



FSCA COMMUNICATION 14 OF 2023 (RF)

Publication of FSCA Conduct Standard 1 of 2023: Conditions for Investment in Derivatives Instruments for Pension Funds

1. PURPOSE

This Communication informs stakeholders that today the Financial Sector Conduct Authority (FSCA) published the following documents:

- 1.1 FSCA Conduct Standard 1 of 2023: Conditions for Investment in Derivatives Instruments for Pension Funds (Conduct Standard)
- 1.2 Statement of Need, Expected Impact and Intended Operation supporting the Conduct Standard
- 1.3 Consultation Report

2. SUMMARY

- 2.1 Derivative instruments in a pension fund portfolio can be used by pension funds for efficient portfolio management and risk management, as well as to hedge risk exposure to specific financial instruments.
- 2.2 The FSCA recognises that there is a role for the use of derivatives within pension fund portfolios. However, there are several risks inherent in these instruments, such as counterparty risk and liquidity risk. Therefore, there is a need for the FSCA to prescribe conditions in respect of the use of derivative instruments by pension funds to enhance market integrity through amongst others enhanced transparency.
- 2.3 More detail on the need, expected impact and intended operation of the Conduct Standard can be found in the document referred to in paragraph 1.2 of this Communication.
- 2.4 The process for making regulatory instruments is prescribed in Chapter 7 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017). The said process has now been concluded, and the FSCA therefore published the final Conduct Standard. The Conduct Standard will come into operation 12 months after publication.

3. ENQUIRIES

- 3.1 The documents referred to in paragraph 1 are available on the FSCA's website at www.fsc.co.za.
- 3.2 For more information regarding the Conduct Standard and/or this Communication

please contact the FSCA's Regulatory Framework Department at
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