

FINANCIAL SERVICES BOARD

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Date: 10 April 2006

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CISCA CIRCULAR NO 3 TO COLLECTIVE INVESTMENT SCHEMES IN SECURITIES

1. Annual Financial Statements

Accounting developments over recent years have resulted in the formalisation of accounting frameworks and debate has arisen around whether South African Statements of Generally Accepted Accounting Practice ("SA GAAP") is an appropriate framework for the presentation of portfolios. The Association of Collective Investments ("ACI") has commenced a project to assess the appropriateness of SA GAAP or International Financial Reporting Standards ("IFRS") for the accounting for portfolios as well as the impact on the industry if such standards are to be implemented. The ACI is expected to make representations to the Financial Services Board in the near future. The current Collective Investment Schemes Control Act, 2002 ("CISCA"), does not require the application of SA GAAP, but requires the financial statements to be prepared in accordance with generally accepted accounting practice, which in itself is not recognised as an accounting framework. Pending the representations from the ACI and a decision on the accounting framework, this Office is of the opinion that the existing basis of accounting and presentation should remain. However, financial statements in respect of portfolios prepared in accordance with SA GAAP or IFRS would be acceptable.

Due to changes in auditing standards applicable in South Africa for financial years ending on 31 December 2005 and thereafter, an auditor can no longer issue an audit opinion stating that the financial statements "fairly present", as stated in section 74(3) of CISCA, unless the financial statements are prepared under a recognised accounting framework, such as SA GAAP or IFRS. South African Auditing Practice Statement 2 ("SAAPS2") does allow the auditor under certain circumstances to report on an entity specific basis of accounting. In this case, the auditor's report would state that the financial statements "have been prepared, in all material respects, in accordance with" the basis of accounting as described in the financial statements. Such statement may include a note indicating that the basis of accounting and the presentation and disclosures contained in the financial statements, do not comply in all respects with SA GAAP.

Board Members: Dr CDR Rustonjee (Chairperson) AM Sithole (Deputy Chairperson) BM Hawksworth Ms JV Mogadime
Ms LM Mojela Ms AMM Mokgabudi Prof PJ Sutherland Ms HS Wilton
Board Secretary: SB Makgalemele
Executive Officer: RJG Barrow



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2.

As an interim measure, this Office is prepared to accept annual financial statements prepared on an entity specific basis of accounting and an auditor's report applicable to the entity specific basis of accounting as envisaged by SAAPS2, provided the basis of accounting and presentation is consistent with previous years' financial statements prepared by the manager for the portfolios in a scheme, until an official decision on the appropriate accounting framework has been made.

In view of the aforementioned, auditors of collective investment schemes in securities are hereby exempted, in terms of section 22(b) of CISA, from the provisions of section 74(3) of CISA on condition that the following provision shall apply:

"(3) When the auditor of a collective investment scheme has conducted an audit in terms of subsection (2), he or she must report to the manager that the accounting records and the annual financial statements have been prepared, in all material respects, in accordance with the basis of accounting as described in the financial statements: Provided that where such report has not been prepared in accordance with SA GAAP or IFRS, it must be based on the entity specific basis of accounting as determined in the South African Auditing Practice Statement 2 ("SAAPS2")."

A Notice to this effect, as required by section 114(5) of CISA, will be published in the *Government Gazette* as soon as possible.

In terms of section 74(1)(c) of CISA, extension is hereby granted to managers which financial year ended on 31 December 2005, until 31 May 2006 to submit the audited financial statements as required by section 90(1)(a) of CISA. In the meantime this Office must be furnished with a copy of the draft statements.

2. Acknowledgement of Receipt

Kindly hand a copy of this Circular to your auditor. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the manager and the auditor, should be returned to this Office at the earliest convenience.



REGISTRAR OF COLLECTIVE INVESTMENT SCHEMES

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Board Secretary: SB Makgalemele
Executive Officer: RJG Barrow



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ACKNOWLEDGEMENT OF RECEIPT



1. I acknowledge receipt of a copy of CISCA Circular No. and confirm that a copy was also handed to the Audit Committee of the Scheme.

.....
Chief Executive Officer

Name of Manager
Date

2. I acknowledge receipt of a copy of CISCA Circular No.

.....
Auditor

Name of Auditor
Date

Kindly return to:

**Registrar of Collective Investment Schemes
Financial Services board
P O Box 35655
Menlo Park
0102**