customers and drive inclusion.	The FSCA will focus on financial technology (FinTech) developments, and due to the escalating pace of change and the scale of the risk and opportunity that FinTech presents, it recognises the need for collaboration with other financial sector stakeholders.

PROGRESS AGAINST STRATEGIC GOALS

The table below sets out the strategic objectives, performance indicators and planned targets as specified in the FSCA's APP for 2018/19, and actual performance for the year. The FSCA comprises 7 core divisions that are directly responsible for implementing its legislative mandate, namely, the supervision of market conduct in the financial sector. In addition, the FSCA's mandate includes ensuring that its regulatory and supervision standards are in line with international standards.

This report, as does the 2018/19 APP, covers the period of establishment of a new public entity and the transition of the operations of the disestablished FSB to the new entity, the FSCA. The achievements for 2018/19, as reported, should be read in the context of the FSCA establishing itself as a new regulator of market conduct of the financial sector, while managing the smooth transition from existing business of the FSB to the expanded mandate of the FSCA. The comparative information for the previous year, where provided, relates to the FSB, the predecessor of the FSCA.

Strategic objective	Performance indicator	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Variance	Comment/ reason for variance
STRATEGIC GOAL 1 – Building a new organisation						
Goal statement: Effective transition to the FSCA with minimal disruption to regulatory oversight and service delivery						
Operationalise the activity based functional structure of the FSCA	Date by which the 3 year Regulatory Strategy is approved	N/A	1 October 2018	1 October 2018	–	–
	Date by which signed MOUs are in place as envisaged by the FSRA with the SARB, PA, FIC and NCR	N/A	1 October 2018	1 October 2018	–	–
	Date by which recommendations are made to Exco on an integrated regulatory system for the FSCA	N/A	31 March 2019	8 November 2018 Service provider approved by minister on 19 March 2019	–	–
	Date by which the detailed office space design is completed and signed off	N/A	28 February 2019	20 February 2019	–	–
Handover of FSCA transition projects to business owners	Date by which the transitional projects are handed over to the business owners	N/A	31 March 2019	29 October 2018	–	–

Progress against strategic goals [continued]

Strategic objective	Performance indicator	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Variance	Comment/ reason for variance
STRATEGIC GOAL 2 – An inclusive and transformed financial sector						
Goal statement: Promote entry to the financial sector by black and emerging entrepreneurs and broadening access to financial services and products to the previously excluded						
Promote entry to the financial sector by black and emerging entrepreneurs and broaden access to financial services and products to the previously excluded	Number of interventions and reports covering the promotion of transformation and financial inclusion	17 workshops	8 workshops with small and emerging FSPs	14 workshops with small and emerging FSPs	6 workshops	Satisfied ad hoc requests for additional workshops
		5 specialised training workshops	4 specialised training workshops for African candidates attempting the FAIS exams	6 specialised training workshops for African candidates attempting the FAIS exams	2 workshops	Satisfied ad hoc requests for additional workshops
		4 reports	4 reports on promotion of the Trustee Tool kit	4 reports on promotion of the Trustee Tool Kit		–
		10 graduates	20 unemployed graduates employed as interns and learner trainees	25 unemployed graduates employed as interns and learner trainees	5 graduates	Additional budget was made available to accommodate 5 additional graduates
STRATEGIC GOAL 3 – A robust regulatory framework that promotes fair customer treatment						
Goal statement: Ensure effective and efficient conduct supervision and ensure regulatory and supervisory framework is in line with international standards						
Regulatory framework in line with international standards and best practice. 80% of principles partly, broadly or fully implemented	Number of progress reports monitoring the findings and recommendations of the peer review considered by the FSCA Ops Exco	4 reports	4 reports	4 reports	–	–
	Adherence to the legislative review deadline for the year	30 September 2018	Submit proposed legislation changes to National Treasury on 30 September 2018	Submitted proposed legislation changes to National Treasury on 9 October 2018	9 days	This was an oversight which occurred as a result of the numerous legislative developments the personnel in the Legal Department were considering and providing input during the period when the submission was due

Strategic objective	Performance indicator	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Variance	Comment/ reason for variance
STRATEGIC GOAL 3 – A robust regulatory framework that promotes fair customer treatment						
Goal statement: Ensure effective and efficient conduct supervision and ensure regulatory and supervisory framework is in line with international standards						
Risk based supervision to monitor and improve financial investment environment	Percentage achievement of targets set out in risk based supervision plans	97%	Achieve 80% of targets set out in risk based supervision plans	Achieved average of 93.1%	13.1%	Hard work and dedication
Effective enforcement of compliance with legislation	Percentage achievement of commitment time lines in service level agreement by the Inspectorate and Enforcement unit	93%	90% achievement of commitment timelines	Achieved 94.5%	4.5%	Hard work and dedication
	Percentage compliance with time lines set out in each division's Service Level Commitment (SLCs)	94%	Achieve the turnaround times set in each of the core divisions SLCs with regard to licencing, registrations and other applications or submissions for 90% of the cases received, where all information necessary for the processing have been received	Achieved 91.6%	1.6%	Hard work and dedication

Progress against strategic goals [continued]

Strategic objective	Performance indicator	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Variance	Comment/ reason for variance
STRATEGIC GOAL 4 – Informed financial customers						
Goal statement: Promote financial education to consumers of financial services and products by way of focussed financial literacy interventions						
Promote financial education to consumers of financial services and products by way of focussed financial literacy interventions	Number of interventions to promote and provide financial education	N/A	6 research and M&E reports	11 research and M&E reports	5 reports	5 additional reports produced within the budget for the 6 planned reports
		5 resources	5 resources developed	5 resources developed	–	–
		395 workshops	138 workshops	174 workshops	36 workshops	Addressed requests for additional workshops by industry
		4 reports	4 reports on online activities	4 reports on online activities	–	–
		35 media activities	10 media activities	20 media activities	10 activities	Addressed requests for ad hoc radio interviews
		28 exhibitions	11 exhibitions	19 exhibitions	8 exhibitions	Addressed ad hoc requests from industry
		N/A	1 Money Smart week	1 Money Smart week	–	–
		N/A	81 inter provincial speech contest events	59 inter provincial speech contest events	22 events	3 education departments reduced the number of participating districts in the speech contest events

Strategic objective	Performance indicator	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Variance	Comment/ reason for variance
STRATEGIC GOAL 5 – Proactive stakeholder management						
Goal statement: Proactive stakeholder management by implementing an effective communication and brand management strategy						
Implement an effective communication, brand, reputation and stakeholder management strategy during the transition to the FSCA	Number of meetings to monitor progress with achievement of targets in stakeholder outreach plans	4 meetings	4 meetings with heads of departments to monitor progress with achievement of targets in their stakeholder outreach plans	4 meetings	–	–
	Number of media engagements	–	10 Interviews on TV/radio stations	12 Interviews on TV/radio stations	2 interviews in TV/radio station	Responded to invitations received for 2 additional interviews
		Media round table discussions	4 media round table discussions	4 media round table discussions	–	–
		12 reports	4 reports on news relating to FSCA	4 reports on news relating to FSCA	–	–
		1 media lunch	1 media lunch	0 media lunch	1 media lunch	Planned for fourth quarter. Journalists were not available in this period
		–	1 annual media survey	1 annual media survey	–	–
	Number and achievement of internal communications, industry and public communication targets	4 bulletins	4 FSCA bulletins	FSCA bulletins	2 bulletins	Third copy published on 7 May 2019
		4 Buzz	4 Buzz from the Board (Our Voice)	Buzz from the Board (Our Voice)	1 Our Voice	Fourth copy scheduled for 16 May 2019
		4 exhibitions	2 FSCA exhibitions	2 FSCA exhibitions	–	Published on 17 April 2019
		–	1 FSCA commemorative coffee table book	0 coffee table book	-1 book	Budget for the book was not approved

PERFORMANCE INFORMATION BY DIVISIONS

The Financial Sector Conduct Authority (FSCA) consists of 10 divisions, namely:

1. Licensing and Business Centre
2. Regulatory Policy
3. Conduct of Business Supervision
4. Market Integrity Supervision
5. Retirement Fund Supervision
6. Specialist Support
7. Investigations and Enforcement
8. Corporate Centre
9. Chief Information Office
10. Chief Financial Office

Detailed reports on the performance of each of the divisions follow on the next pages, except the Chief Financial Office (this review is on pages 19 – 21).

DIVISION: LICENSING AND BUSINESS CENTRE

PURPOSE

This division is responsible for performing a centralised licensing and authorisation function for all financial institutions required to be licensed by the FSCA (in terms of financial sector laws for which the FSCA is the responsible authority). The division is accountable for the processing of all licence/authorisation applications, to the point of recommending the approval or rejection of the application to the FSCA Exco.

The division houses the FSCA Business Centre which acts as the 'point of entry' for all external stakeholder inputs to the FSCA, including queries and complaints, statutory submissions, licensing and other applications, and responses to regulatory information requests.

STRATEGIC OBJECTIVES

- Process licence and other applications efficiently within the set timeframes.
- Develop a support programme for emerging SMEs and black-owned financial institutions in accordance with the licensing framework.
- Establish the new units in the division and recruit the appropriate skills to ensure the departments function efficiently and effectively.

DEPARTMENTS

The division consists of the following departments:

DEPARTMENT	RESPONSIBILITIES
1 **Licensing**	Licensing: Banks, Payment Services, and Credit Providers, Investments, Insurance, Financial Advisors and Benefit Administrators. The department is responsible for processing licence/registration applications received from the different categories of financial services providers.
2 **Business Centre**	Through its Licensing Support and Statutory Returns unit, this department provides administrative support to various departments in the FSCA. In addition, the Business Centre has a query resolution unit for processing queries and complaints received from the public.

PERFORMANCE

INSTITUTIONS LICENSED BY THE FSCA

Financial institutions are licensed in terms of the various financial sector laws as outlined below.

Collective Investment Schemes Act

Collective Investment Schemes Managers (CIS)			
CIS securities	CIS property	CIS participation	Foreign CIS
52	1	2	117

During the period under review, the number of CIS managers in securities increased from 50 to 52. The number of CIS managers in property decreased from two to one. The decrease in the number is reflective of some consolidation in this sector. The CIS managers in participation bonds remain unchanged at two.

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. The number of FCIS increased by eight, during the period under review.

Collective Investment Schemes in Hedge Funds (Hedge Funds)	
CIS hedge funds	Foreign hedge fund schemes
15	7

During the period under review, one CIS hedge fund manager was approved, and one CIS manager in hedge funds was withdrawn. As a result of the withdrawal of the licence, the total number of portfolios dropped by 7.5% compared to the previous year.

The South African hedge funds industry is dominated by four CIS hedge fund managers, holding 60% of the market share and this poses a high concentration risk to the industry. One foreign hedge fund scheme was approved for distribution in South Africa while five were withdrawn during the same period.

Credit Rating Services Act

Credit Rating Agencies
3

There are currently three registered credit rating agencies in South Africa that provide credit ratings across a broad range of sectors (e.g. corporates, structured finance, financial institutions, insurance, regional and local government), namely:

- S&P Global Ratings Europe Ltd (SPGRE) South Africa branch
- Moody's Investors Service South Africa (Pty) Ltd (Moody's)
- Global Credit Ratings Co. (Pty) Ltd (GCR)

In June 2018, the FSCA granted SPGRE registration as an external credit rating agency. This followed a cross-border merger where Standard & Poor's Credit Market Services Europe Limited (SPCMSE) merged into SPGRE. SPGRE continues to operate in South Africa through its South African branch.

The department made a number of observations concerning the activities of credit rating agencies especially where legislative requirements are being challenged. Amendments to legislation to remedy shortcomings in the Credit Rating Services Act have been determined and recommended for inclusion in new legislation and the accompanying conduct standards.

Financial Advisory and Intermediary Services Act

Financial Services Providers				
Category I	Category II	Category IIA	Category III	Category IV
11 068	702	126	28	104

The FSCA licenses five different categories of financial services providers (FSPs). To date it has licensed 12 028 FSPs. It should be noted that some FSPs have multiple licence categories. The different categories are:

- Category I consist of financial advisers and those intermediaries who render financial services without discretion.
- Category II FSPs (also referred to as Discretionary FSPs), render intermediary services of a discretionary nature, as regards the choice of a particular financial product, but without implementing bulking.
- Category IIA FSPs represent hedge fund managers.
- Category III FSPs represent investment administrators, specialising mainly in bulking of collective investments on behalf of clients (linked investment services providers).
- Category IV represents assistance business administrators which render intermediary services in relation to the administration of assistance policies on behalf of the insurer, to the extent agreed upon in terms of a written mandate between the insurer and the assistance business FSP.

The FSCA conducted workshops to emerging markets. The purpose of the workshops is to explain the legislation that governs the business activities of funeral parlours that render services in respect of insurance products and the risk to financial customers and the said entities where such activities are not underwritten. This intervention has resulted in an increase in the number of funeral parlours applying for FAIS licences. There was an increase of 144 authorised funeral parlours, going from 1 062 in the 2017/18 financial year to 1 206 in 2018/19.

Fourteen (14) workshops were conducted during the reporting period with a collective number of 363 delegates attending. Included were two workshops to assist business on the Conduct of Financial Institutions Bill, inviting the industry to participate/comment on the bill.

Financial Markets Act

Exchanges	Central securities	Associated clearing
5	2	2

The FSCA licensed four more exchanges since 2016, namely; ZARX, 4AX, A2X and Equity Express Stock Exchange. This brings the total number of licensed exchanges in South Africa to five. The new exchanges introduced much needed competition in the local exchange landscape. Of the four new competitors, three (ZARX, 4AX and EESE) have adopted a stand-alone exchange model and target a previously untapped issuer market while A2X is primarily a secondary market and targets JSE listed issuers. This is a significant development for South Africa as for almost 130 years the JSE has been the only player.

One of the challenges brought about by this new competition is that possible market fragmentation may be introduced by the newly licensed exchanges which may compromise market integrity. To mitigate against the risk of market fragmentation, the FSCA drafted a position paper on market fragmentation and consulted with licensed exchanges thereon. The FSCA is currently assessing all comments received in December 2018 with the view to addressing them in a form of a conduct standard. The conduct standard will set minimum standards for all licensed exchanges with regards to, inter alia, price sensitive information; corporate actions; financial soundness/capital adequacy requirements; default procedures; accounting standards; corporate governance; continuing obligations; and best execution.

Pension Funds Act

Retirement funds			
Active stand-alone	Umbrella funds	Own administered	Foreign funds
4 113	779	142	1

Benefit Administrators

Benefit administrators		
Employer administrators	Professional	Benefits and investment
25	136	9

Registration of new standalone funds has reduced in the past year. The reduction can be attributed to employers opting to participate in umbrella funds rather than establish self-standing funds. The attraction to umbrella funds is informed by the belief that, because contributions of various employers and members are pooled in one fund, the greater number of participants allows for cost savings and for delivering true value to the fund members.

The movement towards umbrella funds happens at a time when government's reform proposal is aimed at consolidating and encouraging enhanced economies of scale and supervision.

Board Notice 63 of 2007

Nominee Approvals
2

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.

Key departmental performance

Strategic objective	Performance indicator	Achievement 2017/18	Target 2018/19	Achievement 2018/19	
Process license and related applications within the timeframes in the SLC	Percentage compliance with timelines set out in the SLC	94%	90%	84%	Underperformance related to legislative amendments.

DIVISION: REGULATORY POLICY

PURPOSE

The Regulatory Policy Division is responsible for the ongoing development of the regulatory frameworks over which the FSCA has oversight, as well as its financial inclusion and consumer education mandates, as required by the FSCA's statutory mandate and government policy objectives.

The division also conducts research into broader domestic and international developments and emerging conduct risks, including technological innovations (FinTech) necessary to inform such frameworks. The division is also tasked with co-ordinating the FSCA's interaction with other regulatory and supervisory authorities and standard setting bodies, as well as ensuring that adequate internal and external stakeholder consultation takes place in relation to the development of regulatory frameworks.

STRATEGIC OBJECTIVES

- Building a new organisation: Effective transition to the FSCA with minimal disruption to regulatory oversight and service delivery.
- An inclusive and transformed financial sector: Promote entry to the financial services sector by black and emerging entrepreneurs and broadening access to financial services and products by the previously excluded.
- A robust regulatory framework that promotes fair customer treatment: Ensure the regulatory and supervisory framework is in line with international standards and best practices.
- Informed financial customers: Promote financial education to consumers of financial services and products by way of focused financial literacy interventions using the media, workshops, exhibitions, and other resources.
- Proactive stakeholder management: Proactive stakeholder management by implementing an effective communication, brand, reputation and stakeholder management strategy.

DEPARTMENTS

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

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

PERFORMANCE

REGULATORY FRAMEWORK DEPARTMENT

Regulatory Frameworks

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

The Regulatory Framework Department (RFD) is responsible for developing the regulatory frameworks supervised by the FSCA. The department carries out ongoing legislative review and development of the conduct regulatory framework to ensure that it continues to effectively support both our customer protection and market integrity and efficiency objectives. The department also provides support in the interpretation and application of regulatory instruments, including the drafting of interpretation rulings and guidance notices.

Progress towards achieving the goals relevant to the department is summarised as follows:

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

Implementing national policies affecting the financial sector

The FSCA and the other regulatory authorities making up the regulatory framework must deliver and support government policy objectives for the financial sector. The FSCA takes its policy direction from National Treasury, whose objectives are, in turn, informed by broader government strategic and development plans.

Legislation

Support in the development of primary legislation

- ***Conduct of Financial Institutions Bill (CoFI Bill)***
  On 11 December 2018, National Treasury published the draft CoFI Bill for public comment. During the course of 2019, NT facilitated the public consultation process which resulted in further refining of the bill. The FSCA provided and will continue to provide substantial technical support to National Treasury in developing the CoFI Bill.

- ***Insurance legislation commencement of certain sections***
  The Insurance Act, 2017 (Act No. 18 of 2017) took effect on 1 July 2018 and in terms of section 72(1) of the Act, repealed all of the prudential related requirements from the Long-term Insurance Act, 1998 (Act No. 52 of 1998) (LTIA) and Short-term Insurance Act, 1998 (Act No. 53 of 1998) (STIA). On 28 September 2018, National Treasury published Government Notice No.1020 determining the repeal of certain conduct of business related requirements from the LTIA and the

STIA through Schedule 1 to the Insurance Act, as these conduct requirements are better placed in subordinate legislation administrated by the FSCA. The repeal of these sections took effect on 1 October 2018 to coincide with the effective date of the amendments to the Regulations and the Policyholder Protection Rules (PPRs) made under the LTIA and STIA.

- ***Third-party cell captive insurance and similar arrangements***

  On 3 July 2018, the FSCA and the Prudential Authority (PA) issued a joint communication titled Update on Regulatory Policy Proposals Mooted In The Third-party Cell Captive Insurance and Similar Arrangements Discussion Paper. The joint communication confirmed that certain of the regulatory policy proposals put forward in the Review of Third-party Cell Captive Insurance and Similar Arrangements Discussion Paper (released in June 2013) have been accommodated in the Insurance Act, the Financial Soundness Prudential Standards for Insurers issued under the Insurance Act and PPRs. In addition, the joint communication highlighted which of the regulatory policy proposals set out in the Discussion Paper relate primarily to conduct of business matters, which will be dealt with by the FSCA, including proposals relating to ownership of cell structures.

  During 2018, the FSCA drafted and consulted on a draft Conduct Standard setting out requirements for the conduct of cell captive insurance business in relation to third party risks. This included the proposals relating to who may be a cell owner. Comments and presentations from industry engagements and workshops have been taken into consideration and further data analysis is underway focused on the current status of the cell captive insurance industry and prevailing practices. This analysis is intended to better inform the appropriateness of proposed conduct related regulatory reforms in respect of third party cell captive insurance business.

- ***Microinsurance***

  National Treasury's policy document titled "The South African Microinsurance Regulatory Framework" (published in July 2011) was aimed at creating dedicated microinsurance licences that will promote financial inclusion, encourage entrance of new providers into the market and enhance consumer protection through appropriate prudential and business conduct regulation.

  These proposals were given effect to through the promulgation of the Insurance Act, which came into operation on 1 July 2018, and amendments to the Policyholder Protection Rules (PPR) made under the LTIA and STIA that came into effect on 28 September 2018.

  The Insurance Act created a prudential and licensing framework for microinsurers, and enabled the making of prudential standards governing microinsurers in accordance with their risk profile. The PA issued prudential standards applicable to microinsurers under the Insurance Act.

Development of regulations, rules and codes

- ***Regulations and rules***

  The Minister published regulations under the LTIA and STIA on 28 September 2018 in Notice No. 1015 and No. 1018 of Government Gazettes 41942 and 41946 respectively, effective on the same day as clarified by National Treasury in Notice No. 652 of Government Gazette 41098, with certain regulations subject to transitional arrangement. Publication of the regulations followed a public consultation process that took place during the course of 2018. The amendments mainly aligned the regulations with the Insurance Act and improved the premium collection framework.

  The FSCA published amendments to the PPRs in Notice No. 997 and No.996 of Government Gazette 41928 on 28 September 2018, with an effective date of 1 October 2018, with certain rules subject to transitional arrangement. Publication of the PPRs followed a public consultation process that took place during the course of 2018. The amendments aligned the PPRs with the Insurance Act; provided for certain conduct of business related requirements that were be repealed from the LTIA and STIA Act through Schedule 1 to the Insurance Act as these conduct requirements are better placed in subordinate legislation; and provided for microinsurance product standards by giving effect to the National Treasury Microinsurance Policy Document.

- ***Amendments to General Code of Conduct***

  Proposed amendments to the General Code of Conduct under the Financial Advisory and Intermediary Services (FAIS) Act, 2002 (Act No. 37 of 2002), 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 (RDR) – 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. During the reporting period the public comments were received and the review process of these comments is still in progress.

Regulatory instruments and industry communication

The FSR Act gives to the FSCA conduct standard-making powers for financial institutions, representatives, key persons and contractors, in addition to the subordinate legislative powers afforded to the FSCA under the sector laws. Consequential amendments to the sectoral laws stipulate which instruments under those laws may be classified as regulatory instruments as defined in section 1(1) of the FSR Act. The robust consultation requirements in the FSR Act apply.

- ***Standards***
  The FSCA makes standards – as defined in section 1(1) of the FSR Act – only to deliver its statutory objectives. Both conduct standards and joint standards may be made. In accordance with section 107 of the FSRA Act, the FSCA and the PA may make joint standards on any matter in respect of which either of them have the power to make a standard. Standards comprise different types of draft and final standards and are published on the FSCA website.
- ***Notices***
  Notices may be published under the FSR Act or as stipulated under sectoral laws. Notices comprise different types of draft and final notices. Notices are published on the FSCA website.
- ***Communication with industry***
  The division communicates with regulated entities and other stakeholder on regulatory instruments published for consultation or published as final instruments as well as on general legislative matters. The FSCA and the PA may opt to publish joint communication. Communication is published on the FSCA website.

Regulatory policy projects and developments

- ***Amendments to the Policyholder Protection Rules***
  Amendments made under the LTIA and STIA referred to above-introduced product standards for microinsurers (published in Notice No.997 and No.996 of Government Gazette 41928 of 28 September 2018, with an effective date of 1 October 2018) to support, from a conduct of business perspective, the microinsurance licensing and prudential framework created through the Insurance Act. The integrated prudential and conduct framework for microinsurance is intended to – in a proportional manner – promote financial inclusion by ensuring that low-income households have access to simple and appropriate insurance products.
- ***Future Premium Collection Regulatory Framework***
  On 14 December 2018, the FSCA published FSCA Communication 2 of 2018 which provided an update on the future of the premium collection regulatory framework under the LTIA and STIA. The purpose of the communication was to provide a status update on the technical work underway which is aimed at further refining the premium collection regulatory framework for long- and short-term insurers. The FSCA is intending to publish a premium collection position paper for public comment during the course of 2019 setting out more detailed proposals which will inform further amendments to the premium collection regulatory framework for long- and short-term insurers.
- ***Reporting framework for short selling***
  The 2014 IMF Financial Sector Assessment Programme (FSAP) included a finding in that South Africa did not have a reporting framework in place for short sales. The FSCA published a discussion paper on 19 November 2018 that set out proposals to address the shortcoming The Comment period ended on 15 January 2019. Comments are being considered.
- ***Legal Entity Identifier (LEI)***
  The FSCA serves on the LEI Regulatory Oversight Committee (ROC) Plenary and Executive Committee was also appointed as one of the three vice chairs of the ROC. The FSCA acted as a sponsoring authority (in the interim before the establishment of the Global Legal Entity Identifier Foundation) responsible for the submission of applications by pre-Local Operating Units (pre-LOUs) to the ROC and provided confirmation to the ROC that all pre-LOU endorsement requirements have been complied with, both at the time of the application and on an on-going basis. The following developments should be noted with regards to the implementation of LEIs in South Africa:
  > On 18 December 2015 the ROC endorsed Strate (Pty) Ltd (Strate) as a pre-LOU. As of the date of this endorsement, all certified codes issued by Strate are globally recognised by the ROC for reporting purposes.
  > In South Africa the use of LEI's by OTC Derivatives Providers to report transactions to a trade repository was mandated in the Conduct Standard: Reporting Obligations to a Trade Repository. Strate (as a pre-LOU) went live with the LEI application program in February 2016. Effective 31 May 2018, Strate was fully accredited as an LOU by the GLEIF Accreditation Team. Strate has been issuing LEIs since 2014 in its role as an endorsed pre-LOU.
  > A discussion paper on the implementation of Legal Entity Identifiers was published on 19 November 2018. The aim of the consultation paper is to promote awareness of the global use of Legal Entity Identifiers (LEIs) and to seek feedback from the market on the proposals for the implementation of LEIs. Industry comments were due by 15 January 2019. The date was extended to 15 February 2019.

- ***Consultation Paper: Joint Standard on Fit and Proper Person Requirements for Significant Owners***

  The Prudential Authority and the FSCA published a consultation paper on a proposed joint standard on fit and proper person requirements for significant owners of financial institutions in terms of section 159 read with sections 105, 106 and 107 of the FSRA on 5 October 2018. Submissions on the draft Joint Standard were due by 16 November 2018. The draft Joint Standard aims to establish consistent fit and proper person requirements for significant owners of eligible financial institutions; mutual banks; managers of collective investment schemes; credit rating agencies; and controlling companies of banks and insurers, and to define what constitutes "an increase or a decrease in the extent of the ability of the person, alone or together with a related or interrelated person, to control or influence materially the business or strategy of the financial institution". The consultation paper also relates to the necessary amendments to Prudential Standard Key Persons of Insurers (GOI 4) prescribed under the Insurance Act. The draft Joint Standard includes amendments to GOI 4. Based on the significant comments received the PA and FSCA are revising the approach and a revised Standard will be issued in 2019.

- ***Key activities undertaken***

  > *Review of the advertising, marketing and information disclosure notice*

  The notice review (Board Notice 92) 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 Collective Investment Scheme advertising, marketing and disclosure requirements and incorporates new Hedge Funds requirements. The review process of the public comments on the advertising, marketing and information disclosure notice (Board Notice 92) that was published for public comments in June 2017 is still in progress and due to the technical nature of the subject; a workshop with the industry to get clarity regarding the context of some of the comments reviewed was held. The aim was to finalise the draft document by end of August 2018 and publish it again for public comment. This date was extended. Publication of the revised instrument incorporating industry comments is set for Quarter 2 of 2019.

  > *Discussion Paper on the Regulatory Framework for Funeral Parlours*

  A policy paper on the regulatory framework for funeral parlours insurance market was submitted to National Treasury for consideration. The paper explores a number of regulatory framework options that can be used to integrate the provision of informal funeral cover by funeral parlours into the wider legal and regulatory framework for insurance.

  > *Retail Banking Diagnostic Report*

  In 2017, National Treasury commissioned the World Bank to undertake a study to provide independent research on the extent to which banks in South Africa treat their retail customers fairly in relation to transactional and fixed deposit accounts. The study's analysis and recommendations as well as public comments on the study will help shape the FSCA's approach to regulating the way banks treat their customers.

  To this end, that FSCA is setting up a number of working groups to obtain the input of industry and other key stakeholders in relation to the World Bank Retail Banking Diagnostic Report, June 2018 (RBD) recommendations and the extent to which the recommendations should be implemented.

  > *Retail Distribution Review*

  The FSB published its Retail Distribution Review (RDR) in November 2014. The RDR proposed a number of regulatory reforms related to the distribution of financial products and the provision of financial advice. The RDR was informed by the FSB's Treating Customers Fairly (TCF) initiative, targeted at ensuring that the financial sector delivers clearly articulated fair outcomes for financial customers. The RDR reforms were expressed as a set of 55 inter-related regulatory proposals, to be implemented through a multi-year regulatory reform process. Since the publication of the initial RDR proposals the FSCA has published a number of RDR progress reports, updated proposals, and various specific regulatory measures through different regulatory instruments.

  The FSCA is continuing to roll out the RDR reforms, underpinned by its statutory mandate to promote the fair treatment of financial customers by financial institutions. Similarly to the FSB's approach, the FSCA will continue to implement the RDR proposals in a phased manner, aligning the development of regulatory instruments to broader legislative and regulatory developments giving effect to the Twin Peaks model of financial sector regulation. The RDR proposals will therefore be implemented using an appropriate combination of instruments under existing financial sector laws and standards under the FSR Act and the planned future CoFI Act.

> *Financial Markets Review*

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

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

The work programme of the Financial Markets Review (FMR) project commenced in May 2017 under the auspices of the FMRC. A draft report titled Protecting the Integrity and Effectiveness of South African Wholesale Financial Markets was released by the South African financial sector authorities on 3 September 2018.

The draft report is divided into seven chapters: an introductory chapter and six chapters addressing the various themes, namely governance, market conduct, market structure, trading venues and technology, regulatory framework, and finalisation of the 2015 Foreign Exchange (FX) Review. The report contains 43 recommendations for consideration by policy makers that will assist financial sector authorities to enhance the integrity and conduct regulatory framework of wholesale financial markets in South Africa. Stakeholders were invited to provide comments and suggestions on the recommendations contained in the draft report by 1 October 2018. It is envisaged that the final report will be published early in 2019.

- ***Developments on standards***

> *Conduct standard for banks*

With the advent of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSRA), the FSCA has been given the explicit objective of regulating and supervising the conduct of banks. In order for the FSCA to meaningfully supervise the conduct of banks, there must be an enforceable market conduct regulatory framework against which the FSCA can measure a banks conduct. During the course of 2018 and 2019, the FSCA developed a draft conduct standard for banks as a first step towards rolling out a comprehensive market conduct regulatory framework for the banking sector. The FSCA intends to publish the draft conduct standard for public comment during the course of 2019.

> *Directive and explanatory memorandum on cooperation between market infrastructures - Market fragmentation interventions*

Engagements in respect of the different interventions that need to be considered by the FSCA were identified and multiple meetings with the exchanges to discuss possible solutions in respect of the identified interventions arranged. Conduct standards will be drafted for the following interventions: Price Sensitive Information; Corporate Actions; Financial soundness/capital adequacy requirements; Default Procedures; Accounting Standards; Corporate Governance; Continuing Obligations; and Best Execution.

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

The Joint Standard on margin requirements for non-centrally cleared OTC derivative transactions have been published a number of times for public consultation. In addition, extensive stakeholder engagement has taken place with industry participants on the Joint Standard. The Margin requirements for non-centrally cleared OTC derivative transactions will be finalised and the Joint Standard be published for another round of comment in 2019.

> *Collective Investment Schemes Control Act, 2002 (Act No.45 of 2002)*

- Conditions of registration and fit and proper requirements for Collective Investment Schemes: The FSCA published a draft notice for public comments and subsequent to the comments received the FSCA 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 2019.
- Standards for the Net Asset Valuation and Pricing of Collective Investments.

The FSCA completed the consultation process on a draft standard for the net asset valuation and pricing of collective investments. The final standard is intended to be published during the course of 2019. The development of the Guideline to the Standards, in collaboration with ASISA, is also nearing finalisation.

— Standards for the Advertising Marketing and Information Disclosure Requirements for Collective Investment Schemes: The review of the advertising, marketing and information disclosure notice (Board Notice 92) 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 collective investment scheme advertising, marketing and disclosure requirements and incorporates new hedge funds requirements. The review process of the public comments on the advertising, marketing and information disclosure notice (Board Notice 92) that was published for public comments in June 2017 is still in progress and due to the technical nature of the subject; a workshop with the industry to get clarity regarding the context of some of the comments reviewed was held. The aim was to finalise the draft document by end of August 2018 and publish it again for public comment. This date was extended. In the context of the structures of the newly formed FSCA, these standards require alignment with similar sectoral standards, which is currently in process.

— Delegation of administration functions by CIS managers: A draft notice titled "Determination of Conditions for Registration of Managers of Collective Investment Schemes and Determination of Fit and Proper Requirements for Directors and Management was published in November 2015 by the former FSB. Following comments from industry, the then Registrar for Collective Investment Schemes decided to rather issue it as a stand-alone notice (Conduct Standard). It was then published again in November 2016 for further industry comment. In response to industry comments received, the draft conduct standard was amended, where relevant, taking comments and proposals into account. The draft Conduct Standard was approved by the FSCA on 16 November 2018 and submitted to National Treasury for submission to Parliament.

Support to other FSCA divisions

Interpretation and application of the regulatory and legislative provisions, including the drafting of guidance notices and interpretation rulings and providing training on the conduct legislative frameworks

- ***Guidance notices (as per section 141 of the FSR Act)***

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

- ***Interpretation rulings***

  The FSCA is empowered to publish interpretation rulings where necessary to promote clarity, consistency and certainty in the interpretation or application of financial sector laws for which we are responsible. Interpretation rulings are binding on the FSCA (these are published on the FSCA website). They oblige the FSCA to interpret and apply the applicable law in line with the interpretation ruling, unless or until a legislative change or a court judgment effectively overrides the interpretation ruling.

- ***Training on the conduct legislative frameworks***

  The Department provides training on the regulatory frameworks to other departments upon request or when a need is identified.

- ***Exemptions***

  Status of applications for exemptions received in terms of section 44 of the FAIS Act at 31 March 2019:

Status	2019	2018
Exemptions granted	**948**	1 532
Exemptions declined	**125**	166
Pending applications	**78**	1
Withdrawn applications	**132**	139
Extensions of exemptions previously granted	**76**	45
Total	**1 359**	1 883

Performance information by divisions [continued]

Support in relation to regulatory actions, including input into the drafting of regulator's directives and enforceable undertakings

- ***Directives (as per section 144 of the FSR Act)***
  Where a financial institution conducts its business inconsistently with its obligations under the FSR Act or other financial sector laws, including its obligation to treat its customers fairly, the FSCA may issue a written directive instructing it to take specified action, depending on the nature of the misconduct and its impact. A directive may be issued against the financial institution itself or against its key persons, representatives or contractors.

  The Regulatory Policy Division provides input into the drafting of directives upon request by other departments.

- ***Enforceable Undertakings (as per section 151 of the FSR Act)***
  The FSCA may enter into an enforceable undertaking with any person. An enforceable undertaking is a contractual arrangement between the FSCA and the other person, in terms of which the other person undertakes to implement specific remedial action – which may include customer redress - within an agreed period as a result of a regulatory contravention. The division provides input into the drafting of enforceable undertakings upon request. Enforceable undertakings are published on the FSCA website.

Co-ordination of the activities of the Market Conduct Regulatory Framework Steering Committee and other consultation processes in relation to regulatory framework developments

RFD co-ordinates the activities of the Market Conduct Regulatory Framework Steering Committee (MCRF SteerCo) and other consultation processes in relation to regulatory framework developments.

The MCRF SteerCo is made up of cross-functional representatives from financial sector industry associations, ombud schemes and professional bodies. The committee is chaired by the FSCA and meets quarterly. It acts as an informal consultation forum and technical advisory panel for key conduct of business regulatory reforms proposed by the FSCA.

Engagements

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

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

- ***Domestic***
  The division liaised regularly during the year under review, with domestic counterparts, industry ombuds, representative bodies of regulated entities, intermediary associations, and the auditing and actuarial professions.

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

Market, customer and inclusion research department

The Market, Customer and Inclusion Research Department (MCIRD) is responsible for undertaking proactive research into financial sector trends and emerging market conduct risks, as well as supporting other FSCA divisions in undertaking specific research projects that may be requested.

The department is also responsible for ensuring that the FSCA's regulatory and supervisory frameworks appropriately support financial inclusion and transformation. A dedicated unit provides direct support to small financial institutions, assisting them in complying with regulatory requirements.

Strategic goal

Strategic goal	Achievement to date towards 3-year targets
An inclusive and transformed financial sector	
Promote entry to the financial services sector by black and emerging entrepreneurs and broadening access to financial services and products by the previously excluded.	MCIRD has engaged with NT in support of promoting financial inclusion and increased participation of Black-owned and managed businesses in the financial sector. It has also provided assistance to Financial Sector Transformation Council with financial sector information relevant to their mandate. It also continued supporting SMMEs in complying with FSCA regulatory requirements.

Key departmental performance

The table below presents the key departmental performance for 2018/19.

Strategic objective	Performance Indicator	Achievement 2017/18	Target 2018/19	Achievement 2018/19
Promote entry to the financial services sector by Black and emerging entrepreneurs and broadening access to financial services and products by the previously excluded.	Number of interventions and reports covering the promotion of transformation and financial inclusion	17 workshops with small and emerging FSPs	8 workshops with small and emerging FSPs	12 workshops
		5 training workshops	4 specialised training workshops for African candidates to equip them to pass the FAIS regulatory exams	6 workshops were conducted & 180 key individuals and representatives attended

Appropriate support for FAIS regulatory examinations for previously disadvantaged individuals

While many candidates who write the regulatory examination (RE) complete the examination successfully, there are still many candidates who write the examination multiple times without passing and many of these candidates are black candidates whose first language is not English (the only language in which the examination is available).

To address this, RE examination support programme was initiated to support previously disadvantaged candidates that are struggling to pass the RE examination. A total of six workshops were conducted in five provinces. An impact assessment to determine how the workshops have assisted black candidates to pass the RE examination conducted in the new financial year.

Small business training on regulatory compliance

During the year under review, support was provided to the funeral parlour industry, especially funeral parlours that are aspiring to be FSPs and require assistance in applying for registration and understanding the compliance requirements once they are registered. A total of 12 workshops were conducted and were attended by 303 funeral parlours. An impact assessment to determine how this training has assisted the funeral parlours will be conducted in the new financial year.

A training intervention for Category I FSPs, which do not have compliance officers and require legislative guidance, was first initiated by the former FSB in 2014. The intervention provides guidance and assistance in developing a sound compliance culture within the FSPs to ensure sustainability of licences. In the year under review, six such workshops were also conducted, with 520 FSPs in total. The sessions covered a range of topics including amendments to the Financial Intelligence Centre Act.

Coordinating appropriate regulatory framework for funeral parlours insurance market

In the year under review, a draft discussion paper on the regulatory framework for funeral parlours insurance market was finalised and sent to National Treasury for consideration. The paper explores a number of regulatory framework options that can be used to integrate the provision of informal funeral insurance by funeral parlours into the wider legal and regulatory framework for insurance. The paper also proposes a framework appropriate for the unique nature of funeral parlours' business model in order to protect users of funeral insurance in this market. Further study will be conducted in the next financial year to understand the size of the market and interim mechanism that can be put in place to address the conduct risks in the market while the regulatory framework is being developed.

Building partnerships with government agencies that support SMMEs

The FSCA engaged with government agencies that support small enterprises, to explore opportunities for partnering when hosting workshops for SMEs within the financial sector. Engagements took place with the Co-operative Banks Development Agency and Small Enterprise Development Agency and partnerships will be formalised through memoranda of understanding in the next financial year.

Regulatory liaison department

The Regulatory Liaison Department supports the building of the new organisation and promotes financial customer protection and the efficiency and integrity of financial markets by advancing international and domestic regulatory and enforcement co-operation and collaboration. It does so in order to deliver and support the FSCA's strategic priorities of promoting fair customer treatment and the building of a new organisation.

Strategic goal

Strategic outcome	Achievement to date towards 3year targets
Building a new organisation	
Effective transition to the FSCA with minimal disruption to regulatory oversight and service delivery.	The Regulatory Liaison Department hosted the Familiarisation Department and provided secretariat support to CISNA. It further informed all MOU counterparts of the establishment of the FSCA and the changes to applicable legislation. It also facilitated the conclusion of the MOUs prescribed in the FSRA and reviewed the MOU with Guernsey and the FCA. The department further facilitated study visits from 7 regional authorities.
A robust regulatory framework that promotes fair customer treatment	
Ensure the regulatory and supervisory framework is in line with international standards and best practices. Ensure effective and efficient conduct supervision processes.	The department issued 14 Monitors on Local and Regulatory Developments and participated in 12 surveys/ questionnaires from international standard setting bodies. It co-ordinated and attended the CISNA bi-annual and subcommittee meetings and reported on the progress on implementing the FSAP recommendations. It further dealt with 251 requests for information.

Regulatory liaison

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

The Regulatory Liaison Department facilitates and manages the FSCA's relations and engagements with international and domestic regulators, policy forums and other stakeholders and monitors the bilateral and multilateral memoranda of understanding entered into by the FSCA.

The department further co-ordinates the FSCA's participation in and provides the administrative support for the Financial System Council of Regulators, its working groups and subcommittees and provides secretariat and administrative services to the Committee of Insurance, Securities and Non- Banking Financial Authorities.

International forums

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

- International Organization of Securities Commissions
- International Association of Insurance Supervisors
- African Insurance Organisation
- International Financial Consumer Protection Organisation
- International Network on Financial Education
- International Actuarial Association
- International Organisation of Pension Supervisors
- Committee of Insurance, Securities and Non-Banking Financial Authorities
- Financial Action Task Force
- Organisation for Economic Co-operation and Development

Co-operation and collaboration

International

The FSCA continues to co-operate and collaborate internationally with regulators to prevent financial crime and customer abuse. The co-operation and collaboration are enabled through 98 bi-lateral and multi-lateral memoranda of understandings (MOUs). During the reporting period, the authority shared information in terms of the MOUs with in respect of 251 requests. The MOU with the Financial Conduct Authority in the United Kingdom (UK) was also reviewed to provide for changes due to the UK's imminent exit from the European Union.

Domestic

On the domestic front, the FSCA is an integral part of South Africa's broader regulatory framework. A significant part of the FSCA's work therefore involves close collaboration and liaison with domestic counterparts to ensure consistent regulatory strategies, effective supervision and enforcement and minimisation of the duplication of effort and expense.

During the latter part of 2018, the FSCA entered into MOUs with the Prudential Authority, South African Reserve Bank, National Credit Regulator and Financial Intelligence Centre. The MOUs, inter alia, set out the specific areas of co-operation and collaboration and areas of overlap of responsibilities and supervisory and regulatory objectives. It further provides for delegations where required and identify matters where concurrence between the parties are not required. In addition, structured recurring inter-regulatory engagements have been established at an operational and strategic level to strengthen the relationship of mutual co-operation and collaboration.

The FSCA also commenced negotiations with the Department of Home Affairs, the statutory ombuds and voluntary ombuds on the conclusion of bi-lateral memoranda of understanding to strengthen a relationship of mutual co-operation, collaboration, support and information sharing.

Working closely with the ombuds assists the FSCA in understanding the problems that consumers are facing. The complaints data of the ombuds helps the authority to assess the scale of possible current and future problems in the market thereby enabling us to react proactively. The FSCA also collaborates with the Independent Regulatory Board for Auditors which submitted 22 reports of reportable irregularities during the reporting period to us.

Capacity building

The FSCA continue to offer assistance to its regional counterparts. In November 2018 the FSCA hosted the Familiarisation and Training Programme on consumer education. The training was attended by participants from Angola, Botswana, Eswatini, Lesotho, Malawi, Namibia, Seychelles, Tanzania, and Zimbabwe. The purpose of the programme is to assist and strengthen cross-border relations between the FSCA and its regional counterparts.

The FSCA further facilitated study visits from the Merani Consulting Ropotrebnadzor (Russian Official), Uganda Retirements Benefits Regulatory Authority, Unclaimed Financial Assets Authority of Kenya, Central Bank of Lesotho and Jeyax Training together with Bank of Angola.

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

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

The FSCA is a member of CISNA and participates in its various sub-committees. In addition, the FSCA provides secretariat support to CISNA and manages the CISNA website. During the reporting period, the FSCA assisted with the two bi-annual meetings that were held in the Seychelles and Angola during April 2018 and October 2018 respectively.

Performance information by divisions [continued]

Surveys and/or matrices

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

- Long Term Finance in Africa survey from the African Development Bank
- Institute of International Banker Global survey
- Inputs on Third country CCP's from the European Securities and Market Authority
- Inputs on Mortgage loan Restructuring Regulations from FinCoNet
- Inputs to FSAP recommendations 5 and 6 on Securities Regulation from the SARB
- Survey on the development of a core Competency Framework on Financial Literacy for investors from the OECD
- Inputs to Institute of International Bankers 2018 Annual Global Survey of Regulatory and Market Developments in Banking from the Banking Association South Africa
- Consumer Short-term Credit survey from the OECD/FinCoNet
- Survey on Financial Advertising from the OECD/FinCoNet
- Inputs on important Supervisory developments in South Africa from the OECD/FinCoNet
- Questionnaire on Financial Consumer Protection in the Aging population from OECD/FinCoNet
- Survey on the Supervisory Toolbox from OECD/FinCoNet

Consumer Education Department

The activities of the Consumer Education Department (CED) are mandated through section 57 of the Financial Sector Regulation Act of 2017, which directs the FSCA to protect financial customers by providing financial customers and potential financial customers with financial education programs, and otherwise promoting financial literacy and the ability of financial customers and potential financial customers to make sound financial decisions.

This mandate is implemented through one of the FSCA's strategic priorities for the next three years to ensure that we have informed financial customers. The intended outcomes of this priority are to have broader consumer protection, integrate financial education with regulatory functions, coordinated industry financial education activities, have improved data on consumer behaviour and to attempt to positively change consumer behaviour when it comes to personal financial management.

Strategic goal

Strategic goal	Achievement to date towards three year targets
Informed financial customers	
Promote financial education to consumers of financial services and products by way of focused financial literacy interventions using the media, workshops, exhibitions.	The department has implemented a total of 303 activities reaching about 440 000 consumers and engaged with 107 stakeholders towards achieving our targets.

Service delivery objectives, indicators and outputs

The CED uses various innovative methodologies to better engage with consumers. From research and resource development to the implementation of workshops, exhibition, media activities and youth campaigns and projects. All these activities are supported by online resources through our website at www.fscaconsumered.co.za and more recently through the introduction of various social media platforms.

Research

The fifth iteration of the financial literacy component of South African Social Attitude Survey (SASAS) provided valuable trends on the skills, behaviour and attitude of South Africans towards their money. The table below shows that South Africans have become better controllers of their finances as is evident in more people having and sticking to a budget. However, our ability to plan our finances has decreased significantly in the last five years especially our ability to save and this could be ascribed to slow growth of our economy, high levels of debt and high unemployment rates.

Domain	2011	2012	2013	2015	2017	National Strategy target	Trend
Financial control	58	61	61	63	62	62	Increased
Financial planning	53	50	48	48	48	57	Decreased
Product choice	45	46	44	46	47	49	Stable
Financial knowledge	56	55	56	58	58	60	Stable
Overall financial literacy	54	54	52	55	54		Stable

Resources

The department uses the data and analytics from the SASAS to design and plan its activities. This includes the design of resource materials that are distributed during our activities and published on our website. To facilitate the transformation from the FSB to the FSCA, the department started a process in 2018 to review, revise and redesign all resource materials, including translations from English into all the official languages. While this process will be completed in 2020, existing resources are still available on the consumer education website.

Activities

Activities are contained within our community outreach, formal education and youth programmes and during the year under review, the department reached about 440 000 consumers.

One of the most exciting community activities was the Money Smart Week 2018 (MSW2018) event. MSW2018 was launched on 3 August 2018, by the deputy minister of finance. The pre-promotional activities took place from 1 to 6 October 2018, using 200 volunteers, and MSW activities took place from 8 to 12 October 2018: exhibitions, presentations, workshops, outside broadcasts, industrial theatre, online portals and a game show. Four areas in Gauteng were identified for the pilot, namely Mamelodi, Tembisa, Alexandra and Soweto. Activities were held at the following malls and halls in the identified areas: Denlyn Shopping Centre, Phumlani Mall, Alexandra Plaza and Maponya Mall, Mamelodi West Community Centre, Ivory Park, Eastbank Hall and Ipelegeng Community Centre. More than 6000 consumers attended the events which were marketed using various media platforms. A total of 9.3 million impressions of the total paid and integrated media activities were reached. This was largely due to celebrity influencers, print, radio and social media.

Intergovernmental partnerships are vital to ensure community outreach. In 2016, the Financial Services Board (FSB) entered into an agreement with the Department of Public Works (DPW) to conduct financial literacy workshops to participants of the Expanded Public Works Programme (EPWP). Following the success of the 2016 and 2017 campaigns, the FSCA and DPW entered into a further agreement in 2018 to conduct train-the-trainer workshops to DPW national and provincial officials. The officials in turn conducted workshops to over 4 000 participants of EPWP. This successful integration of financial education into existing governmental skills development and job creation programmes will continue next year and provides a model for future partnerships.

Youth campaigns focused mostly on in-school youth through our interprovincial speech competition and providing young people with exposure to entrepreneurships and job opportunities through youth empowerment campaigns.

The interprovincial speech competition is open to Grade 11 learners in the business and economic streams in public schools in South Africa. During 2018/19, schools from quantiles 1, 2, 1and 3 in six provincial departments of education, namely Western Cape, Gauteng, North West, Mpumalanga, KwaZulu-Natal and Eastern Cape participated in the competition. The competition entails learners delivering a five-minute speech at school, district and provincial level. The speech topics were on financial planning, entrepreneurship and credit. After intensely competitive district and provincial finals, 12 learners, representing the six provinces, assembled at the Kopanong Hotel and Conference Centre in Benoni for the interprovincial final.

The keynote speaker was Former President Kgalema Motlanthe and his Dickensian message of managing our money so that we can find Happiness and not Misery at the end of the month, resonated with many in the room on the day. The winner was Ntombizethu Cele from Little Flower School in KwaZulu-Natal who received an investment prize of R40 000 (R20 000 plus her provincial prize of R20 000), the first runner up was Thobeka Dhlamini from Phoenix High School in Gauteng who received R30 000 (R20 000 as provincial winner plus R10 000) and Tariro Mwanasawani from Sol Plaatje High School in North West who received R25 000 (R20 000 as provincial winner plus R5 000). Going forward, the competition will include all nine provincial departments of education.

Financial education cannot be conducted in a vacuum. During the year under review, the FSCA conducted a pilot project to integrate messages on financial education with entrepreneurship and job opportunities. The Youth Empowerment Campaign, was delivered in, Tembisa, Soweto and Soshanguve. The purpose of the campaign was to increase financial literacy among the youth, through greater awareness regarding financial management and pitfalls that lead to bad financial decision, as well as to encourage entrepreneurship and the creation of employment opportunities. The FSCA partnered with Harambee, National Empowerment Fund (NEF), Companies and Intellectual Property Commission (CIPC), Credit Ombud, Department of Labour (DOL), National Credit Regulator (NCR), Council for Debt Collectors (CFDC) and the Department of Trade and Industry (DTI). Approximately, 2 717 young people were reached during the three road shows.

The FSCA's outreach to rural areas has been significantly enhanced with the procurement of our modified mobile unit. The mobile unit has also increased the brand visibility of the FSCA and have travelled as far as rural KwaZulu-Natal and the Western Cape.

On-line

All FSCA consumer education activities can be found on our website at www.fscaconsumered.co.za. In 2018/19, the number of visitors has increased by 66 995. The introduction of social media has also increased the FSCA footprint and this was particularly evident during the MSW2018 campaign where 2.6 million impressions were made by using Facebook, Instagram, LinkedIn and YouTube.

The FSCA's online Trustee Training Toolkit (TTK) for trustees of retirement funds continues to grow in popularity. To date, 6 379 trustees have registered on the e-learning system and 536 have passed the summative assessment test for the 2018/19. The e-learning programme can be accessed via www.trusteetoolkit.co.za and registration is free.

Stakeholders

The Consumer Education Department maintains successful relationships with all stakeholders interested in financial education activities. In 2018/19, most engagements were with participants of the MSW2018 to encourage them to contribute and join in the week's activities.

The department also engaged and participated in activities of various international organisations. The head of the department attended various meetings of the Organisation for Economic Cooperation and Development (OECD) International Network on Financial Education (INFE), the Consumer Financial Education Technical Committee meetings of the Committee of Insurance, Securities and Non-banking Authorities' (CISNA), as well as the IOSCO Committee 8. These organisations are standard-setting and harmonisation forums that assist countries by developing high-level principles and implementation strategies for financial education and share experiences and best practice. The head of department is also regularly invited to speak at financial education conferences and presented at the following conferences:

- 4 October 2018, Moscow, Russia – OECD-Russia Global Symposium *Advancing financial literacy globally: implementation and innovation" High-Level Panel Discussion: Global progress on financial literacy.*
- 10 July 2018, Yeravan, Armenia, OECD/INFE Technical Assistance Project.

The Consumer Education Department also hosted the CISNA familiarisation programme in November 2018. A total of 29 delegates from 10 regulatory authorities in SADC attended. The three-day programme included workshops covering all aspects on the work of the CED. In addition, the attendees were taken to a consumer education initiative that took place in Mamelodi.

Summary of activities during 2018 – 2019

Strategic objective	Performance indicators (Number of interventions)	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Reason for deviation
Promote financial education to consumers of financial services and products by way of focused financial literacy interventions using the media, workshops, exhibitions, and other resources.	Research/ monitoring and evaluation reports/case studies	5	6	10	2 additional reports and 2 additional case studies were received
	Resources Developed	5	5	5	
	Workshops, presentations and edutainment	395 (45 912 consumers)	138	190 (22 449 consumers)	50 additional workshops were completed for municipal workers and members of cooperatives in KwaZulu-Natal
	On-line activities report	1	1	1	
	Media activities	35 (1 323 691 listeners and viewers)*	10	20 (399 000 listeners)*	Adhoc interviews were done with Lekoa, Naledi, Tru and UNISA FM
		** Statistics as received from radio and television stations.*			
	Exhibitions – participate in and initiate exhibitions	28 (14 836 consumers)	11	19 (7 267 consumers)	Additional exhibitions were done with the National Empowerment Fund using the mobile unit
	Money Smart Week	N/A	1	1 (6 000 consumers)	
	Interprovincial speech competition events	N/A	81	57 (1 795 learners)	Target not achieved as North West, Western Cape, Eastern Cape and Mpumalanga departments of education reduced the number of participating districts, thus reducing the number of events that was planned to take place

Performance information by divisions [continued]

Strategic objective	Performance indicators (Number of interventions)	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Reason for deviation
An effective communication, brand, reputation and stakeholder management strategy during the transition to FSCA	Implementation of departmental stakeholder outreach plan quarterly targets: NATIONAL/LOCAL Regular communication with stakeholders and conferences, e.g. • Foundation Industry Associations	50	42	101	Additional engagements mostly with participants of the Money Smart Week project
	INTERNATIONAL Attend, participate and give feedback regarding provincial, national and international conferences and meetings CISNA and INFE/OECD	2 CISNA meetings 2 international conferences 1 CISNA programme	2 CISNA meetings 2 International conferences meetings 1 CISNA programme	1 CISNA meeting 4 International conferences and meetings 1 CISNA programme	

Strategy to address areas of under-performance

Targets for the speech competition are based on maximum participation from provincial departments of education. These targets could change however, depending on the developments and decisions taken by provinces. The Consumer Education Department will work closer with provincial officials to ensure that targets are met.

Financial Technology department

The Financial Technology Department will be established during the coming financial year. The FSCA regulatory framework needs to mitigate the risks associated with technology in financial services, while encouraging innovation that may deliver efficiencies and promote inclusion. The FSCA will work closely with innovators to understand FinTech developments and regulatory obstacles to innovation, and will support FinTech start-ups through innovation hubs and regulatory sandboxes.

The focus will be on collaboration with other financial sector regulators and National Treasury through an intergovernmental FinTech Working Group (IFWG). The IFWG includes representatives from National Treasury, the Prudential Authority, the SARB, the FSCA and the FIC, and membership will be extended to other sector regulators as required. The FSCA chairs a subcommittee of the IFWG on engagement which is responsible for engaging with the Fintech sector but is also responsible for designing the protocol around innovation hubs and sandboxes. An inaugural IFWG workshop was held during April 2018, which included participation from the private sector. This was an important first step towards ensuring enhanced regulator and private sector engagement and collaboration on key regulatory and innovation developments.

The second workshop was held in November of 2018 and focussed on crypto assets. The IFWG subsequently published a crypto assets paper setting out the proposed approach to the regulation of crypto assets particularly from a conduct perspective. The work on a proposed regulatory framework is underway.

With regards to innovation hubs and sandboxes, the FSCA is working jointly with other financial sector regulators on a design that best supports innovation whilst managing risk on a cross sectoral basis.

DIVISION: CONDUCT OF BUSINESS SUPERVISION

PURPOSE

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

STRATEGIC OBJECTIVES

- Conduct risk-based supervision to monitor and improve the financial investment environment.
- Effective enforcement of compliance with legislation.

DEPARTMENTS

The division has created and staffed four of its six departments; these are functioning and there's been no disruption to the oversight of licensed entities:

DEPARTMENT	RESPONSIBILITIES
1 **Supervision: Banks & Payment Providers** – this department will be established during 2019/20	Accountable for supervising the business conduct of entities authorised to issue banking products and entities authorised to provide payment services. The unit will also supervise the provision of credit by banks (other than cooperative banks, which will be overseen by the Supervision: Micro and Access Product Institutions department), with the scope of this supervision to be finalised through a MoU with the NCR under the FSR Act. The department will also supervise the advice and intermediary services offered by banks.
2 **Supervision: Insurers & Retirement Fund Benefit Administrators**	Accountable for supervising the business conduct of entities authorised for issuing insurance products and entities authorised for retirement fund benefit administration. The two areas of focus are combined in the same department to ensure consistency, as many large retirement fund benefit administrators are also insurers. The department will also supervise the advice and intermediary services offered by insurers and their tied agents.
3 **Supervision: Micro and Access Product Institutions**	This department is accountable for supervising the business conduct of micro-insurers and other financial services entities operating in the "micro" or "access product" space. For these purposes, "access products" includes micro-insurance policies, funeral policies (including funeral policies sold by traditional insurers), and products offered by friendly societies, co-operative banks and co-operative financial institutions. The scope and unit structure of this department will need to adapt in response to evolving financial inclusion policy developments and structures. In cases where such institutions form part of larger groups or offer both "micro" and other traditional products or services, coordination with other relevant COB Supervision Units will be required.
4 **Supervision: Financial Advisers & Intermediaries**	Accountable for supervising the business conduct of entities licensed to provide financial advice, and entities who are authorised for the activity of product sales and execution on a non-advice basis, where the entity is not also authorised for the actual issue of the products concerned. Advice and distribution activities of such product issuers (for example, insurers and banks in relation to their tied agents) are to be supervised by the supervision teams accountable for the product issuers themselves.

Performance information by divisions [continued]

DEPARTMENT	RESPONSIBILITIES
5 **Supervision: Investment Providers and Advisors**	Accountable for supervising the business conduct of a range of financial institutions authorised for various activities in relation to investments. Activities concerned (as contemplated in the current draft of the CoFI licensing framework) include: • Providing a pooled investment (CIS managers and schemes, as well as alternative investment funds) • Discretionary investment management (currently FAIS Category II and IIA intermediaries) • Investment platform administration (LISPs with bulking – currently FAIS Category III intermediaries) • Investment administrators
6 **Supervision: FICA –** this department will be established during 2019/20. Currently the other departments within the division also act as supervisors in terms of FICA.	This department will be accountable for carrying out the FSCA's supervisory functions under the FIC Act. The department will also ensure that any referrals relating to AML/CFT matters received from the FIC are appropriately dealt with within the FSCA. As per the MuU with the PA, the FSCA's FICA responsibilities in respect of insurers have been delegated to the PA.

PERFORMANCE

SERVICE DELIVERY OBJECTIVES, INDICATORS AND OUTPUTS

During the past financial year, the division operated in two distinct phases. Phase 1 covered the period from 1 April to 30 September 2018, when the division continued to operate under the previous FSB organisational structure. During phase 2 (1 October 2018 to 31 March 2019), the division commenced the transition to the new FSCA functional structure. This involved staff moving to new departments, establishing and recruiting skilled staff for new departments and integrating supervision approaches across the division. The process will continue in the next financial year.

The division's supervision plan and approach are aimed at developing and implementing a robust regulatory framework. Fair customer outcomes are integral to the approach and underpin the activities of the division. In this regard, Conduct of Business Returns (CBRs) have been developed for licensed institutions, which use market conduct indicators to assist the division in doing intrusive off-site monitoring of the various individual entities and the industries.

By using analytical tools, trends are identified and addressed before they become a concern. These include information gathered from diverse sources such as complaints and queries from consumers and other stakeholders, consumer bodies and industry associations. Additional supervisory tolls include alternative dispute resolution structures; research conducted on general or specific industry trends, and targeted mystery shopping. Supervisory offsite monitoring also enables the formulation of pre-emptive responses to emerging conduct risks. The offsite monitoring tools include statutory returns such as CBRs, financial statements, reports about irregularities, and other ad hoc returns.

Supervisory on-site inspections enable us to confirm the insights gained into an institution. The risk-based approach to such supervision will also inform the need for thematic on-site inspections. The findings from thematic on-site inspections may form the basis for future supervisory and regulatory reforms.

Insurers and retirement fund benefit administrators department

The department supervises a diverse range of regulated entities. This includes insurers that are licensed for life (previously long-term insurance) and non-life (previously short-term insurance) insurance products, as well as retirement fund benefit administrators (also referred to as section 13B administrators). The department focuses on the market conduct of the insurers, as the Prudential Authority is responsible for the prudential regulation of the insurers. The supervision of the section 13B administrators is done in collaboration with the division responsible for retirement fund supervision.

The total numbers of licensed insurers are 170. This is broken down as follows:

Life:	74
Non-life:	91
Composite:	5 (all re-insurers). These insurers are licensed for both Life and Non-Life products.
Re-insurers:	9

There are 156 section 13B administrators. They provide administration services to retirement funds, administering the benefits owed to members.

Supervision of licensed insurers

The supervision of licensed insurers includes both desk-based (off-site) activities, and on-site inspections (at the premises of the licensed insurers). Of the 165 primary insurers, 112 submitted the CBRs which were analysed during the period under review. Subsequent to the promulgation of both the Financial Sector Regulation Act, 2017 (Act No.9 of 2017) and the Insurance Act, 2017 (Act No.18 of 2017) in 2018, the Prudential Authority has since delegated the investigation of unregistered insurance business to the FSCA, and this function is performed by the Investigations and Enforcement Division. The department continues to investigate complaints about service and products offered by licensed insurers and received 401 of such complaints during the year. The department also received 200 notifications of binder cancellations, where either the insurer or the binder holder cancelled a binder agreement. A total of 349 exemption applications and outsourcing notices were received during the period under review.

In terms of section 5(9) of the Insurance Act, an entity that is not an insurer may only use the word Insurance (or variation thereof) if approval was granted by the Authority. The power to grant or refuse this name usage was delegated to the FSCA by the Prudential Authority. During the period under review 72 such requests were considered and processed.

On-site inspections with a focus on general compliance with legislative requirements were conducted at the following four insurance companies:

- Centriq Life Insurance Company Limited
- Constantia Insurance Company Limited
- AIG South Africa Limited
- Renasa Insurance Company Limited

The department had bi-annual and quarterly meetings with 60 insurers during the year.

Supervision of section 13B administrators

Of 156 section 13B administrators, the department received and analysed 141 annual reports. These reports were submitted in terms of condition 11 of Board Notice 24 of 2002.

Micro and access product institutions department

The Micro and Access Product Institutions Department is responsible for supervising the business conduct of micro-insurers and other financial services entities operating in the micro or access product space. This includes micro insurers, friendly societies, co-operative financial institutions, co-operative banks and insurers that provide funeral policies (assistance business). The department currently supervises 241 entities, which includes 45 insurers providing assistance business policies, and 196 friendly societies.

During the period under review, there were no micro insurers, co-operative financial institutions and co-operative banks on the list of licensed entities. The provision of microinsurance business has recently been made possible by the promulgation of the Insurance Act, 2017 (Act No.18 of 2017) which became effective on 1 July 2018. The Prudential Authority is currently considering various microinsurance applications. Subsequent to the licensing of these micro insurers, the FSCA will supervise them from a market conduct perspective. In respect of co-operative financial institutions and co-operative banks, the FSCA is in the process of developing Conduct Standards for conduct supervision of these entities.

Supervision

Friendly Societies

Of 196 licensed friendly societies, 28 submitted their annual returns for the 2017 financial year, which were due by June 2018. A total of 91 licensed societies are exempted from submission of returns, 10 are in liquidation and 67 failed to submit returns. No complaints were received from members of the friendly societies during the period under review.

Insurers providing assistance business policies

On-site inspections to assess general compliance with insurance legislation were conducted at the following insurers:

- Hollard Life Assurance Company Limited

- Brightrock Life Limited
- KGA Lewens Beperk
- Standard General Insurance Company
- Oakhurst Life Limited

Financial advisors and intermediaries department

The department supervises 11 068 authorised Financial Service Providers (FSPs) that are authorised for advice and/or intermediary services in terms of the Financial Advisory and Intermediary Services Act (FAIS). The products that the FSPs are authorised for range from assistance business (funeral insurance) to collective investment schemes, long-and short-term insurance, health care benefits and retail pension benefit funds.

Supervision of licensed FSPs

The supervision of FSPs includes desk-based and on-site supervision. The information provided in this section relates to all Financial Advisers and Intermediaries The department had a target of 80% in relation to conducting of onsite visits and analysis of statutory returns respectively. It achieved 90% and 96% of these targets respectively.

During the period under review, the department received various statutory returns, including 9 415 financial statements, which represents 90% of the total number of financial statements due for submission. It also included 10 486 compliance reports, which represents 88% of the total number of compliance reports that were due for submission.

Financial statements must be submitted four months after the financial year-end of the FSP. A total of 655 FSPs requested extension to submit the financial statements. There are some entities that are exempted from submitting certain types of reports, e.g. FSPs that are only authorised to give advice or render intermediary services in respect of assistance business policies and/or friendly society benefits, were not required to submit compliance reports.

During the period under review, 123 reports on material irregularities were received and reviewed. Of these, 54 were finalised and 69 were pending. A total of 78 FSPs were referred for regulatory action. The referrals were based on various contraventions relating to the FAIS Act and its subordinate legislation.

Off-site monitoring is done in terms of either the FAIS Act or the Financial Intelligence Centre (FIC) Act. During the period under review, the focus for off-site monitoring was to conduct an outreach programme to small FSPs that do not have a compliance officer, to assist them to comply with the amended requirements of the FIC Act. A total of 297 FSPs across the country were part of this programme. The programme focused on education and assistance and is part of the FSCA's transformation initiatives

Communication with FSPs

The department hosted five workshops to communicate with the industry regarding the FIC Act amendments. The workshops were co-hosted with the Financial Intelligence Centre (FIC). The main topics of the workshops were the amendments to the FIC Act and how to develop and implement a risk and compliance management programme, registering on the go-AML system with the FIC, reporting obligations of FSPs, and what happens with the information that is provided to the FIC when reports are lodged. Approximately 400 delegates attended the five workshops. A total of 443 meetings were held with various stakeholders, including local and international regulators, banks, insurers, administrators, brokers, industry and professional bodies.

Investment providers department

The department is responsible for all supervisory functions related to collective investment schemes (CIS) managers, which includes CIS in securities, CIS in property, CIS in participation bonds, CIS in hedge funds and foreign CIS approved for distribution in South Africa. Details are provided below:

- 52 CIS in securities
- 1 CIS in property
- 2 CIS in participation bonds
- 15 CIS in hedge funds

Supervision of licensed CIS Managers

The supervision activities include the review of annual financial statements and compliance reports. The following compliance reports were received and analysed during the period under review:

- 760 Capital Adequacy Reports
- 532 Market-to-market Valuation Reports
- 6 103 Quarterly Portfolio Holding Reports
- 51 Annual Financial Statements

On-site inspections

All the planned on-site inspections were conducted, including on-site inspections to determine general compliance with the legislative requirements were conducted at the following 10 CIS Managers:

- NewFunds (RF) (Pty) Ltd
- Community Growth Management Company Ltd
- GTC Management Company (Pty) Ltd

- Allan Gray Unit Trust Management (RF) (Pty) Ltd
- Gryphon collective investments (RF) (Pty) Ltd
- Sygnia Itrix (RF) (Pty) Ltd
- Alusi Management Company (Pty) Ltd
- Rezco Collective Investments Ltd
- Cloud Atlas (Pty) Ltd
- Sanlam Collective Investments (RF) Pty Ltd

On-site inspections to determine third party due diligence and compliance were conducted at the following 10 collective investment managers:

- Africa Collective Investments (RF) (Pty) Ltd
- RECM Collective Investments (Pty) Ltd
- Alexander Forbes Investments Unit Trust Ltd
- Prime Collective Investment Schemes Management Company (Pty) Ltd
- PSG Collective Investments (RF) Ltd
- STANLIB Collective Investments (RF) (Pty) Ltd
- Boutique Collective Investments (RF) (Pty) Ltd
- Old Mutual Unit Trust Managers (RF) (Pty) Ltd
- Ci Collective Investments (RF) (Pty) Ltd
- Prescient Management Company (RF) (Pty) Ltd

The following compliance reports were received and analysed during the period under review:

- 15 annual reports
- 1 080 Monthly Reports
- 1 031 Quarterly Reports
- 200 Capital Adequacy Reports

The following on-site inspections were conducted:

- Sanne Management Company (RF) (Pty) Ltd
- Prescient Management Company (RF) Pty Ltd
- Sygnia Collective Investments (Pty) Ltd
- Nautilus Managed Account Platform
- H4 Collective Investments (RF) (Pty) Ltd
- Realfin Collective Investments (RF) (Pty) Ltd
- Prime Alternative Investments (RF) (Pty) Ltd
- Investec Alternative Investments GP

Enforcement action taken

A penalty of R500 000 was imposed on STANLIB Collective Investments (RF) (Pty) Ltd for a contravention of paragraph 1(i) of Schedule 1 of the Collective Investment Schemes Control Act (CISCA) read with section 97 of CISCA.
A penalty of R350 000 was imposed on 36One Asset Management (Pty) Ltd for contravention of section 65 of CISCA.

Communication with the industry

Various meetings and a workshop were held during the period under review with the industry. This included 21 meetings with collective investment managers and one workshop with the industry on financial intelligence centre readiness and awareness.

Key departmental performance

Strategic objectives	Performance indicator	Achievements 2017/18	Target 2018/19	Achievements 2018/19	Reason for deviation
Collective Investment Schemes in Securities					
Conduct risk-based supervision to monitor and improve financial investment environment	Percentage achievement of targets set out in risk-based supervision plans	80%	80%	100%	N/A
	Monitoring and analysis of returns	80%.	80%	97%	N/A
Collective Investment Schemes in Hedge Funds:					
Conduct risk-based supervision to monitor and improve financial investment environment	Percentage achievement of targets set out in risk-based supervision plans	80%	80%	96%	N/A
	Monitoring and analysis of returns	80%	80%	98%	N/A

Strategic objectives	Performance indicator	Achievements 2017/18	Target 2018/19	Achievements 2018/19	Reason for deviation
Financial Services Providers					
Conduct risk-based supervision to monitor and improve financial investment environment	Percentage achievement of targets set out in risk-based supervision plans relating to onsite visits.	98%	80%	90%	N/A
	Percentage achievement of analysis of statutory returns.	99%	80%	96%	N/A
Insurance, Retirement Fund Benefit Administrators and Micro Access Institutions					
Conduct risk-based supervision to monitor and improve financial investment environment	Percentage achievement of targets set out in on-site risk-based supervision plans 2018/19.	84%	80%	90.9%	N/A
	Percentage implementation of supervisory plan	100% implementation of quarterly targets of the supervisory plan	90% implementation of quarterly targets of the supervisory plan	Achieved: 98.3%	N/A
Financial Advisers and Intermediaries					
Conduct risk-based supervision to monitor and improve financial investment environment	Percentage achievement of targets set out in risk-based supervision plans relating to onsite visits.	98%	80%	90%	None – targets were achieved
	Percentage achievement of analysis of statutory returns as set out in the service level agreement	99%	80%	96%	None – targets were achieved

DIVISION: MARKET INTEGRITY SUPERVISION

PURPOSE

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

STRATEGIC OBJECTIVES

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

DEPARTMENTS

The Market Integrity Division comprises the following supervisory departments:

DEPARTMENT	RESPONSIBILITIES
1 **Supervision Department: Market Infrastructures & SRO's**	The Market Infrastructures and SROs Supervision department is accountable for licensing and supervising the conduct of market infrastructures as defined in the FMA (Financial Markets Act, Act No.19 of 2012). Currently the supervision of market infrastructures is carried out indirectly through a strong self-regulatory organisation (SRO) supervisory model, but the scope and resourcing of this unit is expected to shift in light of a policy review of this model. With the current strong SRO model, the market infrastructures regulate their own members while the FSCA regulates the market infrastructures. The FMA defines market infrastructure to mean each of the following: a licensed central securities depository; a licensed clearing house; a licensed exchange; a licensed trade repository; a licensed central counterparty. *[The consequential amendments to the FMA introduced a new definition of 'central counterparty', that is an independent clearing house into the Act and a framework through which a central counterparty (CCP) can be licensed was included in the FMA Regulations, given the systemic functions that it performs.]*
2 **Supervision Department: Credit Rating Agencies**	The Credit Rating Agencies Supervision Department is accountable for licensing and supervising the conduct of entities authorised to provide credit rating services in terms of the Credit Rating Services Act, 2012 (Act No.24 of 2012).
3 **Supervision Department: OTC Markets and Issuers**	The Over the Counter (OTC) Markets and Issuers Supervision Department was operationalised on 6 December 2018. It is accountable for licensing and supervising OTC derivative providers who as a regular feature of their business originate OTC derivatives or make a market in OTC derivatives.
4 **Supervision Department: Financial Benchmarks**	The Financial Benchmarks Supervision Department has not yet been operationalised. Once operationalised, the department will be accountable for establishing credible and transparent governance, oversight and accountability procedures for the benchmark determination process, including an identifiable oversight function accountable for the development, issuance and operation of the benchmark.

Performance information by divisions

PERFORMANCE

MARKET INFRASTRUCTURES AND SELF-REGULATORY ORGANISATION (SROS) SUPERVISION DEPARTMENT

The Market Infrastructures and Self-regulatory Organisation (SRO) Supervision Department performed one on-site risk-based inspection per market infrastructure for the year ended 31 March 2019, amounting to seven reviews and 100% coverage in total.

The scope of the onsite inspection of the various market infrastructures covered, inter alia, governance structure, financial matters as well as the specific sections of the listings requirements and trading rules.

The market infrastructures currently supervised by the department comprise five licensed exchanges, two licensed central securities depositories and two licensed associated clearing houses. The five licensed exchanges are:

- JSE Limited
- A2X (Pty) Limited
- ZARX (Pty) Limited
- 4Africa Exchange (Pty) Limited
- Equity Express Stock Exchange (Pty) Limited

The two licensed central securities depositories are:

- Strate (Pty) Limited
- Granite CSD (Pty) Limited

The two associated clearing houses are:

- JSE Clear (Pty) Ltd
- Strate Associated Clearing House

Strengthening the efficiency and integrity of financial markets

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

- The conclusion of an MoU between the SARB and the FSCA to govern cooperation in supporting financial stability, and working with the SARB's National Payment System Department (NPSD) on oversight of payment service providers, as well as with the SARB Financial Surveillance Department (FinSurv) on services related to the buying and selling of foreign exchange.
- The commencements of a process for the development of a regulatory framework for securities finance activities in the South African markets.
- The preparation of a draft Conduct Standard for Exchanges which will be finalised following stakeholder consultations.
- The development of a draft short-selling reporting regime in which short sales are flagged by the authorized user and reported to the exchange concerned as well as to the FSCA.
- Participation in the Financial Markets Implementation Committee with a view to review the Financial Markets Act, 2012.
- Active participation in relevant international and regional bodies and forums (e.g. IOSCO and CISNA), in order to keep abreast of international developments.
- Having JSE Clear (Pty) Ltd, a clearing house, conduct a self-assessment against the principles stipulated in the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs) in December 2018. The FSCA and the PA are currently reviewing the JSE Clear self-assessment.
- Participation in formal consultation forums such as the Financial Markets Review Committee for the review of the South African wholesale financial markets; Market Conduct Regulatory Framework Steering Committee (MCRF SteerCo, Intergovernmental FinTech Work Group (IFWG), the Exchange Fragmentation Forum as well as regular (usually quarterly) Industry association meetings with specific industry associations.

Key departmental performance

Strategic objectives	Performance indicator	Achievements 2017/18	Target 2018/19	Achievements 2018/19	Reason for deviation
Conduct risk based supervision to monitor and improve financial investment environment	Percentage achievement of targets set out in risk-based supervision plans	100%	Achieve 80 % of the targets set out in risk based supervision plans	100%	
	Number of onsite reviews	7 reviews	Perform one on-site risk based review per market infrastructure by 31 March 2019	Achieved 7 reviews	
Effective enforcement of compliance with legislation	Percentage compliance with timelines set out in SLC	90%	90%	97.7%	

CREDIT RATING AGENCIES SUPERVISION DEPARTMENT

There are currently three registered credit rating agencies in South Africa that provide credit ratings across a broad range of sectors (e.g. corporates, structured finance, financial institutions, insurance, regional and local government), namely:

- S&P Global Ratings Europe Ltd, South Africa branch (SPGRE)
- Moody's Investors Service South Africa (Pty) Ltd (Moody's)
- Global Credit Ratings Co. (Pty) Ltd (GCR)

The department continued with its risk-based supervisory onsite inspections which serve to assess compliance with laws and rules and help to ensure that Credit Rating Agencies adhere to the internal policies, procedures and methodologies used in determining credit ratings. The inspection program is designed to detect risks across the credit rating industry and within the Credit Rating Agency's business model. The onsite inspections focused on the quality of the rating process, governance arrangements including the managing conflicts of interest, corporate structure, the compliance function as well as information technology.

Strategic objectives	Performance indicator	Achievements 2017/18	Target 2018/19	Achievements 2018/19	Reason for deviation
Strategic Priority3: A robust regulatory framework that promotes fair customer treatment					
Conduct risk-based supervision to monitor and improve financial investment environment	Percentage achievement of targets set out in risk-based supervision plans	100%	Achieve 80% of the targets set out in risk-based supervision plans	100%	
Effective enforcement of compliance with legislation	Percentage compliance with timelines set out in SLC	90%	100%	100%	

OVER THE COUNTER MARKETS AND ISSUERS SUPERVISION DEPARTMENT

The Over the Counter (OTC) Markets and Issuers Supervision Department was operationalised on 6 December 2018 when its head of department was appointed. The new department has, in the short term, focused on the preparation of the registration process for OTC derivative providers. A significant challenge facing the applicants is the fact the OTC derivative market has not previously been regulated and the imminent registration process is both complex and new. The situation is exacerbated by certain extraneous factors which include pending finalisation of key legislation (e.g. margin requirements for non-centrally cleared OTC derivatives) as well as ambiguity in requirements stipulated in legislation. The department therefore focused on:

- creating clarity around registration requirements;
- providing guidance to applicants around certain ambiguities in the legislation e.g. reporting and margining;
- drafting and issuing an application form and document index that details the
- application content; and
- providing training to staff in order to ensure that they assess applications fairly and consistently.

The process followed to date ensures that the FSCA has taken the first step towards ensuring that OTC markets are effectively and efficiently regulated. Further, the criteria placed on applicants ensures that their actions will be comprehensively monitored thereby ensuring that the ultimate consumers are fairly treated.

Strategy to address areas of under-performance

The strategy to bring the percentage expenditure variance to 5% or below is to improve budgeting at the beginning of the financial year and to closely and actively monitor general expenses. This has already been done for 2019/20 budget and we have begun to closely and actively monitor general expenditure.

DIVISION: RETIREMENT FUND SUPERVISION

PURPOSE

Our mission is to – through our commitment, professionalism and teamwork – promote a safe and stable environment for members of retirement funds so that obligations of all stakeholders are met when due. The Retirement Fund Supervision Division of the FSCA is mandated by the Pension Funds Act, 1956 (Act No.24 of 1956) (PFA) to license and supervise retirement funds and beneficiary funds, although there are a few funds that are not subject to regulation and supervision in terms of the PFA as they were established in terms of specific provisions in other statutes and have elected not to be subject to the PFA. These funds include the Government Employees Pension Fund, Associated Institutions Pension Fund and the Transnet Pension Fund.

There are over 5 000 registered retirement funds (with only around 25% of retirement funds regularly receiving contributions and/or paying benefits). The combined value of their assets is over R4 trillion.

DEPARTMENTS

The division comprises four departments that have the following primary responsibilities:

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

Performance information by divisions [continued]

DEPARTMENT	RESPONSIBILITIES
2 **Prudential Supervision**	This department has established 4 teams and is responsible for: **Transfers and Terminations** This team is accountable for the oversight of retirement fund conversions, amalgamations, transfers and liquidations. **Investments and Fund Performance** This team is accountable for the oversight of the conduct and performance of funds in relation to their investment policies and processes. This will include a focus on monitoring funds' compliance with the investment allocation requirements of Regulation 28 to the Pension Funds Act, through analysis of quarterly Regulation 28 asset allocation reports, and cost and charging structures. **Financial Statements** This team is accountable for analysing and monitoring annual financial returns submitted by retirement funds, with a view to overseeing the ongoing financial soundness of retirement funds. **Special Projects** This team is accountable for various special projects relating to the prudential supervision of retirement funds.
3 **Reviews and Authorisations**	This department has established three (3) teams and is responsible for the following: • Licensed retirement funds • Approvals or rejection of rule amendments, revisions and consolidations to the rules of registered funds in terms of section 12 of the Pension Fund Act • Receipt and consideration of applications for the termination of participating employers and cancellation of the registration of funds that have ceased to exist as contemplated in section 27 of the Pension Fund Act • Consideration and approval of individual fund exemptions in terms of the PFA • Consideration and approval of extension of periods in terms of the Financial Sector Regulation Act • Implementation of section 8(5)(2) of the PFA with regards to Principal Officers • Implementation of Pension Funds Adjudicator determinations, where applicable

STRATEGIC OBJECTIVES

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

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

PERFORMANCE

SERVICE DELIVERY OBJECTIVES, INDICATORS AND OUTPUTS

Retirement Funds Supervision Division

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

Key departmental performance

Strategic objective	Performance indicators	Estimated 2017/18 performance	Target for 2018/19	Achievement 2018/19	YTD actual
Promote inclusion and transformation in the industries regulated by the FSCA	Number of reports on training provided to Black trustees on the "Trustee Tool Kit"	Promote the "Trustee Tool Kit" training amongst Black trustees and report quarterly on the training (4 reports)	Promote the "Trustee Tool Kit" training amongst Black trustees and report quarterly on the training (4 reports)	4 reports	4 reports
Conduct risk-based supervision to monitor and improve financial investment environment	**On-site visits** Percentage achievement of targets set out in risk-based supervision plan	Achieved 100% of the targets set out in risk-based supervision plans	Achieve 80% of the targets set out in risk-based supervision plans	80% achievement of targets	100% Achieved Target was met
	Off-site visits 1. Percentage achievement of analysis of Financial Statements	Achieved 85.6% target by analysing financial statements within set timeframes	Achieve 80% target by analysing financial statements within set timeframes	80% target achieved	95.45% (100% + 100% + 83.9% + 97.90%)/4 85.20% Target exceeded by 5.2% 100% Achieved
	2. Percentage achievement of analysis of Section 13B audit reports	Achieved 100% target by analysing financial statements within set timeframes	Achieved 80% target by analysing financial statements within set timeframes	80% target achieved	85.20% (80.1% +85.5% + 80.10% + 95.10%)/4 Target exceeded by 5.2%
Effective enforcement of compliance with legislation	Percentage compliance with timelines set out in each division's SLCs	Achieved 82.98% the turnaround times set in SLC	90% achievement of SLC timelines	82.5%	100% Achieved 82.58% (88.58% + 92.04% + 79.98% + 69.7%)/4 Target exceeded by 17.5%

Strategy to address areas of under-performance

- Large numbers of applications received to comply with default regulations, section 26 appointments, extensions from provisions of the default regulations and administrative changes. The division will address the capacity constraints in the new financial year.

Stakeholder engagements

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

Stakeholders	Level of Engagement	Method of engagement	Frequency	Purpose
IRBA task-group meeting – ED ISRS 4400 (Revised)	Workgroup Meeting	Meeting	As requested	Audit standard setting
IRBA task-group meeting – Regulation 28 schedule IB report	Workgroup Meeting	Meeting	As requested	Audit standard setting
Pension Lawyers Association (PLA)	Conference	Meeting	Annually	Industry developments
IRFA Legal & Technical committee	Workgroup	Meeting	Quarterly	Industry workgroup
IRFA audit committee	Workgroup	Meeting	Quarterly	Industry workgroup
SAICA Retirement Funds Project Group (RFPG)	Workgroup	Meeting	Quarterly	Industry workgroup
OECD/IOPS	Meeting and Conference	Meeting	Quarterly	International liaison
IRBA CFAS (Committee for auditing standards)	Technical advisor to FSCA representative Marius du Toit	Meeting	Quarterly	Audit standard setting
XBRL SA	Meeting	Meeting	Quarterly	Data harmonisation
IRFA Audit Committee workgroup	Meeting	Meeting	Quarterly	Industry workgroup
SAICA Retirement funds Project group	Meeting	Meeting	Quarterly	Industry workgroup on accounting guidelines

Unclaimed benefits

The aggregate value of unclaimed benefits reported by retirement funds regulated and supervised under the PFA as at 31 March 2019 is as follows:

	Number of funds	Aggregate amount of unclaimed benefits R'm	%	Number of beneficiaries for whom unclaimed benefits are held	%
Occupational retirement funds (both stand-alone and umbrella, underwritten and not)	1 220	34,698,387,036	81.0	3,962,724	83.1
Beneficiary funds	9	105,972,346	0.3	1,494	0.0
Unclaimed benefits funds	46	8,026,362,449	18.7	806,677	16.9
Total	1 275	42,830,721,831		4,770,895	

The Retirement Fund Supervision Division implemented an unclaimed retirement benefit search engine to enable members of the public to establish if there are possible unclaimed retirement fund benefits due to them from any fund to which they were previously a member or to beneficiaries of deceased members.

Unclaimed retirement benefit data has been obtained from the majority of retirement funds and benefits and details of enquirers are protected and cannot be accessed by any person. Furthermore, only selected information is provided to a retirement fund or administrator when a possible match is found and that only with the enquirer's consent.

The search engine facility is available to the general public at no or minimal cost. It has been designed to provide for the following ways for a person to establish whether there are possible unclaimed benefits due to them:

- **Online Searches**

  A person will be required to capture as much as possible of the required fields in order 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 informed as such and be provided with the contact details of the fund and/or administrator. A similar notification will be sent to the fund and/or administrator providing details of the enquirer.
- **E-mail enquiries for search on ID number only**

  A person can enter his/her ID number as the subject on an email to a dedicated email address and will receive an automated response indicating whether or not there is a possible match.
- **E-mail enquiries – general**

  A person can provide as much information as possible to determine if there is a possible match. This general email request will be processed manually and should a possible match be identified, the enquirer will be provided with and email response with the contact detail of the fund or administrator.
- **SMS enquiries – ID number**

  A person will be able to enter his/her ID number in an SMS to a dedicated number. The enquirer will received an automated response if there is a possible match, including the contact detail of the fund or administrator. The SMS facility is free, as all costs are carried by FSCA.
- **SMS enquiries – General request**

  A person may provide as much information as possible. The enquiry is processed manually and should a possible match be identified, the enquirer will receive an SMS reply with details of the fund or administrator. All costs are carried by the FSCA.
- **Fax submissions**

  A person may send a facsimile to a dedicated fax number. The enquiry will be processed manually and should a possible match be identified, the enquirer will receive a facsimile with details of the fund or administrator.
- **Telephone enquiries**

  Enquiries may be made by telephone. Telephone enquiries are processed manually and responses are sent through the medium as requested by the enquirer. The service is free of charge.
- **Walk-in clients**

  Any person may, during office hours, enquire at the FSCA to establish if there are any possible unclaimed retirement fund benefits due to him or her.
- **Written enquiries**

  Any person may send written correspondence to the FSCA to enquire whether there are any possible 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 as at June 2018.

LICENSING MATTERS

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

CONDUCT SUPERVISION MATTERS

The Conduct Supervision Department is taking a more active approach in assessing the conduct of trustees and administrators.

Acting under section 25 of the PFA and the retirement fund division's current risk-based supervisory plan, 166 on-site visits were conducted on funds and administrators. Significant supervisory issues have been 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 PFA 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 PFA and in specific section 13A of the PFA, and regulation 33;
- expenses and remuneration of board members are very high;
- funds are being managed in terms of unregistered rules; and
- failure by boards to timeously submit annual financial statements and valuation reports.

PRUDENTIAL SUPERVISION MATTERS

Clarification is being obtained in respect of liquidators that are no longer able to perform their duties as liquidators or have passed away. The intention is for the Act to 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.

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 from 2019 onwards.

LITIGATION AND COURT MATTERS

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

FINANCIAL SERVICES TRIBUNAL MATTERS

Settlement orders

SA Quantum Employee Benefits (Pty) Ltd lodged an application for reconsideration of the decision of the FSCA to impose a penalty. The FSCA and the administrator reached an agreement with regard to the settlement of the application.

Consent orders

The decision of the FSCA on 22 August 2018 of rejecting the application by Verso Umbrella Retirement Provident Fund (Clouds End Partnership) to further extend the statutory contemplated in section 14(8)(b)(iii) of the Pension Funds Act, 1956 was set aside. The matter was remitted to the FSCA in terms of the provisions of section 234(1) of the Financial Sector Regulation Act, 2017. Each party had to bear its own costs.

Enforceable undertakings

All enforceable undertakings given and accepted by the Retirement Fund Supervision Division are published on the FSCA website. Three enforceable undertakings were given and accepted by the Retirement Fund Supervision Division during the period 1 April 2018 to 31 March 2019.

The enforceable undertakings given and accepted relate to:

- avoiding conflicts of interest in terms of section 7C(2)(c) of the Pension Funds Act, 1956 (PFA);
- compliance with Directive PF No. 8;
- compliance with the default regulations;
- fit and proper requirements for a principal officer in terms of section 8(6)(c) of the PFA;
- compliance with section 2 of the Financial Institutions (Protection of Funds) Act, 2001; and
- compliance with the board of a fund's fiduciary in terms of section 7C(2)(f) of the PFA insofar as it relates to the duties of the board in terms of section 7D of the PFA.

POLICY AND REGULATION MATTERS

Guidance notes

Information Circulars

Various information circulars were issued by the division during the period under review:

- Information Circular No. 2 of 2018 Withdrawal of audit exemption: Annual financial statements prescribed in terms of section 15(1) of The Pension Funds Act, 1956.
- Information Circular No. 3 of 2018: Regulation 28: Increased Foreign Portfolio Investment Limits.
- Information Circular No. 4 of 2018: Urgent clarification on the effective date of Directive PF no.8: prohibition on the acceptance of gratification.
- Information Circular No. 1 of 2019: Cancellations in terms of section 27(1) of the PFA & Reinstatement of de registered funds.
- Information Circular No. 2 of 2019: Applications for exemption from the default regulations or extension to comply with the default regulations.

Restructuring for better service

With the advent of the Financial Sector Regulation Act of 2017 and the Financial Sector Conduct Authority, more focus will be placed on efficiently and effectively utilising resources to ensure that members of funds are protected.

Encourage few, well run funds

The industry is still made up of many (small) retirement funds. This contributes to higher costs and makes proactive supervision difficult, even if risk-based supervision is used. The consolidation of retirement funds into fewer and well-run funds, as part of government's retirement reforms, is encouraged to achieve enhanced economies of scale and supervision. This consolidation can also accommodate large stand-alone funds to continue if they can demonstrate efficiencies, good governance, conduct and value to members. Research will be undertaken to assess and recommend an efficient size for registering or running funds, with the aim of supporting consolidation.

An enhanced culture of compliance

Administration is the heart of retirement funds. Poor systems and inefficiencies in administration result in, for example, delayed payments or transfer of benefits, poor record keeping and at worst, maladministration. These challenges seem prevalent in small, self-administered funds but are also present in some (large) funds using large administrators. The current practice of allowing smaller funds to self-administer will be reviewed, including also large self-administered stand-alone funds which show signs of inefficiencies and repeated malpractices.

Higher penalties are also proposed to serve as deterrence and promote the right culture of full and timely compliance in the industry. To create awareness of delinquencies, the names of delinquent funds and administrators will be published. The current pattern and default of always requesting extensions for compliance and to respond to the division's queries, even though allowed by the Pension

Funds Act and in certain areas subject to the division's discretion, will be reviewed with the aim of ensuring that the division's enquiries are responded to without undue delays. This will enable faster remedial action.

Improving reporting

The timely submission of financial returns is important in supporting proactive and pre-emptive 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 and deteriorating financial positions. The division will be requesting all retirement funds to submit cash flow statements monthly (supported by bank statements) and for all annual financial returns to be audited, irrespective of the size of the fund. The current reporting system which provides for an eighteen (18) month lag or delay in submitting financial returns is also being reviewed with the aim of shortening the lag to three (3) or four (4) months after the end of the financial or calendar year. This will align with other reporting entities and provide up-to-date statistics.

Standards issued under Default Regulations and a focus on costs

The Default Regulations on retirement funds became effective on 1 September 2017 and seek to standardise retirement products and planning as far as possible, with the aim of providing good value retirement plans to members. These regulations support the TCF outcomes. Three standards to underpin the regulations, namely on performance fees, living annuities and smoothing or guaranteed products will be prepared for public consultation in 2018.

Costs remain under international and local scrutiny, especially in an era of global low returns. The impact of excessive costs, and costs which do not provide value, can significantly reduce investment returns. As part of implementing and enforcing the new Default Regulations, a new and regular focus will be placed on the analysis of fund costs and their investment performance.

Undesirable practices

The elevation of the governance circular PF Circular 130 into a standard remains one of the priorities of the division. There is plenty of anecdotal evidence which shows that trustees receive various (undesirable) incentives from service providers. These incentives have the potential to create major conflicts of interest and unduly influence the decisions of trustees. Secondly, even though the division is not averse to trustees being remunerated by a fund if its rules allow, there is a need to provide guidance on the nature and extent of such remuneration. Excessive remuneration paid by funds, including also to principal officers, can negatively affect fund returns and members' final benefits. It will, therefore, be necessary and in the interest of TCF and protecting funds to prohibit (certain) incentives from service providers to trustees.

Public sector funds supervision

The FSCA is committed to assisting government with the supervision of public sector retirement funds once a formal and final policy decision is taken to subject all non-supervised public sector retirement funds to the Pension Funds Act, and other relevant legislation. Amendments of existing legislation will be supported by the division to facilitate such supervision, and 'grandfathering' will be considered where appropriate. This approach will enable best practice and standards to be applied to and by these funds, resulting in enhanced protection of their members and the fiscus. The industry and wider public will be consulted on all mentioned proposals before they are finalised and implemented.

SPECIAL SUPERVISORY MATTERS

To address some specific supervisory challenges, the department:

- developed new processes for the enforcement of compliance with the provisions of section 13A of the Act (non-payment or late payment of contributions and failure to timeously submit contribution schedules to retirement funds); and
- is developing a supervisory process that will be more intrusive and based on outcomes which result in the ultimate benefit for members. This process identifies high impact pension funds for a desktop review whereby fund information is requested and analysed. Where serious concerns are identified via the desktop review analysis, these are addressed through a focused on-site visit to deal with the identified issues. This process will result in the effective utilisation of resources as well as shorter and more focused visits, as well as costs saving for both the division and the fund concerned.

Performance information by divisions [continued]

Supervision

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

Activity	Number
Registrations of new funds	26
Umbrella schemes:	
– Recording new participating employers and registration of revised special rules	7 139
– Recording of termination of participation of employers	1 365
On-site visits	117
Approving rule amendments, revised or consolidated rules	1 097
Approving schemes to transfer assets and/or liabilities between funds and other entities	3 297
Supervising fund liquidation and cancellation of registration	15
Approvals under section 13B to administrators to conduct retirement fund administration business	4
Withdrawals of section 13B approvals	4
Complaints	149

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

INTERNATIONAL RELATIONS

The division continues to fulfil its role in the activities of the International Organisation of Pension Supervisors (IOPS) and currently represents the FSCA on the Executive Committee of IOPS, OECD working party on private pensions and the SADC Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA). During the year, we hosted several delegations of regulators, and representatives of governments and parliaments from other African countries.

RETIREMENT FUNDS INDUSTRY STATISTICAL OVERVIEW

As at 31 March 2019, there were 5 140 (31 March 2018: 5 118) registered retirement funds in South Africa of which 1 528 (31 March 2018: 1 647) funds are active (a fund with members for whom it receives contributions and/or pays benefits).

Regulated entities supervised at 31 March 2019

Retirement funds	2019
Privately administered (with assets other than policies of insurance)	2 961
Wholly underwritten (only assets being policies of insurance)	2 179
Subtotal	**5 140**
Pension fund administrators	172
Total	**5 312**

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

The following statistics are the latest available for retirement funds:

RETIREMENT FUNDS: FINANCIAL YEAR ENDING 31 DECEMBER 2017						
Financial year ending	**2015**	**Change %**	**2016**	**Change %**	**2017**	**Change %**
Number of funds	5 143	(0.1)	5 144	0.0	5 158	0.3
Membership ('000)	16 439	3.1	16 644	1.2	16 946	1.8
Contributions (R'm)	212 908	8.9	227 024	6.6	238 520	5.1
Benefits paid (R'm)	289 968	22.5	325 918	13.57	314 603	(3.5)
Assets (R'm)	4 035 825	9.7	4 146 048	2.7	4 262 395	2.8

Retirement funds: number of funds by administrator at 31 March 2019

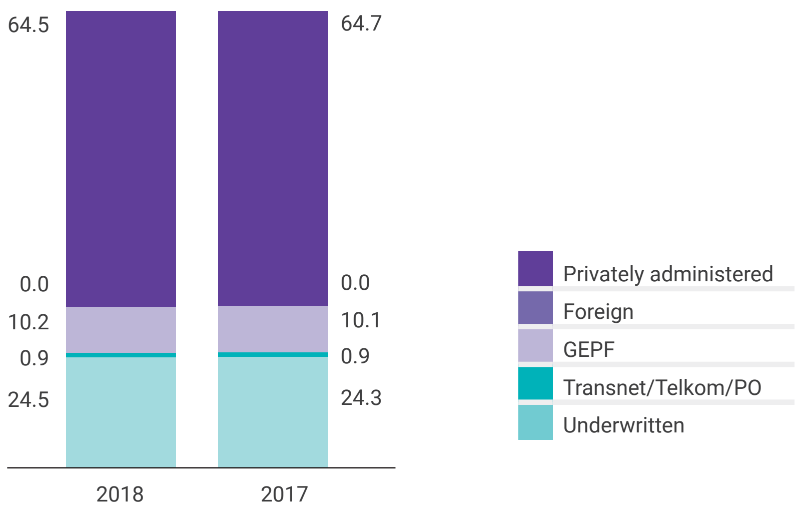
Administrator	Active funds*	Other funds	Total funds
Liberty Group	114	993	1 107
MMI Group	58	742	800
Alexander Forbes Financial Services	269	477	746
Sanlam Life Insurance	114	222	336
Absa Consultants & Actuaries	122	168	290
Old Mutual Life Assurance Company (South Africa)	23	164	187
NBC Fund Administration Services	79	57	136
NMG Consultants and Actuaries Administrators	59	59	118
Own administrator	37	62	99
All other administrators	653	668	1 321
Total	1 528	3 612	5 140

* *Includes funds that have informed the FSCA that 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 2017 stood at 16 945 651, of whom 11 245 322 were active members and 5 700 329 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 (%)

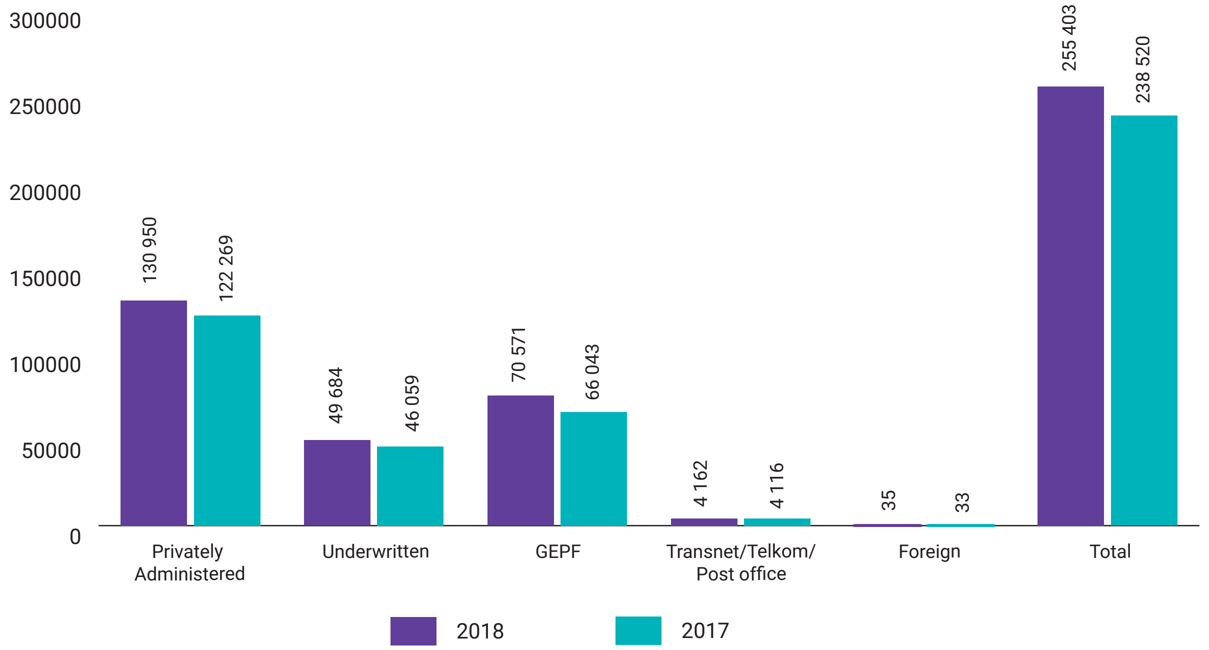


Performance information by divisions [continued]

Contributions

Total contributions received by retirement funds in South Africa increased by 5.06% from R227.0 billion in 2017 to R238.5 billion in 2016.

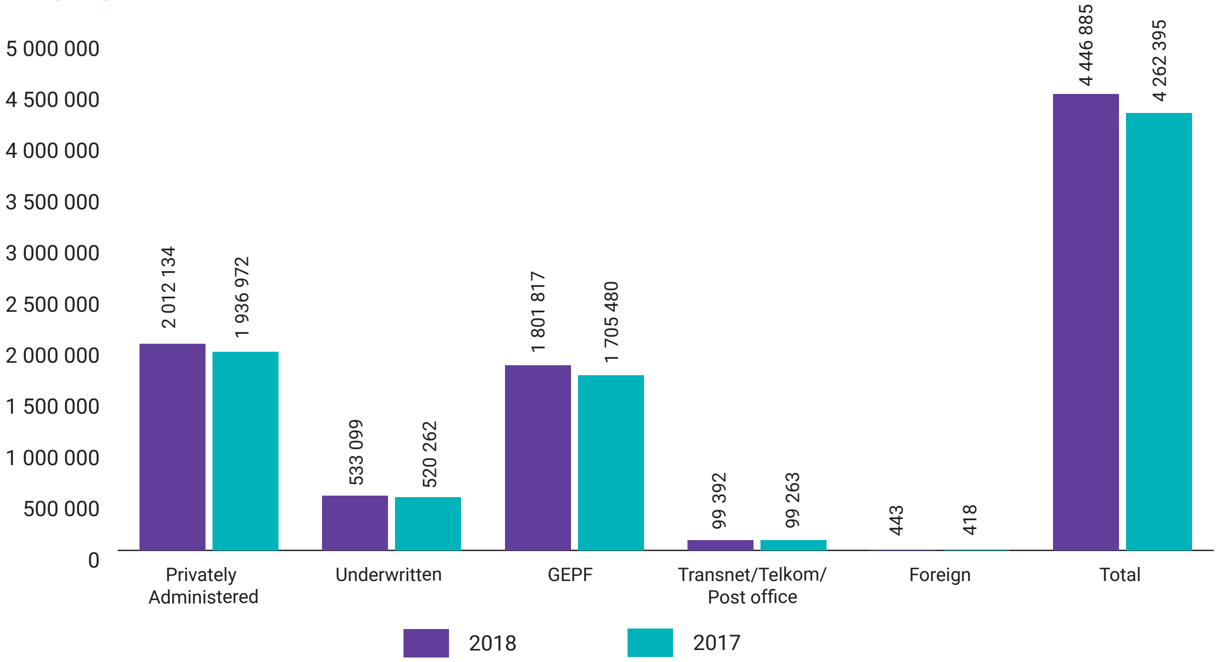
CONTRIBUTIONS (R million)



Assets

Retirement fund industry assets increased by 2.8%, from R4 146 billion in 2016 to R4 262 billion in 2017. The net assets of privately administered funds increased by 2.5% from R1 889 billion in 2016 to R1 937 billion in 2017.

ASSETS (R'm)



DIVISION: INVESTIGATIONS AND ENFORCEMENT

PURPOSE

This division is be accountable for carrying out investigations related to both market abuse matters and other potential contraventions of financial sector laws, as provided for in the FSR Act. In addition, the division carries out preliminary assessments in relation to other complaints or other matters referred to it in accordance with agreed protocols in respect of the delineation of functions between the Investigations and Enforcement (I&E) Division and the Supervision Divisions.

The division is accountable for the implementation of agreed enforcement actions in accordance with such protocols, including but not limited to the imposition of administrative penalties. The division also supports the FSCA (in particular the supervision divisions) in identifying priority enforcement initiatives areas and ensuring that it appropriately prioritises such enforcement initiatives.

STRATEGIC OBJECTIVES

- Effective enforcement of compliance with legislation.

DEPARTMENTS

The Investigations and Enforcement Division was created by combining three of the previous FSB departments (FAIS Compliance, Inspectorate and Market Abuse Investigations) and creating an additional department (Complex Enforcement). The division consists of four departments:

DEPARTMENT	RESPONSIBILITIES
1 **Enforcement Assessments**	Accountable for carrying out initial assessment of complaints or other matters that may require enforcement related regulatory action, as referred to the Investigations and Enforcement Division in accordance with the RSC approved protocol in respect of the delineation of functions between Investigations and Enforcement Division and the supervision divisions.
2 **Investigations Department**	The Investigations Department is responsible for the investigation of serious cases, where there is an element of dishonesty that is likely to lead to substantial regulatory action. These investigations are performed on a forensic level. Investigation reports are utilised for all regulatory actions, i.e. administrative penalties, suspensions and revocations, debarments, directives and enforceable undertakings. These reports, in some instances are also handed over to the prosecuting authorities to serve as the basis for a criminal prosecution.
3 **Market Abuse**	The Market Abuse team is accountable for combating market abuse, particularly practices prohibited by the Financial Markets Act, 2012 (Act No.19 of 2012): insider trading, prohibited trading practices (market manipulation) and publishing false or misleading statements on listed companies.
4 **Enforcement Complex Cases**	A department has a team of senior enforcement and investigation experts that is tasked to deal with and / or provide support to the other departments in the division, or other FSCA areas, in relation to complex enforcement cases.

PERFORMANCE

SERVICE DELIVERY OBJECTIVES, INDICATORS AND OUTPUTS

Enforcement assessments department

To attain its objective as stated above, the Enforcement Assessments department assesses complaints and conducts preliminary investigations into regulated persons which could lead to regulatory action and debarments (registered or unregistered). In that regard, the department's responsibilities also include the following:

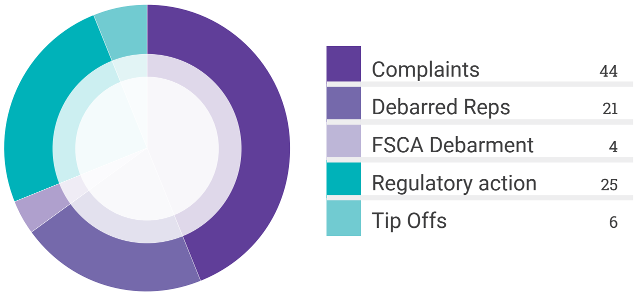
- Regulatory action (suspensions and withdrawals of licenses or authorisation.
- Debarments of any person.
- Keeping a register of debarred representatives.
- Tip offs.

The table below depicts an overview of the departmental activities as well as the level of activity experienced during the period under review. Matters do not always lead to regulatory action or debarments. Most of the persons rectify the situation after being issued with the notices of intention to suspend and thus avoiding a suspension.

Activity	Frequency
Complaints	1 915
Tip off	240
Debarred reps	885
Debarments by FSCA	187
Regulatory action	1 095
Total	4 322

The department's cases were mainly in respect of complaints, tip offs, regulatory action and updating of central register of debarred representatives. In the latter, however, the departmental role was merely the updating of the central register of representatives. The percentage spread of departmental activities is reflected in the chart hereunder.

Enforcement Assessment Activities



Complaints

An important aspect of the department's work is the screening and handling of complaints and enquiries. These are received from a variety of sources including the Office of the Ombud for Financial Services Providers. The function of handling complaint is very important because it alerts the FSCA of areas of public concern and to identify issues in the financial services industry that may require amendments to the specific sector laws. The department received 2 155 complaints which include 240 tip offs, and closed 2 063 complaint cases.

REGULATORY ACTION

Suspensions and withdrawals

The FSCA is empowered to suspend a licence if the licensee has contravened a financial sector law in a material manner, and or fees in respect of the licensee, including interest are unpaid or have been unpaid for at least 30 days. During the period under consideration the authority suspended 461 licensees issued in terms of section 8 of the FAIS Act. Six licences were withdrawn.

Debarment of representatives

Financial services providers are required in terms of section 14 of the FAIS Act to debar representatives that no longer meet the fit and proper requirements and to inform the authority within 15 days. The procedure to be followed in prescribed in section 14 of the FAIS Act, the role of the authority is to update the register of debarred representatives. During the period under consideration, the authority received 885 notification of debarment and placed 1 300 representatives on the central register of debarred representatives, the latter include notifications carried over from the prior period.

Debarment by the FSCA

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

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

During the period under consideration the department received 187 debarment cases and debarred 142 persons.

INVESTIGATIONS DEPARTMENT

During the period under review, the Investigations Department finalised 18 cases. In some of these cases, material misconduct was uncovered and the division worked closely with the prosecuting authorities. The department also reacted swiftly where there were assets under threat to assist the Financial Intelligence Centre to freeze bank accounts, and to assist the Asset Forfeiture Unit to obtain preservation and forfeiture orders.

In many instances the investigative work led to the FSCA publishing media releases to warn the public of misconduct by financial advisors and unregistered operators. The investigation reports led to administrative penalties being levied. These amounted to R31 440 000 being levied.

MARKET ABUSE DEPARTMENT

During the year, the department registered 14 new cases for investigation which includes 18 contraventions (7 for insider trading, 8 for market manipulation, 1 for false reporting and 2 assistance to foreign regulators). The department held four RAF/DMA meetings; considered 16 investigations all of which were closed; and also completed 14 preliminary investigations.

The department referred Harmony (Harmony Gold Mining Limited) to the Enforcement Committee (EC) of the Financial Services Board, now the Financial Sector Conduct Authority. On 5 October 2018, the EC imposed an administrative penalty of R30 million on Harmony for contravening the provisions of the Security Services Act, 2004 (Act No. 36 of 2004) regarding false, misleading or deceptive statements, promises and forecasts.

Key departmental performance

Strategic objective	Performance indicators	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Reason for deviation
Effective enforcement of compliance with legislation	Percentage achievement of commitment timelines in the SLC	97.9%	90% achievement of commitment timelines in the SLC	94.5%	N/A
	Number of meetings attended	4 DMA committee meetings attended	4 DMA committee meetings attended	4 DMA committee meetings attended	N/A

Strategy to address areas of under-performance

The division has several vacancies that need to be filled, in line with the new approach and structure. The division intends to go on a recruitment drive to deal with this issue.

DIVISION: SPECIALIST SUPPORT

PURPOSE

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

STRATEGIC OBJECTIVES

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

DEPARTMENTS

The division comprises five departments. During the reporting period, the Actuarial Services Department was fully functional, it being inherited from the FSB, although its mandate has widened. The other departments are in the process of being established and recruitment of suitably qualified staff is under way.

	DEPARTMENT	RESPONSIBILITIES
1	**Actuarial Services**	The department analyses financial reports tabled with the Financial Sector Conduct Authority to check on the financial soundness of pension funds. Where applicable, the schemes for restoration of financial soundness are considered, to ascertain whether these are likely to achieve their objective within a reasonable period. In addition, actuarial support is provided to the various other divisions, as and when required.
2	**Data Analysis**	The department provides support to other FSCA Divisions, in particular the supervision divisions, in analysing data submitted through market conduct statutory returns or other ad hoc data sets, in order to monitor market conduct risk indicators. The department will also assist the supervision divisions in the design of statutory returns or other information requests, to ensure that they will yield meaningful data, as well as the design and preparation of public reports summarising industry statistics and benchmarking key conduct indicators. The Investigations & Enforcement and Regulatory Policy Divisions are also likely to use this department to assist them in specific investigatory or research work requiring data analysis skills.
3	**Business Model and Product Analysis**	To provide support to other FSCA Divisions, notably the Conduct of Business: Supervision Division and the Licensing Division, in analysing business models and products of specific financial institutions as well as to support thematic supervisory reviews.

DEPARTMENT	RESPONSIBILITIES
4 **Disclosure, Advertising and Market Analysis**	To provide support to the other FSCA divisions, notably the COB Supervision Division, in reviewing the disclosure, advertising and marketing strategies of specific financial institutions as well as to support thematic reviews in this area. This department is to be tasked with ongoing scanning of media, and ongoing monitoring of new advertising and marketing approaches. It would compare the marketing material and financial products to determine whether unreasonable expectations are being created, and to assess the relevant aspects of treating customers fairly.
5 **Supervisory Frameworks**	To provide support to supervision functions through ongoing review and development of the FSCA's supervisory framework – comprising approaches to supervision and supervision methodologies. The department will also be required to carry out ongoing research and monitoring of local and international supervisory standards and approaches. This department will also be accountable for the current development work on the FAIS competency framework and the "Trustee Toolkit" for retirement fund trustees, both of which are expected to continue evolving, as well as future competency frameworks that may be required as the CoFI Bill develops.

PERFORMANCE

SERVICE DELIVERY OBJECTIVES, INDICATORS AND OUTPUTS

Actuarial services department

With respect to the Actuarial Services Department, the objectives for the year were drafted by considering the strengths that made the team proud during the previous year and focusing on the weaknesses identified, to improve on these.

The key challenge in the delivery environment remained that the actuarial services team is a relatively junior team with many new employees and vacancies. This could result in a lack of consistency and continuity, as well as delays in the consideration of submissions.

Key departmental performance

Strategic objective	Performance indicators	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Reason for deviation
Effective enforcement of compliance with legislation	Percentage compliance with timelines set out in the division's service level commitments	85%	80% achievement of the turnaround times set in the SLC	78%	There is a backlog of historical valuation report cases being considered, given the past understaffing. The SLCs are not currently being met and are not expected to be met in the near future, as the backlog must first be resolved. There is a plan for the 2019/20 year to achieve this

Strategy to address areas of under-performance

- Focus on the basics and the long overdue cases.
- Publish further notices to improve processes.
- Impose penalties for late submission to improve industry compliance with timelines.
- Address understaffing of the department.

DIVISION: CORPORATE CENTRE

PURPOSE

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

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

STRATEGIC OBJECTIVES

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

DEPARTMENTS

The division consists of three departments as outlined below:

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

PERFORMANCE

COMMUNICATION AND LANGUAGE SERVICES DEPARTMENT

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

It has been a key focus of the department to ensure that stakeholders stay abreast of all regulatory developments during the organisation's transition from FSB to FSCA. The department through its language services function is also responsible for implementation of the FSCA Language Policy. This includes monitoring the use of all official languages by the FSCA in the authority's interaction with employees, the industry, and members of the public.

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

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

Service delivery year to date/objectives

- During the review period, the department responded to 172 media queries, and issued a total of 78 media releases related to the work of the FSCA. There were also three media roundtable discussions held; these aimed to give members of the media opportunity to interact with the authority regarding any regulatory developments.
- The department created social media platforms for the FSCA to interact more directly with consumers and industry players.
- A consumer-focused radio campaign was launched to create awareness about the new authority.
- A total of 6 858 queries were received from the client management system (emails, faxes, walk ins) during the period, recording a decrease of 1 360 queries when compared to 8 218 in the previous year. Queries responded to were mostly FAIS related (4 227), followed by queries related to retirement funds (1 696).
- Annual calls received via our call centre reached a total of 42 574 in March 2019. This shows a steady increase when compared to previous years (41 968 in March 2018, and 38 318 in March 2017).
- Translation, interpreting, and editing services were provided to the organisation. This included the translation of Credit Rating Services Annual Report, consumer education material, and notices on the Insurance Regulatory Framework.
- The FSCA Multilingual Financial Terminology Project which provides definitions of financial terms in the various languages was finalised during the period under review.

SECURITY AND FACILITIES BUSINESS UNIT

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

The unit was very actively involved in a number of projects, including the implementation of new FM system, and the ongoing space management project to redesign office space for the newly established Authority.

Performance information by divisions [continued]

OCCUPATIONAL HEALTH AND SAFETY (OHS)

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

The FSCA annually attend OHS training programmes. Recent training includes fire marshal and evacuation marshal training for appointed OHS representatives. Three evacuation drills were conducted in the year.

The FSCA is committed to complying with health and safety standards. On a quarterly and annual basis, our OHS practices are audited by an external auditor.

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

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

Key departmental performance

Strategic objective	Performance indicators	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Reason for deviation
Implement an effective communication, brand, reputation and stakeholder management strategy during the transition to the FSCA	Number of meetings to monitor progress with achievement of targets in stakeholder outreach plans.	4 meetings	4 meetings with Heads of Departments to monitor progress with achievement of targets in their stakeholder outreach plans.	4 meetings	—
	Number of media engagements	32 interviews 4 media round table discussions 12 reports 1 media lunch	10 Interviews in TV/radio stations 4 media round table discussions 4 reports on news relating to FSCA 1 media lunch 1 annual media survey	2 TV/radio stations — — 1 media lunch —-	Responded to invitations received for 2 additional interviews —- Planned for 4th quarter. Journalists were not available in this period — —
	Number and achievement of internal communications, industry and public communication targets	4 bulletins 4 Buzz 4 exhibitions 0 Book	4 FSCA bulletins 4 Buzz from the Board (Our Voice) 2 FSCA exhibitions 1 FSCA commemorative “Coffee Table Book”	2 bulletins 1 Our Voice — 1 “Coffee Table Book	3rd copy published on 7 May 2019. 4th copy scheduled for 16 May 2019 Published on 17 April 2019 Budget for the book was not approved

DIVISION: CHIEF INFORMATION OFFICE

PURPOSE

The Chief Information Office (CIO) division is responsible for providing ICT solutions that enable the FSCA to achieve its mandate efficiently and effectively.

This division provides support on ICT requirements and operations of all areas of the FSCA, including driving the FSCA's Data Driven Digital Strategy and refreshed operating model.

STRATEGIC OBJECTIVE

- Effective and efficient ICT systems, processes and procedures.

DEPARTMENTS

The ICT strategy over the last couple of years has been focusing on elevating the applications architecture and business process automation for efficient business operations, delivering excellent customer service to external stakeholders through highly available and reliable systems and endeavouring to reduce business risk by providing automated ICT related business processes that eliminate risks attached to manual operations.

The division's operating model has been redesigned in line with FSCA's new regulatory mandate and will inform new ways of working and it comprises the following key strategic functions:

	DEPARTMENT	RESPONSIBILITIES
1	**Office of the CIO**	The Office of the CIO is responsible for setting the strategy of the division and oversees its implementation.
2	**Enterprise Information Governance Office**	This office is responsible for enterprise wide governance, management and exploitation of data and information as an asset. The office oversees data related functions such as data/information management, data/information privacy (POPI), data security and enterprise content management.
3	**ICT Governance, Business Relations and Risk**	This department is responsible for implementing the corporate governance of ICT, ICT risk management and compliance for the FSCA as per the Department of Public Service and Administration (DPSA) and principle 12 of King IV.
4	**ICT Security**	This department is responsible for protecting FSCA's ICT systems. This includes the network, infrastructure, employees' workstations and all other areas of ICT which forms the core of protecting the organisation's intellectual property such as regulated entities' data, customer data, financial information, and other critical information.
5	**Project Management Office (PMO)**	The PMO is responsible for project delivery mechanisms by ensuring that all business changes in an organisation are managed in a controlled manner.
6	**ICT Sourcing and Asset Management**	This department is responsible for setting standards, frameworks and working with cross functional teams to manage contracts, SLA's, vendors and assets are imperative.
7	**ICT Operations, Infrastructure and Applications**	This department is responsible to implement business solutions; manage business application including the ICT infrastructure and all we are responsible for effective and efficient ICT service delivery and our positive and negative actions have a direct impact on the organisational performance.

PERFORMANCE

SERVICE DELIVERY OBJECTIVES, INDICATORS AND OUTPUTS

For the last financial year, the ICT delivery was anchored on the FSCA transition related initiatives as well as the ICT infrastructure refresh to improve the overall scalability of system in support of the FSCA changing landscape. In addition to the performance targets for the department included in the FSCA annual performance plan and as reported in the table below other highlights during the period under review included:

- FSCA preparations, which included the business process reengineering programme that sought to align the organisation with the future business architecture of the FSCA given the transition from FSB.
- Risk mitigation – enhanced ICT security controls to secure the FSCA's confidential information assets through maintenance and lifecycle management of existing controls.
- Customer service and stakeholder engagement platforms by redesigning the FSCA's website and intranet.

Key departmental performance

Strategic objective	Performance indicators	Achievement 2017/18	Target for 2018/19	Achievement 2018/19	Reason for deviation
Effective and efficient ICT systems, processes and procedures	Implementation of projects as set out in the ICT project list (including release calendar)	Achieved 93.7% implementation	90% implementation of all approved projects with business sign-off	91.7% achieved	Hard work and dedication
	Achievement of SLC as communicated and expected by the FSCA user	Achieved 95.5% of SLC met	90% of ICT SLC met	96% SLC achieved	Hard work and dedication

Performance of the Office of the General Counsel (OGC)

PURPOSE

The Office of General Counsel (OGC) provides a comprehensive legal services support to the FSCA – in effect acting as an "in-house legal counsel" in respect of advice on all aspects of the regulatory legal framework and other laws that may be applicable from time to time.

SERVICE DELIVERY OBJECTIVES

(i) To minimise the exposure of the FSCA to external and internal legal risk.

(ii) To provide cost-effective and efficient legal and litigation support services at all relevant times.

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

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

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

The OGC executes on its objectives via 5 (five) specialised units, that is:

The Litigation Unit – which manages high court litigation and representation of the FSCA in applications before the Tribunal; **the Legislative Review Unit** – which supports the achievement of the objective in paragraph (iii) above; **the Corporate Legal Services Unit** – the advisory unit to the FSCA as a corporate body; **the Specialist AML/ CFT Advisory Unit** – which supports the achievement of objective set out in paragraph (v) above; and the **Tribunal Secretariat & Liaison unit**, which manages processes for the placing of applications before the Tribunal and provides Secretariat support to the Tribunal as a transitional requirement contained in the Ministerial regulations of 29 March 2018 made in terms of the FSR Act.

SERVICE DELIVERY OUTPUTS

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

Providing ongoing legal oversight (in support to the Commissioner's office), in the final curatorship of various institutions including Fidentia, Cadac Pension Fund, Corporate Money Managers, Rockland and the provisional curatorship of Bosele National Provident Fund. Similar oversight is provided to institutions under statutory management.

In the area of civil litigation, the FSCA is defending a claim by the Pepcor Retirement Fund amounting to approximately R70 million for losses allegedly suffered as a result of the regulator's alleged failure in its duties with regard to investments made by the Fund with the Trilinear Group of Companies. A special trial date has been allocated from 7 October to 8 November 2019 for the matter to be heard.

Two review applications by the Southern Sun Group Retirement Fund and the Free State Municipal Pension Fund concerning the validity of Regulation 35(4) of the Pension Funds regulations were dismissed by the High court during the period under review. Both Funds have appealed the rulings to the Supreme Court of Appeal. A third application by the Hortors Pension Fund concerning the same regulation will be heard during August 2019.

The review application launched by 4 Africa Exchange (Pty) Ltd (4AX) against the award of an exchange licence to another exchange, ZAR X and to also set aside a decision of the Appeal Board of the erstwhile FSB has been set down for hearing from 19 to 21 August 2019.

Fedgroup Participation Bond Managers (Fedgroup)/ FSCA – During October 2018 Fedgroup launched an application to review and set aside Rule 3.2 of the Rules for the Administration of Collective Investment Schemes in Participation Bonds by declaring it to be inconsistent with the Constitution, unlawful and invalid. The FSCA is opposing the application.

The Review applications include the setting aside of the certificate relating to the Sable Industries Pension Fund constituting the last of the certificates issued in terms of section 14 of the Pension Funds Act, which were issued in the Lifecare Group Holdings Pension Fund. This was finalised with the settlement of the appeal against the order setting aside the said last certificate during March 2019.

Other applications include RT Hunter/FSCA and others, an application for a further investigation of the cancellations project, which culminated in the Constitutional court where judgment dismissing the appeal was handed down by that court during September 2018.

The Financial Services Tribunal

The Tribunal replaces the FSB Appeal Board and it hears applications for the reconsideration of decisions by decision-makers as defined in section 218 of the FSR Act. During the period under review, a total of two hundred and eighty-six (286) applications for reconsideration of decisions were lodged with the Tribunal. Thirty-three (33) decisions and six (6) consent orders were published on the FSCA website. One (1) decision was taken on review to the High Court.

Legislation

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

Financial Sector Regulation Act, 2017

On 28 September 2018 and 14 March 2019, the National Treasury (NT) published amendments to 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). The notices amended certain effective dates and brought into operation certain provisions of the Act. Amendments to the Financial Sector Regulations were published on 29 March 2019.

Performance information by divisions [continued]

Conduct of Financial Institutions Bill (CoFI)

In the second phase of Twin Peaks, the existing sectoral legislation will be gradually amended or replaced with laws that more appropriately align with the Twin Peaks framework. A comprehensive market conduct framework will be legislated, to ensure a comprehensive, consistent and complete approach to governing the conduct of financial institutions across the financial sector. The NT published the draft Conduct of Financial Institutions (CoFI) Bill 2018, on 11 December 2018, together with an explanatory policy paper that sets out the policy rationale for the CoFI Bill. Comments were invited until 1 April 2019.

Subordinate legislation

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

PART C
GOVERNANCE

GOVERNANCE

TRANSITIONAL MANAGEMENT COMMITTEE (TMC)

From right to left

Abel Sithole (*Commissioner*), **Caroline Da Silva** (*Divisional Executive: Regulatory Policy*), **Olano Makhubela** (*Divisional Executive: Retirement Fund Supervision*), **Phokeng Mogase** (*Chief Information Officer*), **Dube Tshidi** (*Executive Head*), **Paul Kekana** (*Chief Financial Officer*)

Not in photograph

Jurgen Boyd (*Divisional Executive: Market Integrity Supervision*), **Katherine Gibson** (*Member*), **Marius Du Toit** (*Divisional Executive: Specialist Support*)

OPERATIONS EXECUTIVE COMMITTEE (OPS EXCO)

Dube Tshidi
Executive Head

Caroline Da Silva
Divisional Executive:
Regulatory Policy

Phokeng Mogase
Chief Information Officer

Brandon Topham
Divisional Executive:
Investigations and Enforcement

Paul Kekana
Chief Financial Officer

Jabulane Hlalethoa
Divisional Executive:
Corporate Centre

Olano Makhubela
Divisional Executive:
Retirement Fund Supervision

Felicity Mabaso
Divisional Executive:
Licensing and Business Centre

Jurgen Boyd
Divisional Executive:
Market Integrity
Supervision

Marius Du Toit
Divisional Executive:
Specialist Support

GOVERNANCE OF THE FSCA

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

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

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

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

RISK MANAGEMENT

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

During the reporting period, the risk management function focused on threats arising from the transition of the business operations from the FSB to the FSCA. The risks identified were thoroughly assessed to ensure that they received the required level of attention within the entity. These risks together with the strategic risks were also presented to the Risk Committee in their quarterly meetings, for their scrutiny.

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

Key business objective	Risk	Consequence(s) of risk	Likelihood	Risk mitigation by management
Regulatory framework in line with international standards and best practices.	Data integrity. Inaccurate/ unreliable management information.	• Uninformed regulator. • Incorrect rulings. • Avoidable legal challenges. • Damage to reputation.	Likely	• Implementing new Integrated Regulatory System. • Adopting sound policies and procedures. • Regular management meetings. • Scheduled ICT steering committee meetings. • Sound internal controls. • Malware protection controls and firewalls.
Regulatory framework in line with international standards and best practices.	Recruiting and retaining skilled staff. Failure to attract and retain employees with the right skills.	• Inability to deliver on mandate. • Ineffective regulator. • Ineffective implementation of legislative mandate. • Inability to keep up with industry innovation.	Likely	• Sound HR policies. • Talent management. • Training and bursaries for scarce skills. • Improved recruitment strategies.
Proactive stakeholder management	Integrity and credibility of the FSCA. Loss of confidence by stakeholders.	• 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 visibility of the FSCA. • Formal and informal interaction with industry. • Proactive engagement with the media. • Fraud and ethics confidential hot line. • Use of technology to build brand.

FRAUD AND CORRUPTION

The FSCA's fraud and corruption prevention strategy includes its Fraud and Corruption Prevention Policy, Fraud and Corruption Prevention Plan, Fraud and Corruption Response Plan and Whistle Blowing Policy. An awareness campaign which runs through the year ensure that staff is aware of their responsibility to report fraud and corruption. No case of fraud or corruption was reported in respect of any staff member of the FSCA during the year under review.

The whistle blowing hotline, managed by an independent service provider, attracted on average 48 tip-offs a month. A register of tip-offs is maintained to ensure that all tip-offs received that fall within the mandate of the FSCA are followed up. Tip-offs that fall within the mandate of other regulators are passed on to them and to the South African Police where relevant.

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

CONFLICT OF INTEREST

Our human resources policies are designed to prohibit employees and their immediate family members from doing business with the FSCA and any entity regulated by the FSCA or of being a director or member of any company or closed corporation doing business with the FSCA.

Staff members are required to make annual disclosures electronically of their financial interests and these disclosures are monitored by the Executive Committee and the Audit Committee. Regular email follow ups with staff assist in raising awareness of possible conflicts of interests. Where such interests are identified, employees are engaged, and where appropriate, standard disciplinary steps are taken in terms of the relevant FSCA policies.

CODE OF CONDUCT AND ETHICS

The FSCA's code of conduct and ethics establishes norms and standards related to integrity, ethics, professional conduct and anti-corruption. It acts as a guideline to employees with regard to their conduct from an ethical point of view, both in their individual conduct and in their relationship with others. It helps to uphold organisation integrity as well as build a values-driven work place.
It spells out the spirit in which employees should perform their duties, what should be done to avoid conflicts of interest, and what is expected of them in terms of their personal conduct. Compliance with the code of conduct and ethics enhances professionalism and helps ensure confidence in the FSCA. The FSCA builds a culture that encourages employees to think and behave ethically, by providing training and awareness through induction sessions.

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

SOCIAL RESPONSIBILITY AND SUSTAINABILITY

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

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

ENVIRONMENT

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

WATER CONSUMPTION

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

ELECTRICITY CONSUMPTION

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

RECYCLING

Programmes include, among others, the shredding programme and recycling programme. The recycling programme includes paper, magazines, newspapers, cardboard, printer cartridges, plastic, tin cans and glass bottles.

INTERNAL AUDIT AND AUDIT COMMITTEE

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

Internal audit implemented its annual risk-based audit plan as part of its three-year rolling plan, after consultation with management and approval by the FSCA Audit Committee. No major issue was reported based on the work performed by year-end.

The Audit Committee is established in terms of section 38(1)(a)(ii) of the PFMA and Treasury Regulations. The committee performs an oversight role and is accountable to the Executive Authority and the TMC to properly consider and evaluate all matters set out in its terms of reference, to form an opinion on those matters within the ambit of its terms of reference and to communicate these in its annual report in accordance with the Treasury Regulations.

The Audit Committee assist the Executive Authority in fulfilling its oversight responsibilities relating to the safeguarding of assets, the operation of adequate financial system and control processes, and the preparation of Annual Financial Statements and related reporting in compliance with all applicable legal and regulatory requirements and accounting standards.

AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2019.

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

MEMBERSHIP AND ATTENDANCE

The committee consists of independent members who collectively have sufficient qualifications and experience in financial matters to fulfil their duties. The executive 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. The committee met six times during the year.

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

Name of member attended	Qualifications	Appointment date	Number of meetings
Ms J Mogadime (Chairperson)	BA; MBA; DIP MARKETING (CIM)	1 April 2018	6/6
Ms D Msomi	BA (Hons); PMD; MBA; postgraduate (corporate governance); postgraduate (advertising and marketing)	1 April 2018	6/6
Prof P Sutherland	BCom LLB (Cum Laude); PhD	1 April 2018	6/6
Ms H Wilton	BCom; MBA	1 April 2018	4/6
Mr H Ratshefola (Chairman of the Risk Committee)	BCom (Information Systems); IBM Executive Leadership	18 September 2018	2/3

AUDIT COMMITTEE RESPONSIBILITIES

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

- The safeguarding of assets, the operations of adequate systems of internal control and risk management, reporting processes and the preparation and accurate reporting of financial statements in compliance with the applicable legal requirements and accounting standards.
- Overseeing the activities of, and ensuring coordination between, the internal and external auditors.
- Overseeing financial risks and monitoring controls designed to minimise these risks.
- Reviewing the entity's annual report, including the annual financial statements and the annual performance information.

- Annual review of the committees work in line with the charter and its effectiveness and making recommendations to the Accounting Officer to ensure the committee's continuing effectiveness.

RISK MANAGEMENT

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

THE EFFECTIVENESS OF INTERNAL CONTROLS

The audit committee has reviewed:

- The 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; and
- Noted management's actions in addressing identified control weakness.

Assurance provider	Total findings	Resolved findings	Unresolved findings
Internal audit	6	4	2
External audit	4	4	0

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

REGULATORY COMPLIANCE

The committee has done the following:

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

INTERNAL AUDIT

The committee has done the following:

- Reviewed and recommended the internal audit charter for approval by the TMC.
- Evaluated the independence, effectiveness and performance of the internal audit function and compliance with its mandate.
- Satisfied itself that the internal audit function has the necessary resources, budget, standing and authority within the entity to enable it to discharge its functions.
- Approved the internal audit plan.
- Twelve audits were planned and because of the late start in the year, four audits were completed by the end of the year and the others were in progress. No major issue was reported based on the work performed by year-end.
- Encouraged co-operation between the internal and external audit functions.

EXTERNAL AUDIT

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

EVALUATION OF FINANCIAL STATEMENTS AND ANNUAL REPORT

The committee evaluated the annual financial statements and performance information for the year ended 31 March 2019. It also reviewed:

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

The committee has discussed and agreed on the conclusions of the external auditors on the annual financial statements, read together with the report of the external auditors. At its meeting held on 12 July 2019, the committee recommended the financial statements to the TMC for approval.

Ms Jabu Mogadime
Chairperson: Audit committee

PART D
HUMAN RESOURCES

HUMAN RESOURCES OVERVIEW

INTRODUCTION

The transition from FSB to FSCA necessitated the implementation of a new operating model which resulted in the need for organisation-wide change management interventions. The changes brought about by the expanded FSCA mandate required the review of roles and competencies. The FSCA managed to successfully place all employees in the new FSCA structure.

Based on the results of the post implementation engagement survey that was conducted, the change process was well received by employees. The achievement of this milestone is significant in the implementation of the FSCA's new mandate which focuses on building a new organisation (as part of its strategic goals for the first three years of its existence).

TRAINEE DEVELOPMENT PROGRAMME

During the period under review, the FSCA continued running the internship programme that the FSB ran previously. The programme has so far had a 100% absorption rate and contributes to the ideals and targets of the National Development Plan.

A total of 26 unemployed graduates were offered an opportunity to participate in the internship programme in 2018/19. These interns were placed in various departments where they deal with real work scenarios that prepare them for the world of work.

ACTUARIAL BURSARY PROGRAMME

Four students are funded by the FSCA to study towards a qualification in actuarial sciences. Two of the four students are already in their final year of study and are expected to assume employment with the FSCA in 2020. Two of the students received funding for the 2018 – 2021 academic years. All four bursary students will be employed by the FSCA after they complete their qualifications.

EMPLOYEE WELLNESS

The physical and psychosocial wellness of employees has always been of paramount importance for the organisation in its endeavour to continuously improve organisational and employee performance. For this reason, the FSCA instituted a holistic Employee Wellness programme in partnership with the Life Healthcare Group.

The year-on-year employee participation rate in the biannual employee wellness days increased by 6%. The participation rate for the reporting period was 40%. In addition, targeted sessions were held on various wellness topics such as mental health, breast cancer and HIV/Aids.

Employees are continually encouraged to partake in employer supported physical fitness activities such as walking, road running, soccer and netball.

HUMAN RESOURCES OVERSIGHT STATISTICS

OUR WORKFORCE

The staff complement as at 31 March 2019 was 542, including contractors and employees living with disabilities. The permanent staff complement was 538. 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 R'000	Personnel Expenditure R'000	% of Total Expenditure R'000	No of employees	Average Personnel Cost Per Employee
Administration and Support	303 303	149 376	49	181	825
Licensing and Business Centre	129 952	42 201	32	75	563
Regulatory Policy	64 040	34 614	54	40	865
Conduct of Business Supervision	62 243	43 079	69	90	479
Market Integrity Supervision	32 259	19 345	60	24	806
Retirement Fund Supervision	154 125	56 350	37	72	783
Investigation and Enforcement	69 251	44 705	65	56	798
Total	**815 173**	**389 670**	**–**	**538**	**724**

PERSONNEL COST BY BAND

Level	Personnel Expenditure R'000	% of total personnel cost	No of employees	Average Personnel Cost Per Employee R'000
Top management	32 561	8	11	2 960
Senior management	61 339	16	29	2 115
Professional qualified	206 176	53	244	845
Skilled	65 364	17	165	396
Semi-skilled	24 230	6	89	272
Total	**389 670**	**100**	**538**	**724**

PERFORMANCE REWARDS

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

Levels	Number of Employees	Incentives Paid	% of Incentives
Top management	10	R5 525 771	13
Senior management	29	R6 153 168	15
Professional qualified	246	R20 932 502	51
Skilled	159	R6 126 943	15
Semi-skilled	88	R2 555 234	6
Total	**532**	**R41 293 618**	**100**

TRAINING COSTS

Programme/Activity/ Objective	Personnel Expenditure R'000	Training Expenditure R'000	Training Expenditure as a % of Personnel Expenditure	Number of Employees Trained	Average Training Cost Per Employee R'000
Administration and Support	149 376	3 459	2.3	181	19
Licensing and Business Centre	42 201	1 264	3	75	17
Regulatory Policy	34 614	1 197	3.5	40	30
Conduct of Business Supervision	43 079	940	2.2	90	10
Market Integrity Supervision	19 345	298	1.5	24	12
Retirement Fund Supervision	56 350	977	1.7	72	14
Investigation and Enforcement	44 705	784	1.8	56	14
Total	**389 670**	**8 919**	**–**	**538**	**–**

EMPLOYMENT AND VACANCIES

Vacancies and headcount were reallocated in line with the new operating model of the FSCA which became effective on 1 April 2018.

Programme/Activity/ Objective	31 March 2018 number of employees	2019 approved posts	31 March 2019 number of employees	2019 Vacancies	% Vacancies
Administration and Support	209	230	181	49	31
FAIS	126	–	–	–	–
CIS	33	–	–	–	–
Capital markets	16	–	–	–	–
Insurance	81	–	–	–	–
Pensions	76	–	–	–	–
Market Abuse	12	–	–	–	–
Credit Rating Agencies	6	–	–	–	–
Hedge Funds	13	–	–	–	–
Licensing and Business Centre	–	95	75	20	13
Regulatory Policy	–	53	40	13	8
Conduct of Business Supervision	–	130	90	40	25
Market Integrity Supervision	–	26	24	2	1
Retirement Fund Supervision	–	96	72	24	15
Investigation and Enforcement	–	67	56	11	7
Total	**572**	**697**	**538**	**159**	**100**

LEVELS

Level	31 March 2018 number of employees	2019 approved posts	31 March 2019 number of employees	2019 Vacancies	% Vacancies
Top management	6	11	11	–	–
Senior management	32	39	29	10	6
Professional qualified	256	321	244	77	48
Skilled	186	217	165	52	33
Semi-skilled	92	109	89	20	13
Total	**572**	**697**	**538**	**159**	**100**

EMPLOYMENT CHANGES

The Financial Sector Conduct Authority appointed 73 new staff members during the 2018/19 financial year. Due to the transition from FSB to FSCA, 55 employees were transferred to the South African Reserve Bank. The implementation of the new FSCA structure resulted in additional vacancies and this increased the average vacancy rate to 20%. The staff turnover rate decreased from 11% to 9% which is within the targeted turnover rate.

Significant employment changes were experienced across the organisation due to the transition process. The top management structure was settled at the end of the financial year with the appointment of divisional executives for all the major functions within the FSCA. The internal movements below are due to internal appointments and promotions.

Levels	Employed at Beginning of Period	Appointments	Internal Movements	Terminations	Transfers out to SARB	Employed at End of Period
Top Management	6	3	3	1	0	11
Senior Management	32	1	2	2	4	29
Professional Qualified	256	29	16	20	37	244
Skilled	186	27	-13	26	9	165
Semi-skilled	92	13	-8	3	5	89
Total	**572**	**73**	**0**	**52**	**55**	**538**

TERMINATIONS

A total of 52 staff members left during this period. One of the resignations was at executive level in the position of chief information officer who effectively resigned on 31 October 2018.

Reason	Number	% of total staff leaving
Death	0	0%
Resignation	46	88%
Dismissal	2	4%
Retirement	0	0%
Ill health	3	6%
Expiry of Contract	1	2%
Other	0	0%
Total	52	**100%**

LABOUR RELATIONS: MISCONDUCT AND DISCIPLINARY ACTION

Two dismissals took place due to misconduct during the financial year. Extensive engagement took place with employees during the transition period which resulted in a successful transition and change process.

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

EMPLOYMENT EQUITY TARGET AND EMPLOYMENT EQUITY STATUS

The FSCA embraces fair and non-discriminatory employment practices and policies and is committed to identifying and eliminating any unfair discriminatory practices. To monitor progress toward the achievement of its employment equity goals, the HR Department provided quarterly updates on the progress made to the Executive Committee, management and employees. The tables below indicate the Employment Equity profile of the FSCA as at 31 March 2019. Initiatives were implemented to address underrepresentation of designated groups.

Levels	African		Coloured		Indian		White		Disability	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Top Management	4	2	1	0	0	1	2	1	0	0
Senior Management	5	9	1	1	2	0	6	5	0	0
Professional Qualified	92	86	5	4	3	10	13	31	0	0
Skilled	72	73	2	7	1	1	2	7	1	1
Semi-skilled	30	43	2	6	1	0	0	7	1	0
Total	**203**	**213**	**11**	**18**	**7**	**12**	**23**	**51**	**2**	**1**

PART E
FINANCIAL INFORMATION

INDEX

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

REPORT BY THE ACCOUNTING AUTHORITY

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

The Financial Services Board (FSB) ceased to exist on 31 March 2018 and the Financial Sector Conduct Authority (FSCA) was established on 1 April 2018. The Minister of Finance has, in terms of sections 61(4), 288 and 304 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act), established a Transitional Management Committee (TMC) to perform the functions of the Executive Committee of the FSCA, to facilitate the disestablishment of the FSB and the functioning of the FSCA. The chairperson of the then FSB is to perform the functions of the Commissioner in terms of the Act, until the person appointed as the Commissioner has commenced service.

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

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

In terms of section 293(1) of the FSR Act, "At the date on which this section come into effect, the assets and liabilities of the FSB cease to be assets and liabilities of the Board and become the assets and liabilities of the Financial Sector Conduct Authority without 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 Accounting Authority 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 2019, as set out on pages 104 to 145, were approved by the Accounting Authority on 26 July 2019 and were signed on its behalf by:

Mr AM Sithole
Commissioner

Adv DP Tshidi
Executive Head

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

1. I have audited the financial statements of the Financial Sector Conduct Authority set out on pages 104 to 145, which comprise the statement of financial position as at 31 March 2019, the statement of financial performance, statement of changes in net assets and the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Sector Conduct Authority as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act (Act no. 1 of 1999) (PFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

4. I am independent of the public entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) 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 codes.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the accounting authority for the financial statements

6. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act (Act no. 1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

Introduction and scope

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

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

12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic goals presented in the annual performance report of the public entity for the year ended 31 March 2019:

Strategic Goals	Pages in the annual performance report
Strategic goal 1 – Building a new organisation	25
Strategic goal 3 – A robust regulatory framework that promotes fair customer treatment	26 to 27
Strategic goal 4 – Informed financial customers	28

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

14. I did not raise any material findings on the usefulness and reliability of the reported performance information for these strategic goals:
    - Strategic goal 1 – Building a new organisation
    - Strategic goal 3 – A robust regulatory framework that promotes fair customer treatment
    - Strategic goal 4 – Informed financial customers

Other matters

15. I draw attention to the matters below.

Achievement of planned targets

16. Refer to the annual performance report on pages 25 to 29 for information on the achievement of planned targets for the year and explanations provided for the under and over achievement of a number of targets.

Adjustment of material misstatements

17. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Strategic goal 1 – Building a new organisation; Strategic goal 3 – A robust regulatory framework that promotes fair customer treatment and Strategic goal 4 – Informed financial customers. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

18. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the 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.

19. 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.

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

Other information

20. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the Commissioner's report, the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected strategic goals presented in the annual performance report that have been specifically reported in this auditor's report.

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

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

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

Internal control deficiencies

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

Other reports

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

26. The Office of the Public Protector investigated allegations of maladministration, abuse of power and improper conduct by the Executive Officer of the Financial Service Board, now Financial Sector Conduct Authority. The report has since been sent for judicial review by FSCA.

Auditor General

Pretoria
31 July 2019

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 strategic goals 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 public entity'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 2019

Amounts in Rand	Note(s)	2019	2018
Assets			
Current Assets			
Cash and cash equivalents	3	481 160 068	406 132 313
Receivables from exchange transactions	4	20 023 395	6 147 940
Statutory receivables from exchange transactions	5	5 172 253	5 068 305
Statutory receivables from non-exchange transactions	6	10 200 789	14 242 257
Prepayments	7	4 381 004	3 538 314
Financial assets at fair value	10	713 580	515 950
		521 651 089	435 645 079
Non-Current Assets			
Property, plant and equipment	8	65 773 423	65 073 221
Intangible assets	9	16 305 970	15 865 223
Financial assets at fair value	10	71 611 389	66 257 087
		153 690 782	147 195 531
Total Assets		675 341 871	582 840 610
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	73 890 682	71 722 272
Payables from non-exchange transactions	12	29 335 967	–
Levies and fees received in advance	13	38 354 895	35 471 607
Provisions	14	15 524 269	9 656 413
Finance lease obligation	15	512 097	625 788
		157 617 910	117 476 080
Non-Current Liabilities			
Provisions	14	4 214 518	3 777 774
Finance lease obligation	15	6 097	508 913
Operating lease liability		22 675 802	14 481 518
Post-retirement benefit obligation	16&17	51 152 893	51 419 952
		78 049 310	70 188 157
Total Liabilities		235 667 220	187 664 237
Net Assets		439 674 651	395 176 373
Accumulated Reserves			
Contingency reserve	18	80 679 845	75 305 818
Discretionary reserve	19	35 658 180	32 253 903
Accumulated surplus		323 336 626	287 616 652
Total Net Assets		439 674 651	395 176 373

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2019

Amounts in Rand	Note(s)	2019	2018
Revenue			
Revenue from exchange transactions	23	79 252 973	85 323 473
Revenue from non-exchange transactions	24	776 982 781	716 970 594
		856 235 754	802 294 067
Expenses			
Advisory and other committee fees		(5 314 773)	(4 863 124)
Contribution towards funding of the Office of the Ombud for FSPs	25	(54 846 500)	(49 421 161)
Contribution towards funding of the Office of the PFA	25	(64 325 520)	(59 037 927)
Depreciation and amortisation	8&9	(19 657 957)	(13 874 313)
Executive management remuneration	25	(39 479 291)	(29 918 740)
External audit fees	26	(2 733 010)	(2 522 451)
Finance costs	15	(101 561)	(176 971)
Internal audit fees		(710 110)	(980 343)
Legal fees		(12 149 598)	(12 304 589)
Non-executive board member's fees	25	(1 806 873)	(1 740 613)
Operating lease rentals – buildings		(69 458 032)	(62 384 981)
Other operating expenses	27	(78 137 138)	(63 518 161)
Professional and consulting fees		(13 855 651)	(17 510 339)
Provision for credit losses	28	(2 729 352)	(7 656 882)
Salaries, staff benefits, training and other staff expenses		(449 669 629)	(438 787 911)
		(814 974 995)	(764 698 506)
Operating surplus	28	41 260 759	37 595 561
Fair-value adjustments	10	2 841 941	(191 090)
Post-retirement medical aid fund obligation reversed		267 059	(1 211 099)
Gains from transfer of functions between entities not under common control	39	326 880	–
Loss on disposal of assets		(198 361)	(78 427)
		3 237 519	(1 480 616)
Surplus for the year		44 498 278	36 114 945
Surplus from continuing functions		44 498 278	28 706 285
Surplus from transferred functions	39	–	7 408 660

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2019

Amounts in Rand	Discretionary reserve	Contingency reserve	Total reserves	Accumulated surplus	Total net assets
Balance at 01 April 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 surplus to discretionary reserve	564 320	–	564 320	(564 320)	–
Transfer from accumulated surplus to contingency reserve	–	2 758 331	2 758 331	(2 758 331)	–
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
Changes in net assets					
Surplus for the year	–	–	–	44 498 278	44 498 278
Transfer from accumulated surplus to discretionary reserve	3 404 277	–	3 404 277	(3 404 277)	–
Transfer from accumulated surplus to contingency reserve	–	5 374 027	5 374 027	(5 374 027)	–
Total changes	3 404 277	5 374 027	8 778 304	35 719 974	44 498 278
Balance at 31 March 2019	35 658 180	80 679 845	116 338 025	323 336 626	439 674 651
Note(s)	19	18			

CASH FLOW STATEMENT

for the year ended 31 March 2019

Amounts in Rand	Note(s)	2019	2018
Cash flows from operating activities			
Receipts			
Cash received from industry		805 566 101	761 867 435
Interest received		36 035 471	32 159 792
Dividends received		1 451 086	1 212 890
		843 052 658	795 240 117
Payments			
Employee costs		(480 640 730)	(462 910 390)
Suppliers		(172 408 000)	(114 347 338)
Other payments		(90 526 609)	(124 963 475)
		(743 575 339)	(702 221 203)
Net cash flows from operating activities	29	99 477 319	93 018 914
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(18 182 481)	(38 315 517)
Proceeds from sale of property, plant and equipment	8	243 800	6 877
Purchase of intangible assets	9	(3 047 904)	(7 862 190)
Purchase of financial assets	10	(6 120 760)	(12 141 281)
Proceeds from sale of financial assets	10	3 410 769	10 942 866
Net cash flows from investing activities		(23 696 576)	(47 369 245)
Cash flows from financing activities			
Finance lease payments		(627 188)	(617 460)
Finance costs		(125 800)	(206 401)
Net cash flows from financing activities		(752 988)	(823 861)
Net increase in cash and cash equivalents		75 027 755	44 825 808
Cash and cash equivalents at the beginning of the year		406 132 313	361 306 505
Cash and cash equivalents at the end of the year	3	481 160 068	406 132 313

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

for the year ended 31 March 2019

Budget on Accrual Basis Amounts in Rand	Approved budget	Adjustments	Final Budget	Actual amounts	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue from exchange transactions	54 392 929	–	**54 392 929**	79 252 973	24 860 044	38
Revenue from non-exchange transactions	748 730 025	–	**748 730 025**	776 982 781	28 252 756	
Total revenue	803 122 954	–	**803 122 954**	856 235 754	53 112 800	
Expenses						
Advisory and other committee fees	(7 258 858)	–	**(7 258 858)**	(5 314 773)	1 944 085	38
Contribution towards funding of the Office of the Ombud for FSP's	(53 754 000)	(1 092 500)	**(54 846 500)**	(54 846 500)	–	
Contribution towards funding of the Office of the PFA	(64 325 520)	–	**(64 325 520)**	(64 325 520)	–	
Depreciation and amortisation	(25 852 773)	–	**(25 852 773)**	(19 657 957)	6 194 816	38
Executive management	(34 531 836)	–	**(34 531 836)**	(39 479 291)	(4 947 455)	38
External audit fees	(3 361 071)	–	**(3 361 071)**	(2 733 010)	628 061	38
Finance costs	(136 145)	–	**(136 145)**	(101 561)	34 584	38
Internal audit fees	(1 200 000)	–	**(1 200 000)**	(710 110)	489 890	38
Legal fees	(18 440 000)	–	**(18 440 000)**	(12 149 598)	6 290 402	38
Non-executive board members	(2 226 245)	–	**(2 226 245)**	(1 806 873)	419 372	38
Operating lease rental – buildings	(66 635 922)	–	**(66 635 922)**	(69 458 032)	(2 822 110)	38
Other operating expenses	(101 097 688)	–	**(101 097 688)**	(78 137 138)	22 960 550	38
Professional and consulting fees	(48 246 730)	–	**(48 246 730)**	(13 855 651)	34 391 079	38
Provision for credit losses	–	–	**–**	(2 729 352)	(2 729 352)	38
Salaries, staff benefits, training and other staff expenses	(507 048 648)	–	**(507 048 648)**	(449 669 629)	57 379 019	38
Total expenditure	(934 115 436)	(1 092 500)	**(935 207 936)**	(814 974 995)	120 232 941	
Operating surplus	(130 992 482)	(1 092 500)	**(132 084 982)**	41 260 759	173 345 741	
Fair-value adjustment	–	–	**–**	2 841 941	2 841 941	38
Post retirement medical aid fund obligation reversal	–	–	**–**	267 059	267 059	38
Gain from transfer of functions between entities not under common control				326 880	326 880	
Loss on disposal of assets	–	–	**–**	(198 361)	(198 361)	
	–	–	**–**	3 237 519	3 237 519	
(Deficit)/Surplus for the year	(130 992 482)	(1 092 500)	**(132 084 982)**	44 498 278	176 583 260	

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS

Reporting entity

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

Basis of accounting

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

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

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

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

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

In applying accounting policies, management is required to make various 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.

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 Effective date for this standard is 1 April 2019.
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 Effective date for this standard is 1 April 2019.

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

Standards and amendments to standards issued but not yet effective continued

Standard	Summary and Impact	Effective date
GRAP 34 – Separate Financial Statements	The objective of the standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. The financial results and disclosures are not likely to be affected when the standard is adopted.	Issued by the ASB March 2016 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 FSCA 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 FSCA does not have investment in associates and joint ventures, therefore no impact is envisaged when the standard is effective.	Issued by the ASB March 2016 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 FSCA does not have investment in joint venture, 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 38 – Disclosure of Interest in Other Entities	The objective of this standard is to require an entity to disclose information on interest in other entities to enable users to do a proper evaluation. The FSCA does not have interest in other entities, therefore no impact is envisaged when the standard is effective.	Issued by the ASB March 2016 Effective date for this standard is 1 April 2019
GRAP 108 – Statutory Receivables	This standard prescribes the accounting treatment and disclosure for statutory receivables. The FSCA has early adopted this Standard in 2017/18 financial year. This is second year of application.	Issued by the ASB September 2013 Effective date for this standard is 1 April 2019

SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES [continued]

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

Standards and amendments to standards issued but not yet effective continued

Standard	Summary and Impact	Effective date
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 Effective date for this standard is 1 April 2019.
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 Interpretation 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 Interpretation 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 Interpretation 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.
IGRAP 1 – Applying the probability test on Initial Recognition of Revenue	The objective of this Interpretation is to provide guidance on applying the probability test on Initial Recognition of revenue. The financial results and disclosure are not likely to be affected when the interpretation is adopted.	Issued by the ASB June 2012 No effective date has been determined by the Minister of Finance.
IGRAP 20 – Accounting for Adjustments to Revenue	The objective of this Interpretation is to provide guidance on the accounting for adjustments to revenue. The financial results and disclosure are not likely to be affected when the interpretation is adopted.	Issued by the ASB December 2018 No effective date has been determined by the Minister of Finance.

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

1.1 Significant accounting judgements and estimates

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

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 14.

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

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

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

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

1.2 Property, plant and equipment

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

1.2 Property, plant and equipment continued

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

Item	Depreciation method	Average useful life
Leasehold improvements and finance leased assets	Straight line	Expected period of relevant lease
Furniture, fittings, equipment and paintings	Straight line	5 – 50 years
Motor vehicles	Straight line	13 years
Computer equipment	Straight line	3 – 20 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date when there'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 34. 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 note8).

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.

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

1.3 Intangible assets continued

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

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

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

1.4 Financial instruments

Financial instruments are classified in the following categories:

Financial assets at fair value – Investments

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

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred or when substantially all risks and rewards of ownership have been transferred.

Financial Instrument at amortised cost

Receivables

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

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced by the amount of the credit loss which is recognised in the statement of financial performance. When the trade receivable is uncollectable, it is written off and subsequent recoveries of amounts previously written off are credited in the statement of financial performance.

Payables

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

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

1.5 Statutory receivables

Statutory receivables are receivables that arise from legislation or supporting regulations and require settlement by another entity in cash. The FSCA's statutory receivables are made up of levy debtors, inspection cost debtors, penalty debtors, legal fees and other receivables. The levies are imposed 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 FSR Act and FSCA various sectoral legislations that the FSCA administers.

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

Statutory receivables are recognised as follows:

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

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

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

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

1.6 Leases

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

Finance leases – lessee

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

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

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

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

1.6 Leases continued

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

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

1.7 Related parties

All payments to executive management and non-executive members of the FSCA are disclosed as related party transactions. Transactions and balances with National Departments of Government and State-controlled Entities which occur other than in accordance with the operating parameters established are disclosed separately in the notes to the financial statements.

1.8 Prepayments

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

1.9 Impairment of non-cash-generating assets

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

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.10 Levies and fees received in advance

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

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

1.11 Employee benefits

Short-term employee benefits

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

Retirement benefits

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

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

Pension fund

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the surplus or deficit in the period in which they arise.

Post retirement medical aid plan

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of financial performance in the period in which they arise.

1.12 Provisions

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

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

Performance bonus

Performance bonus is a short term employee benefit which is expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. A provision for performance bonus is raised on the estimated amount payable in terms of the incentive scheme which is based on the business and employee's performance in the applicable year.

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

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 surplus or deficit. Long service awards are settled as and when employees achieve certain predetermined milestones of service.

Legal fees

Legal fees are provided for legal matters where it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably measured.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. Commitments are not recognised in the statement of financial position but disclosed in the notes to the annual financial statements. Refer to note 31.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the FSCA receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue is recognised when the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the FSCA and specific criteria have been met as described below.

Revenue from exchange transactions comprises of fees and service charges, interest and dividends as well as other recoveries.

Fees and service charges are raised in terms of the regulations published in the Government Gazette and are recognised according to the percentage of completion method. Interest from government 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.

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

The FSCA is funded through levies charged to industry and over-recovered levies in excess of the FSCA's requirements are rebated back to the industry. Levy rebates passed on to industry in terms of regulations published in the Government Gazette are recognised as a reduction in revenue.

SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES [continued]

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

1.15 Revenue from non-exchange transactions continued

Fines and penalties raised for late submission of returns are recognised on an accrual basis. The income from fines and penalties as per the FSCA various sectoral legislation is credited to the surplus or deficit, but as this income is not considered to form part of the normal operating activities of the FSCA, it is transferred to the discretionary reserve. The amounts received or to be received from fines and penalties as per the FSR Act is payable to National Treasury.

Services in-kind are recognised as assets and revenue when they are significant to operations and/or service delivery objectives and it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets and revenue can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the nature and type of services in-kind received during the reporting period are disclosed in the notes to the annual financial statements.

1.16 Finance costs

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

1.17 Translation of foreign currencies

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

1.18 Accumulated funds and reserves

Accumulated surplus

Accumulated surplus are used to fund working capital requirements, capital expenditure, budgeted deficits (if any), as well as other unforeseen events. Accumulated surplus are maintained at approximately 2 to 4 months' operational expenditure. National Treasury approval is obtained at the end of every financial year in order to retain the accumulated surplus. Accumulated surplus include non-cash amounts such as invoiced income not recovered, hence the full balance at year end is not always represented by actual cash.

Contingency reserve

The contingency reserve is maintained to fund the FSCA's long-term capital requirements and to protect the FSCA's operating capacity against the effects of inflation and unforeseen events. The reserve is maintained at a maximum of 10% of the annual levy and fee income.

Discretionary reserve

The discretionary reserve is used primarily to fund consumer education and consumer protection related expenses. Fines and penalties recognised as income in the statement of financial performance are transferred to a discretionary reserve.

1. BASIS OF PREPARATION OF ANNUAL FINANCIAL STATEMENTS continued

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including:

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

All expenditure relating to irregular expenditure is recognised as an expense in the surplus or deficit in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and where recovered it is subsequently accounted for as revenue in the surplus or deficit.

1.20 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the surplus or deficit, 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.

2. FINANCIAL RISK MANAGEMENT

Financial risk factors

The FSCA is exposed to a variety of financial risks as a consequence of its operations namely, market risk, credit risk and liquidity risk. The FSCA's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its performance. Financial risk management is carried out under approved policies. The FSCA provides written principles for overall risk management as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and investment of excess liquidity.

Market risk

Foreign exchange risk

The FSCA does not operate internationally but is exposed to foreign currency risk arising from various currency exposures. Its exposure is limited to foreign membership and subscription fees, foreign travelling expenses, foreign exchange denominated operating expenses as well as investments in off-shore portfolios. The risk relating to off-shore investment portfolios is managed by an investment manager in terms of their mandate. Accordingly, the FSCA's exposure to foreign currency risk is minimal.

The following sensitivity analysis has been performed.

At 31 March 2019, if the currency had weakened or strengthened by 10% against the US dollar with all other variables held constant, the deficit for the year would have been R1 174 977 (2018: R189 001) 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 457 732 (2018: R2 014 459) higher or lower arising from unrealised foreign exchange gains or losses upon translation of US dollar denominated off-shore investment portfolios.

At 31 March 2019, 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 R45 130 (2018: R33 888) higher or lower on foreign exchange gains or losses upon translation of Euro-denominated transactions.

At 31 March 2019, 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 R23 864 (2018: R33 069) higher or lower on foreign exchange gains or losses upon translation of UK pound-denominated transactions.

Asset price risk

The FSCA is exposed to equity securities price risk because of investments held by the FSCA, which are classified on the statement of financial position as financial assets at fair value. These investments are managed by an investment manager in terms of an approved mandate. The investment manager manages the price risk arising from investments in equity securities through diversification of the portfolio in accordance with the mandate that gives the manager full discretion.

The FSCA's investments in equity of other entities that are publicly traded are included in the All Share Index of the JSE Securities Exchange Limited (All Share Index). The table below summarises the impact of increases/decreases of the All Share Index on the FSCA's surplus for the year and on reserves. The analysis is based on the assumption that the All Share Index had increased/decreased by 4% (2018:4%) with all other variables held constant and that all the FSCA's investments moved according to the historical correlation with the index:

2. FINANCIAL RISK MANAGEMENT continued

Market risk continued

Asset price risk continued

	Impact on surplus for the year		Impact on investment portfolio	
	2019	2018	2019	2018
All share index	1 451 291	1 484 728	1 451 291	1 484 728

Cash flow and fair value interest rate risk

The FSCA has significant cash and cash equivalents and its income and operating cash flows are dependent on changes in market interest rates. This is managed in line with movements in money market rates. The FSCA does not have any interest bearing borrowings and therefore there is no adverse exposure relating to interest rate movements in borrowings. Should the balances held on short-term deposit remain constant, the FSCA's interest income will fluctuate by R1 142 427 for every 25 basis point fluctuation in the prime interest rate.

Credit risk

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

The FSCA invests funds in excess of the FSCA's immediate requirements (i.e short term deposits excluding current account balances) with the Corporation for Public Deposits (CPD). The table below shows the total amount invested in CPD at reporting date:

Financial instrument	2019	2018
Corporation of Public and Deposits	456 970 928	377 975 239

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient liquid resources and the ability to settle debts as they become due. In the case of the FSCA, liquid resources consist of mainly cash and cash equivalents. The FSCA maintains adequate resources by monitoring rolling cash flow forecasts of the cash and cash equivalents on the basis of expected cash flow.

Forecasted liquidity reserve as at 31 March 2019 is as follows:.

	March 2019	Period 2020 to 2023
Opening balance for the period	406 132 313	481 160 068
Operating proceeds	843 052 658	1 252 433 505
Operating cash outflows	(743 575 339)	(1 104 310 120)
Cash outflow for investments	(27 351 143)	40 777 877
Cash outflow for financing	(752 988)	1 122 633
Proceeds from sale of investments	3 654 567	5 448 603
	481 160 068	592 831 546

The table below analyses the FSCA's financial liabilities at reporting date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2019				
Trade and other payables	50 259 301	–	–	–
At 31 March 2018				
Trade and other payables	48 507 339	–	–	–

Capital risk management

The FSCA's objectives when managing its funds and reserves are to safeguard the ability to continue as a going concern. The FSCA maintains various funds and reserves which serve different purposes, refer to note 1.18.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices (level 1) at reporting date. The quoted market price used for financial assets held by the FSCA is the current bid price.

3. CASH AND CASH EQUIVALENTS

	2019	2018
Cash and cash equivalents consist of:		
Short term deposits	456 970 928	377 975 239
Cash at bank and on hand	24 189 140	28 157 074
	481 160 068	406 132 313

Included in cash at bank and on hand above is an amount of R6 717 795 (2018: R7 236 022), which is earmarked to fund the post-retirement medical aid plan. Also included in cash and cash equivalents is an amount of R69 869 805 (2018: R36 219 874) relating to the discretionary funds that are used to fund consumer education and consumer protection related expenses. In addition, the FSCA maintains a contingency fund which is included under short-term deposits of R127 814 452 (2018: R116 218 493) to fund capital requirements and to protect operating capacity against the effects of inflation and unforeseen events.

	2019	2018
4. RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Staff debtors – study loans	5 445 951	5 265 995
Less: Provision for credit losses	(33 954)	(33 954)
Interest receivable	122 080	81 896
Other receivables	14 489 318	834 003
	20 023 395	6 147 940
Reconciliation of provision for credit loss of receivables from exchange transactions		
Opening balance	33 954	28 769
Utilised	–	(24 044)
Charged to surplus or deficit	–	29 229
	33 954	33 954
5. STATUTORY RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Legal fees recoveries	2 656 916	3 605 158
Less: Provision for credit losses	(2 453 527)	(3 605 158)
Recoverable legal fees	3 708 298	4 721 967
Other receivables	1 260 566	346 338
Net statutory receivables from exchange transactions	5 172 253	5 068 305
Reconciliation for impairment of statutory receivables from exchange transactions		
Opening balance	3 605 158	3 597 907
Utilised	(1 151 631)	(406 134)
Charged to surplus or deficit	–	413 385
	2 453 527	3 605 158
6. STATUTORY RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Levy debtors	12 820 922	14 460 614
Less: Provision for credit losses	(8 336 933)	(6 505 777)
Inspection cost debtors	7 096 540	7 096 540
Less: Provision for credit losses	(7 096 540)	(7 096 540)
Penalty debtors	12 191 664	20 778 511
Less: Provision for credit losses	(6 474 864)	(14 491 091)
	10 200 789	14 242 257

NOTES TO THE
ANNUAL FINANCIAL STATEMENTS [continued]
for the year ended 31 March 2019

	2019	2018
Reconciliation for impairment of receivables from non-exchange transactions		
Opening balance	28 093 408	32 587 785
Utilised	(8 914 423)	(11 708 644)
Reversal of prior year provision	(570 484)	(344 744)
Charged to the Statement of Financial Performance	3 299 836	7 559 011
	21 908 337	28 093 408

7. PREPAYMENTS

The R4 381 004 prepayments comprise of membership fees and software licenses.

8. PROPERTY, PLANT AND EQUIPMENT

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Leasehold improvements	4 341 997	(2 052 987)	2 289 010	2 920 537	(1 789 123)	1 131 414
Furniture, fittings, equipment and paintings	31 005 904	(18 509 452)	12 496 452	28 296 568	(16 679 903)	11 616 665
Motor vehicles	1 503 310	(538 697)	964 613	1 503 310	(415 014)	1 088 296
Computer equipment	109 524 887	(59 958 851)	49 566 036	103 909 595	(53 729 974)	50 179 621
Finance leased assets	1 823 312	(1 366 000)	457 312	1 978 398	(921 173)	1 057 225
Total	148 199 410	(82 425 987)	65 773 423	138 608 408	(73 535 187)	65 073 221

8. PROPERTY, PLANT AND EQUIPMENT continued

	Opening balance	Additions	Disposals	Depreciation	Total
Reconciliation of property, plant and equipment – 31 March 2019					
Leasehold improvements	1 131 414	1 421 460	–	(263 864)	2 289 010
Furniture, fittings, equipment and paintings	11 616 665	2 910 128	(70 309)	(1 960 032)	12 496 452
Motor vehicles	1 088 296	–	–	(123 683)	964 613
Computer equipment	50 179 621	13 850 893	(371 852)	(14 092 626)	49 566 036
Finance leased assets	1 057 225	10 682	–	(610 595)	457 312
	65 073 221	18 182 481	(442 161)	(17 050 800)	65 773 423
Reconciliation of property, plant and equipment – 31 March 2018					
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

	2019	2018
Expenditure incurred to repair and maintain property, plant and equipment		
Contracted services	264 662	331 125
General expenses	83 881	41 542
	348 543	372 667

The useful lives and residual values of the various categories of property, plant and equipment were assessed during the current financial year and resulted in a change in accounting estimate. Refer to note 34.

9. INTANGIBLE ASSETS

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	24 646 182	(8 340 212)	16 305 970	22 579 610	(6 714 387)	15 865 223

Reconciliation of intangible assets – 31 March 2019

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	4 659 106	555 544	6 272 090	(2 607 157)	8 879 583
Intangible assets under development	11 206 117	2 492 360	(6 272 090)	–	7 426 387
	15 865 223	3 047 904	–	(2 607 157)	16 305 970

Reconciliation of intangible assets – 31 March 2018

	Opening balance	Additions	Amortisation	Total
Computer software	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

Other information

The useful lives of the various computer software were assessed during the current financial year and resulted in a change in accounting estimate. Refer to note 34.

10. FINANCIAL ASSETS AT FAIR VALUE

	2019	2018
Designated at fair value		
Non-current investments	71 611 389	66 257 087
Current investments	713 580	515 950
	72 324 969	66 773 037

Financial assets at fair value

Movement for the year

	Opening balance	Fair value adjustment	Purchases	Sales	Closing balance
Movement for the year ended 31 March 2019					
Shares	37 118 193	(1 342 242)	3 417 087	(2 910 769)	36 282 269
Gilts and Bonds	9 510 257	(248 549)	2 703 673	(500 000)	11 465 381
Off-shore collective investment schemes	20 144 587	4 432 732	–	–	24 577 319
	66 773 037	2 841 941	6 120 760	(3 410 769)	72 324 969
Movement for the year ended 31 March 2018					
Shares	38 176 852	75 837	8 939 370	(10 073 866)	37 118 193
Gilts and Bonds	6 813 630	363 716	3 201 911	(869 000)	9 510 257
Off-shore collective investment schemes	20 775 230	(630 643)	–	–	20 144 587
	65 765 712	(191 090)	12 141 281	(10 942 866)	66 773 037

Fair value hierarchy of financial assets at fair value

The fair value of financial instruments traded in active markets is based on quoted market prices (level1) at the reporting. The quoted market price used for financial assets held by the FSCA is the current bid price.

11. PAYABLES FROM EXCHANGE TRANSACTIONS

	2019	2018
Accounts payables	14 020 895	32 884 691
Leave accrual	23 631 381	23 214 933
Accruals	33 345 937	14 628 831
Other payables	2 892 469	993 817
	73 890 682	71 722 272

NOTES TO THE
ANNUAL FINANCIAL STATEMENTS [continued]
for the year ended 31 March 2019

12. PAYABLESFROMNON-EXCHANGETRANSACTIONS

	2019	2018
Payables from non-exchange transactions	29 335 967	–

The R29 335 967 relates to revenue raised through fines and penalties which is payable to National Treasury as per the FSR Act. A formal request was made by the FSCA to National Treasury to retain the penalties pending the implementation of the Money Bill for Consumer Education transitional funding.

13. LEVIES AND FEES RECEIVED IN ADVANCE

	2019	2018
Levies received in advance	1 726 118	1 783 615
Fees received in advance	36 628 777	33 687 992
	38 354 895	35 471 607

14. PROVISIONS

	Opening Balance	Additions	Utilised during the year	Total
Reconciliation of provisions – 31 March 2019				
Provision for bonus	9 038 413	14 583 333	(9 038 413)	14 583 333
Provision for legal fees	–	172 936	–	172 936
Provision for long service awards	4 395 774	1 102 744	(516 000)	4 982 518
	13 434 187	15 859 013	(9 554 413)	19 738 787
Reconciliation of provisions – 31 March 2018				
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

	2019	2018
Current liabilities	15 524 269	9 656 413
Non-current liabilities	4 214 518	3 777 774
	19 738 787	13 434 187

	2019	2018
15. FINANCE LEASE OBLIGATION		
Minimum lease payments due		
– within one year	538 919	726 289
– in second to fifth year inclusive	7 120	534 127
	546 039	1 260 416
Less: future finance charges	(27 845)	(125 715)
Present value of minimum lease payments	518 194	1 134 701
Present value of minimum lease payments due		
– within one year	512 097	625 788
– in second to fifth year inclusive	6 097	508 913
	518 194	1 134 701
Current liabilities	512 097	625 788
Non-current liabilities	6 097	508 913
	518 194	1 134 701
Finance costs charged for the year	518 194	176 971

The FSCA leases some of its office equipment 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.

16. POST-RETIREMENT BENEFIT OBLIGATIONS (MEDICAL AID FUND)

The FSCA recognises a liability in respect of post-retirement medical aid benefits for pensioners as at 1 January 1998 and eligible employees who were then in service, assuming that the cost of the benefit is recognised in full for existing pensioners and is spread equally over each employee's service period within the FSCA prior to retirement for employees currently in service. The FSCA is not liable for post-retirement medical aid benefits in respect of 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 FSCA 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 2019. It is the policy of the FSCA to match this liability with appropriate non-current investments and short-term notice deposits. Accordingly, the funds have been placed with an asset management company for investment in accordance with long-term prudential principles.

For disclosure purposes, an amount of R6 717 795 (2018: R7 236 022) 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 (2018: 8.28%).

16. POST-RETIREMENT BENEFIT OBLIGATIONS (MEDICAL AID FUND) continued

	2019	2018
Amounts recognised in the statement of financial position were determined as follows:		
Present value of unfunded obligations	51 152 893	51 419 952
The movement in the present value of the unfunded obligation for the year is as follows:		
Opening balance	51 419 951	50 208 853
Current service cost	894 723	945 020
Interest cost	4 805 426	4 875 721
Actuarial (gain)/loss	(4 038 076)	(519 635)
Benefits paid	(1 929 131)	(1 870 641)
Curtailment of Prudential Authority transfers	–	(2 219 366)
Closing balance	51 152 893	51 419 952
The amounts recognised in the statement of financial performance are as follows:		
Current service cost	894 723	945 020
Interest cost	4 805 426	4 875 721
Benefits paid	(1 929 132)	(1 870 641)
Net actuarial (gain)/loss recognised during the year	(4 038 076)	(519 635)
Curtailment of Prudential Authority transfers	–	(2 219 366)
Net expenses included in staff costs	(267 059)	1 211 099

Please value of unfunded obligations

The principal assumptions used were as follows:

Financial assumptions

Discount rate:	10.35% (2018: 9.37%) per annum compound.
Rate of medical aid contribution increases:	8.28% (2018: 8.28%) per annum compound.
Rate of general price inflation:	6.78% (2018: 6.78%) per annum compound.

Mortality assumptions

Mortality – Active employee

Before retirement:	Nil
After retirement:	PA (90) Mortality Tables with an age reduction of two years.

16. POST-RETIREMENT BENEFIT OBLIGATIONS (MEDICAL AID FUND) continued

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	(790 935)	958 954
Effect on the accumulated benefit obligation	(6 118 130)	7 384 343
	(6 909 065)	**8 343 297**

Amount for the current year and previous four years	2019	2018	2017	2016	2015
Present value of unfunded obligations recognised in the statement of financial position	**51 152 893**	51 419 952	50 208 853	45 265 629	43 326 962

17. POST-RETIREMENT BENEFIT OBLIGATION (PENSION FUND)

The pension fund for permanent employees of the FSCA is registered in terms of the Pension Fund Act, 1956 (Act No. 24 of 1956). Prior to April 2000, the fund was a defined benefit plan for the benefit of all employees. New employees who joined the fund on or after 1 April 2000 were entitled to receive retirement and resignation benefits from the accumulation of defined contributions. Employees who were in the employ 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.

The Trustees took a decision to implement the restructuring of all active members entitled to a defined benefit underpin to a pure defined contribution basis effective 1 January 2017. Due to the restructuring, there are no active current employees who are in the defined benefit underpin. An actuarial valuation of the benefit obligation was performed on 31 March 2019. The remaining defined benefit obligation relates to pensioners.

The amounts recognised in the statement of financial position were determined as follows:

	2019	2018
Present value of defined benefit obligation	**48 241 000**	56 062 000
Fair value of plan assets	**(56 183 000)**	(56 884 000)
Funded status	**(7 942 000)**	(822 000)
Asset not recognised	**7 942 000**	822 000
	–	–

The FSCA does not have an unconditional right to any surplus that may accrue in the fund and therefore cannot recognise an asset in the Statement of Financial Position.

	2019	2018
The major categories of plan assets as a percentage of total plan assets are as follows:		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	**56 062 000**	86 559 000
Current service costs	**–**	649 000
Interest costs	**4 807 000**	7 261 000
Actuarial (gain)/loss	**(8 163 000)**	(4 073 000)
Benefits paid	**(4 465 000)**	(4 537 000)
Settlement costs	**–**	62 444 000
Settlements	**–**	(92 241 000)
	48 241 000	56 062 000
Changes in the fair value of plan assets are as follows:		
Opening balance	**56 884 000**	146 907 000
Expected return on assets	**4 880 000**	11 145 000
Actuarial gain/(loss)	**(1 116 000)**	2 258 000
Settlements	**–**	(92 241 000)
Transfers	**–**	(6 648 000)
Benefits paid	**(4 465 000)**	(4 537 000)
	56 183 000	56 884 000
Components of pension costs for the year are as follows:		
Current service cost	**–**	649 000
Interest cost	**4 807 000**	7 261 000
Actuarial (gain)/loss	**(7 047 000)**	(6 331 000)
Transfer allowance	**–**	6 648 000
Settlements	**–**	62 444 000
Change in asset restriction	**7 120 000**	(59 526 000)
Expected return on plan assets	**(4 880 000)**	(11 145 000)
	–	–
Calculation of actuarial gains and losses		
Actuarial (gain)/loss – Obligation	**(8 163 000)**	(4 073 000)
Actuarial (gain)/loss – Plan assets	**1 116 000**	(2 258 000)
	(7 047 000)	(6 331 000)

17. POST-RETIREMENT BENEFIT OBLIGATION (PENSION FUND) continued

Assumptions used at the reporting date

Assumptions regarding the future mortality experience are set, based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at the age of 63 at the reporting date is as follows:

	Average life expectancy 2019	Average life expectancy 2018
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 and previous four years are as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Defined benefit obligation	48 241 000	56 062 000	86 559 000	79 606 000	76 947 000
Fair value of plan assets	(56 183 000)	(56 884 000)	(146 907 000)	(144 034 000)	(128 611 000)
Statement of financial position restriction	7 942 000	822 000	60 348 000	64 428 000	51 664 000
	–	–	–	–	–

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 9.68% per annum has been used (A rate of 8.93% was used at 31 March 2018.)

Long-term price inflation rate: We have assumed a long-term future inflation rate of 5.83% 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 (6.11% used at 31 March 2018).

Pension increases: It has been assumed that pension increases will take place at a rate of 4.37% per annum (4.58% used at 31 March 2018). 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 9.68% per annum, following the approach adopted in the previous disclosure. This is consistent with the approach set out in the IAS 19. GRAP25 indicates that "the expected return on plan assets is based on the market expectations, at the beginning of the reporting period, for returns over the entire life of the related obligation". It could be argued that on a risk- adjusted basis, it is reasonable to set this rate equal to the discount rate, but the employer may wish to consider the implications of this assumption and its consistency with the requirements of the GRAP25 standard.

Pension expenses: Allowances is made for the cost of the administration of the pensioners records in the pensioner liability at a rate of R32.32 plus Vat per pensioner per month.

Experience adjustments

	2019	2018	2017	2016	2015
Active liabilities at end of year	–	–	34 667 000	26 223 000	30 779 000
Pensioners liabilities at end of year	48 241 000	56 062 000	51 892 000	53 383 000	46 168 000
Combined assets at end of year	(56 183 000)	(56 884 000)	(146 907 000)	(144 034 000)	(128 611 000)
Funded status at year end	(7 942 000)	(822 000)	(60 348 000)	(64 428 000)	(51 664 000)
Gain/(loss) on liabilities through experience	4 222 000	5 817 000	(3 776 000)	(2 139 000)	5 847 000
Gain/(loss) on liabilities through assumptions	3 941 000	(1 744 000)	1 781 000	12 600 000	(9 270 000)
Gain/(loss) on liabilities	8 163 000	4 073 000	(1 995 000)	10 461 000	(3 423 000)
Gain/(loss) on plan assets	1 116 000	(2 258 000)	8 603 000	3 643 000	4 422 000

	2019	2018
18. CONTINGENCY RESERVE		
Opening balance	75 305 818	72 547 487
Transfer from accumulated surplus	5 374 027	2 758 331
	80 679 845	75 305 818

An amount of R5 374 027 (2018: R2 758 331) was transferred from accumulated surplus to maintain the reserve at 10% of annual levy and fee income.

19. DISCRETIONARY RESERVE

	2019	2018
Opening balance	32 253 903	31 689 583
Transfer from accumulated surplus	3 404 277	564 320
	35 658 180	32 253 903

The transfer (to)/from accumulated funds for the year, as reflected in the statement of changes in net assets is calculated as follows:

	2019	2018
Income from fines and penalties	2 366 400	8 649 448
Provision	(430 500)	(4 220 080)
Interest allocated to this reserve	3 708 121	347 005
Expenses in respect of consumer education	(2 686 344)	(4 266 412)
Reversal provision	446 600	54 359
Net transfer to discretionary reserve	3 404 277	564 320

20. FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

2019	Financial assets at amortised costs	Fair value through surplus or deficit	Total
Financial assets at fair value	–	72 324 037	72 324 037
Receivables	2 001 767	–	2 001 767
Cash and cash equivalents	481 160 067	–	481 160 067
	483 161 834	72 324 037	555 485 871
2018			
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

21. FINANCIAL LIABILITIES BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

2019	Other financial liabilities	Total
Payables	50 259 301	50 259 301
2018		
Payables	48 507 339	48 507 339

22. CREDIT QUALITY OF RECEIVABLES

	2019	2018
Trade receivables		
Group 1	16 327 423	9 508 116
Group 2	701 418	591 710
Group 3	42 763 424	47 091 196
Total trade receivables	59 792 265	57 191 022

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 R34 811 808 (2018: R46 014 678) and the associated total impairment is R24 395 818 (2018: R31 732 520) see note 4, 5 and 6. Of these debtors, the recovery of R15 846 611 (2018: R22 792 268) has been handed over for collection. Refer to the accounting policy note 1.4 for factors management considered in determining receivables impairment.

Cash and short-term deposits are held with banking institutions and the CPD and are regarded as having low credit risk. The FSCA invests its surplus cash in the short term deposits accounts with CPD. The interest rates on these accounts fluctuates in line with the movements in current money market rates.

NOTES TO THE
ANNUAL FINANCIAL STATEMENTS [continued]
for the year ended 31 March 2019

	2019	2018
23. REVENUE FROM EXCHANGE TRANSACTIONS		
Fees and service charges	33 447 821	45 624 200
Legal fees and other cost recoveries	1 343 386	2 936 454
Interest received	35 111 931	31 111 096
Dividends received	1 525 472	1 201 364
Other income	4 772 337	4 327 838
Compensation from insurance	3 052 026	122 521
	79 252 973	85 323 473
24. REVENUE FROM NON-EXCHANGE TRANSACTIONS		
FSCA Levies	661 172 941	607 890 716
PFA Levies	64 913 971	58 007 853
FAIS Ombud Levies	47 263 715	41 535 408
Penalties	2 366 400	6 310 641
Other income	1 265 754	3 225 976
	776 982 781	716 970 594
25. RELATED PARTIES		
Related party balance		
Year-end balances arising from services provided to/(by) related parties		
Office of the Pension Fund Adjudicator	(11 864 055)	(5 619 188)
Office of the Ombud for Financial Services Providers	(13 778 260)	(1 055 541)
	(25 642 315)	(6 674 729)
Funds provided to the office of the Pension Fund Adjudicator in terms of section 30R (1) (a) of the Pension Funds Act, No. 24 of 1956 as amended.		
Contribution towards funding of the office	64 325 520	59 037 927
Funds provided to the Office of the Ombud for Financial Services Providers in terms of section 22 (1) (a) of the Financial		
Advisory and Intermediary Services Act, No. 37 of 2002.		
Contribution towards funding of the office		
Income/(Payments) to or from related parties	54 846 500	49 421 161
Income received for services to Pension Fund Adjudicator	4 032 492	4 032 000
Payments for professional fees to South Africa Reserve Bank	(40 667)	–
Income received for services to Ombud for Financial Services Providers	80 582	159 994
	4 072 407	4 191 994

The FSCA, National Treasury and other listed entities as per above are state-controlled.

25. RELATED PARTIES continued

Remuneration of management

Non-executive board members fees (FSB Board to 30 November 2018)

31 March 2019	Board Members' fees	Human Resources and Remuneration Committee fees	Audit Committee fees	Risk Committee fees	Other	Total
AM Sithole (Chairperson FSB, Commissioner FSCA)	65 914	39 060	–	11 833	289 903	406 710
HS Wilton (Deputy Chairperson FSB)	52 724	30 186	83 161	56 961	–	223 032
J Mogadime	52 724	–	127 837	56 961	189 326	426 848
D Msomi	52 724	39 060	127 837	–	13 495	233 116
MH Ratshefola	52 724	–	62 454	56 961	20 708	192 847
PJ Sutherland	52 724	26 624	127 837	–	8 875	216 060
DLD Turpin	60 633	–	–	47 627	–	108 260
	390 167	134 930	529 126	230 343	522 307	1 806 873

The Minister of Finance has, in terms of sections 61(4), 288 and 304 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017), extended the term of the FSB Board to 30 November 2018, to facilitate the tabling of the final annual report and financial statements of the FSB for the financial year ending 31 March 2018.

31 March 2018	Board Members' fees	Human Resources and Remuneration Committee fees	Audit Committee fees	Risk Committee fees	Legislative Committees fees	Licensing Committees fees	Litigation Committee fees	Other	Total
AM Sithole (Chairperson)	95 005	11 524	–	–	40 181	–	–	–	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	–	40 181	33 957	–	150 308	–	22 432	322 872
D Msomi	75 994	–	40 181	–	–	136 287	28 040	14 861	295 363
MH Ratshefola	75 994	–	–	22 741	34 573	121 497	–	28 040	282 845
PJ Sutherland	75 994	–	34 573	–	28 965	–	51 552	–	191 084
DLD Turpin	84 884	–	–	35 514	45 807	–	77 948	–	244 153
	635 853	48 592	149 200	126 477	149 526	408 092	157 540	65 333	1 740 613

Executive management remuneration 31 March 2019

NOTES TO THE
ANNUAL FINANCIAL STATEMENTS [continued]
for the year ended 31 March 2019

31 March 2019	Basic Salary	Incentive Bonus	Leave Commutation	Long service award	Total
DP Tshidi, Executive Head **	5 936 811	1 264 569	356 216	–	7 557 596
JA Boyd, DE: Market Integrity **	3 648 515	837 093	–	–	4 485 608
CD Da Silva, DE: Regulatory Policy **	3 586 685	768 923	–	6 000	4 361 608
MM Du Toit, DE: Specialist Support **	3 527 211	723 922	–	–	4 251 133
O Makhubela, DE: Retirement Fund Supervision (appointed 1 November 2018)	2 936 800	608 950	–	–	3 545 750
R Harichunder, CRO	2 535 156	66 765	–	–	2 601 921
LP Kekana, CFO **	3 150 418	802 570	172 824	–	4 125 812
JJR Hlalethoa, DE: Corporate Centre (appointed 1 February 2019)	612 771	183 831	–	–	796 602
SE Mmakau, CIO (appointed 1 April 2018, resigned 30 November 2018)	2 000 000	–	149 589	–	2 149 589
P Mogase, CIO (appointed 2 November 2018) **	1 022 260	87 500	–	–	1 109 760
FM Mabaso, DE; Licensing and Regulatory Hub (appointed 1 February 2019)	491 667	147 500	–	–	639 167
F Badat, DE: Conduct of Business Supervision (appointed 01 February 2019)	336 376	100 912	–	–	437 288
BR Topham, DE: Investigations and Enforcement (appointed 1 February 2019)	610 771	–	–	–	610 771
KL Gibson (Appointed 1 April 2018) **	2 717 400	89 286	–	–	2 806 686
	33 112 841	5 681 821	678 629	6 000	39 479 291

*** Member of the Transitional Management Committee (TMC)*
Salaries for Ms CD Da Silva and Mr J Boyd included the acting allowances of R59 473 and R60 499, respectively.

31 March 2018	Salary	Incentive	Leave	Long service	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 DE: Retirement Funds Supervision (appointed 1 October 2017)	1 381 900	–	–	–	1 381 900
TG Ramuthaga, CIO (resigned 30 June 2017)	741 383	–	237 920	–	979 303
R Harichunder, CRO	2 328 426	–	–	–	2 328 426
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

** Included in the salaries are acting allowances for Mr J Boyd R453 739, Mr M du Toit R407 501 and Ms CD Da Silva R208 156.*

	2019	2018
26. AUDITORS' REMUNERATION		
Current year-interim fee	311 000	642 815
Prior year audit fees	2 422 010	1 879 636
	2 733 010	2 522 451
27. OTHER OPERATING EXPENSES		
Travelling costs	12 965 760	9 676 422
Telephone and data lines	6 081 299	5 384 986
Advertising and Publication	16 982 885	12 221 035
Computer support, maintenance and licensing costs	23 729 879	19 988 653
Insurance	2 548 807	1 965 102
Operational costs	15 828 509	14 281 963
	78 137 139	63 518 161
28. PROVISION FOR CREDIT LOSSES		
Current year provision	3 299 836	8 001 625
Reversal of prior year provision	(570 484)	(344 743)
	2 729 352	7 656 882
29. RECONCILIATION OF NET SURPLUS BEFORE INTEREST AND CASH		
Surplus for the year	44 498 278	36 114 945
Adjustments for:		
Depreciation and amortisation	19 657 958	13 874 313
Loss on sale of assets	198 361	78 427
Fair value adjustment	(2 841 941)	191 090
Provision for credit losses	2 729 352	7 656 882
Finance costs	125 800	206 401
Movements in operating lease assets and accruals	8 194 284	9 675 523
Movements in post-retirement medical expenses	(267 059)	1 211 099
Changes in working capital:		
(Increase)/Decrease in receivables	(12 667 287)	(8 211 464)
(Increase)/Decrease in prepayments	(842 690)	327 718
Increase/(Decrease) in payables	31 504 374	27 545 150
Increase/(Decrease) in levies and fees received in advance	2 883 288	2 547 059
Increase/(Decrease) in provisions	6 304 601	1 801 771
	99 477 319	93 018 914

30. TAXATION

The FSCA is exempt from income tax in terms of Section 10(1) (cA)(i)(bb) of the Income Tax Act, 1962 (Act No. 58 of 1962).

	2019	2018
31. COMMITMENTS		
Authorised capital expenditure		
Already contracted for but not provided for		
• Capital expenditure	17 955 838	23 451 821
Not yet contracted for (2019/20 financial year budget)		
• Property, plant and equipment	48 109 000	29 177 000
• Intangible assets	167 520 000	97 823 000
	215 629 000	127 000 000
Total capital commitments		
Already contracted for but not provided for	17 955 838	23 451 821
Not yet contracted for	215 629 000	127 000 000
	233 584 838	150 451 821

Operating lease commitments

Building lease

The FSCA 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.

The total future minimum lease payments under these leases are as follows:

	2019	2018
Minimum lease payments due for Block B		
– within one year	35 009 442	32 842 882
– in second to fifth year inclusive	149 953 273	159 833 199
– later than five years	–	27 241 837
	184 962 715	219 917 918
Minimum lease payments due for Block C – 2nd floor		
– within one year	4 443 139	4 114 017
– in second to fifth year inclusive	18 990 552	20 021 280
– later than five years	–	3 412 410
	23 433 691	27 547 707
Minimum lease payments due for Block C Ground & 1st floor		
– within one year	10 157 277	9 278 841
– in second to fifth year inclusive	43 490 184	45 265 649
– later than five years	–	7 804 106
	53 647 461	62 348 596

	2019	2018

31. COMMITMENTS continued

Office equipment leases

The FSCA leases some of its office equipment through National Treasury's transversal contract. The period of the lease is 36 months with no escalations attached to the lease agreement.

	2019	2018
Minimum lease payments due		
– within one year	432 676	303 053
in second to fifth year inclusive	372 445	496 563
	805 121	799 616

32. CONTINGENT LIABILITIES

The FSCA has no contingent liabilities.

33. ASSETS ADMINISTERED ON BEHALF OF THIRD PARTIES

In terms of Section 82(4) of the Financial Markets Act 19 of 2012, amounts recovered by the FSCA from civil action activities are transferred to a special trust account designated for this purpose, as such recoveries do not form part of the normal operating activities of the FSCA. The balance of the Insider Trading account at the end of the year was R1 351 352 (2018: R1 420 222).

34. CHANGE IN ESTIMATE

Impact of changes in accounting estimates

	2019	2018
Increase in net surplus	1 971 960	943 648
Decrease in depreciation on property, plant and equipment	(1 878 424)	(343 716)
Decrease in amortisation on intangible assets	(93 536)	(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.

35. COMPARATIVE FIGURES

The Fair-value adjustment, Post-retirement medical aid fund obligation and the loss on disposal expense line items have been reclassified from the expenses category to other gains and losses category. This reclassification is aimed to improve the disclosure and achieve fair presentation. The reclassification has resulted in a decrease in total expenses and a increase in the other gains and losses category by 2019: R3 237 519 (2018: R1 480 161).

Cash flows for Finance cost and Finance lease payments were reclassified from operating activities and investing activities to cash flow from financing activities. This reclassification is aimed to improve the disclosure and achieve fair presentation. The reclassification has resulted in a decrease in cash flow from operating activities by 2019: R125 800 (2018: R206 401) and investing activities by 2019: R627 188 (2018: R617 460). As a result, the cash flow from financing activities has increased by 2019: R752 988 (2018: R823 861).

NOTES TO THE
ANNUAL FINANCIAL STATEMENTS [continued]
for the year ended 31 March 2019

36. SERVICES RECEIVED IN KIND

The FSCA receives services in kind in the form of free training from various organisations which are not significant to operations.

37. RECONCILIATION BETWEEN BUDGET AND CASH FLOW STATEMENT

	2019	2018
Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:		
Operating activities		
Actual amount as presented in the budget statement	(131 363 695)	(51 202 559)
Timing differences	230 841 014	144 221 473
Net cash flows from operating activities	99 477 319	93 018 914
Investing activities		
Actual amount as presented in the budget statement	(126 817 480)	(124 252 000)
Timing differences	103 120 904	76 882 755
Net cash flows from investing activities	(23 696 576)	(47 369 245)
Financing activities		
Actual amount as presented in the budget statement	(721 287)	(795 610)
Timing differences	(31 701)	(28 251)
Net cash flows from financing activities	(752 988)	(823 861)
Net cash generated from operating, investing and financing activities	75 027 755	44 825 808

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 2018 to 31 March 2019. 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 favourable variance to budget is mainly as a result of interest from investments, post retirement funds and other income not budgeted for.

Fair value adjustment

The fair value adjustment relates to the portfolio earmarked for the post retirement medical aid fund liability which is not budgeted for due to unpredictable changes in the market.

Advisory and other committee fees

The favourable variance is due to decreased number of enforcement hearings and appeal matters.

Depreciation and amortisation

The favourable variance is due to the delayed procurement of budgeted assets and changes in useful life estimates.

38. BUDGET DIFFERENCES continued

External audit fees

The favorable variance is as a result of timing of the interim audit which overlaps into the new budget cycle.

Internal audit fees

The favorable variance on the internal audit fees is due to the time lag in the start date of new appointed internal auditors.

Legal fees

The favorable variance 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 is as a result of the smoothing of the operating lease rental payments which is not considered for budgeting and will even out over the term of the lease period.

Other operating expenses

The favourable variance is mainly as a result of underspending on advertising and recruitment, computer software licenses due to the timing lag in implementing the new FSCA operating model and structure. The balance of the underspending is attributable to various cost saving initiatives implemented by the cost center managers.

Professional and consulting fees

The favourable variance is as a result of timing lag in professional services for the new FSCA operating model.

Provision for credit losses

Provision for credit losses are not budgeted due to the uncertainty surrounding the recoverability of receivables.

Post Retirement Medical Aid fund expense

The post-retirement medical aid fund expense is not budgeted as it is dependent on the annual actuarial valuation.

Salaries, staff benefits, training and other staff expenses

The favourable variance is as a result of timing lag in staff appointments and implementing the new FSCA operating model and structure.

Executive management remuneration

The unfavourable variance is as a result of the implementation of the FSCA new operating model and structure.

Non-executive board members fee

The favourable variance is due to the re-organization of the new FSCA governance structures.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS [continued]
for the year ended 31 March 2019

39. TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL

The FSB was an entity 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 was transformed 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 took place in the 2018/19 reporting period included amongst others, the staff of the FSB, staff costs and the related assets and liabilities.

In accordance with GRAP106, the transaction relating to the transfer of functions is accounted for as at the transfer date which is 1 April 2018.

Net surplus of functions transferred	2019	2018
Revenue	–	–
Revenue from exchange transactions	–	9 411 856
Revenue from non-exchange transactions	–	106 923 988
Expenses	–	–
Professional and consulting fees	–	(2 254 410)
Salaries, staff benefits, training and other expenses	–	(48 530 236)
Other operating expenses	–	(58 142 538)
Net surplus of functions transferred	–	7 408 660
Additional information		
For the 2018/19 financial year the FSCA levied the insurance industry R199 366 203 and retained the levies as per agreement with the PA. The arrangement will be in place until the Money Bill comes into effect, which is expected to be in the 2020/21 financial year.		
Assets and liabilities		
Assets		
Receivables from exchange transactions	–	357 386
Liabilities		
Payables from exchange transactions	–	(684 266)
Difference between the carrying amounts of the assets and liabilities	–	326 880
The prior year liabilities balance of R442 666 was increased to R684 266 as a result of additional staff transfers to the PA. The change has no impact on the net surplus and net cash flow.		
Cash flows		
Cash receipts	–	357 386
Cash payments	–	(684 266)
Net cash flow from operating activities	–	(326 880)

The FSCA and the PA agreed not to settle the liabilities. Consequently, the FSCA retained the cash amount of R326 880.

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