



FSCA COMMUNICATION 19 OF 2023 (RF)

CLARIFICATION REGARDING FORMAT FOR SUBMISSION OF ANNUAL FINANCIAL STATEMENTS AND REGULATION 28 QUARTERLY REPORTING RETURNS

1. PURPOSE

The purpose of this Communication is to provide clarification to the pension funds and other stakeholders, on the format to be used when submitting annual financial statements and Regulation 28 quarterly reports to the Financial Sector Conduct Authority (FSCA) for financial years ending in 2023.

2. BACKGROUND

- 2.1 Section 15 of the Pension Funds Act, 1956 (Act No. 24 of 1956) (PFA) provides that pension funds must, within six months of the expiration of every financial year, provide the FSCA with statements regarding revenue, expenditure and financial position as may be prescribed by the FSCA. Further, the statements must be duly audited and reported on by an auditor of the fund.
- 2.2 The format of the annual financial statements that must be completed by funds in accordance with section 15 of the PFA is currently prescribed by the Notice on Prescribed Financial Statements Applicable to Different Categories of Funds in Board Notice 77 of 2014, published in Government Gazette No. 37844 of 18 July 2014 (Board Notice 77).
- 2.3 As part of the Schedules to be submitted with the fund's annual financial statements, Board Notice 77 includes Schedule IB, which relates to assets held in compliance with Regulation 28 of the Regulations under the Pension Funds Act, 1956 (Act No. of 1956) (Regulation 28).
- 2.4 Further, the Regulations under the PFA was recently amendment (gazetted on 5 July 2022) to include additional reporting requirements in relation to infrastructure assets and amendments to the asset spreading requirements. The reporting requirements in Board Notice 77 therefore does not make provision for these new requirements.
- 2.5 On 9 November 2022, the FSCA published the draft *Prudential Standard – Requirements related to Regulatory Reporting and Audited Financial Statements for Pension Funds for public comment* (draft Regulatory Reporting Standard). The purpose of the draft Regulatory Reporting Standard is to update the regulatory reporting requirements and the prescribed format of annual financial statements to align to the International Financial Reporting Standards, the International Accounting Standards and local auditing requirements; ensure consistency in the application of

financial reporting requirements across all pension funds; and to consolidate all related requirements into one instrument, with the ultimate goal of providing better protection for pension fund members. The revised regulatory reporting requirements also takes into account the recent amendments to Regulation 28 as mentioned above. The intention is that the Regulatory Reporting Standard will replace Board Notice 77.

- 2.6 However, the consultation process for the draft Standard has not yet been finalised and, as such, the updated format for the annual financial statements, including Schedule IB, has not yet been published.
- 2.7 In addition, on 4 November 2022, the FSCA published the draft *Prudential Standard – Regulation 28 Quarterly Reporting Requirements for Pension Funds* (draft Regulation 28 Reporting Standard) for public comment, the purpose of which is to amongst other things update and align the quarterly reporting requirements for pension funds in line with the amendments to Regulation 28.
- 2.8 The consultation process for the draft Regulation 28 Reporting Standard has also not yet been finalised and, as such, the final format for reporting in terms of Regulation 28 has not yet been published.
- 2.9 In addition, on 23 February 2022 the South African Reserve Bank issued Exchange Control Circular No 10/2022 (Circular). One of the effects of the Circular is that section B.2(H)(iv)(a)(aa) of the Currency and Exchanges Manual for Authorised Dealers (Authorised Dealer Manual) was changed and now combines the prudential limits of 30 per cent and 40 per cent, respectively (as per that section), as well as the African allowance of 10% into a single limit of 45%.

3. SUBMISSION OF ANNUAL FINANCIAL STATEMENTS AND REGULATION 28 REPORTS FOR FINANCIAL YEARS ENDING IN 2023

Annual Financial statements

- 3.1 The FSCA wishes to clarify that since the Regulatory Reporting Standard has not yet been finalised, funds must continue to prepare annual financial statements in accordance with the requirements of Board Notice 77 (including the existing Schedule IB).
- 3.2 However, it must be noted that the amended Regulation 28 came into effect on 1 January 2023 and resulted in misalignment between the requirements in Regulation 28 and the reporting requirements contained in Schedule IB. More specifically, the following issues of misalignment are relevant:
 - (a) The asset allocation to housing loans granted to retirement fund members has been reduced from 95% to 65% (in respect of new loans only);
 - (b) there is now a higher allocation to private equity assets, which has increased from 10% to 15% overall, and the sublimits for funds of private equity funds increased from 5% to 10% and for private equity funds from 2.5% to 5%;
 - (c) the limit on the aggregate exposure to certain specified assets, referred to in subparagraph (3)(f) of Regulation 28, has been increased from 35% to 45%;
 - (d) the limit on the aggregate exposure to certain specified assets, referred to in subparagraph (3)(g) of Regulation 28, has been increased from 15% to 20%;

- (e) a limit of 25% has been imposed (sub-regulation 3(h)) across all asset classes to limit exposure of retirement funds to any one entity (company), not just infrastructure. However, one exception to the per entity limit, is debt instruments issued by, and loans to, the Government of the Republic and any debt or loan guaranteed by the Republic. Previously, this sub-regulation only provided that the aggregate exposure by a fund to an issuer or entity by the fund specified in items 1.1 and 2.1(c) of Table 1, irrespective of the limits referred to in Column 1 of Table 1, must not exceed 25 percent of the aggregate fair value of the total assets of the fund.
- 3.3 In addition, the changes to the Authorised Dealer Manual resulted in the African column, as reflected in the *Investment Summary contained in Schedule IB*, being not applicable anymore.
- 3.4 Considering the impact of the amendments to Regulation 28 explained above and the changes to the Authorised Dealer Manual, and how this impacts Schedule IB, for purposes of submitting annual financial statements in accordance with Board Notice 77, pending the finalisation of the new Regulatory Reporting Standard, funds should take into account these changes impacting Schedule IB and ensure that the annual financial statements are completed in line with the amended Regulation 28 and Circular.
- 3.5 For the sake of clarity, if the amendments to Regulation 28 and Authorised Dealer Manual impacting Schedule IB is taken into account, it would result in the following changes to Schedule IB for the submission of annual financial statements for financial years ending in 2023:

A. Table relating to assets held in compliance with Regulation 28

The amendments to Regulation 28 would result in the following changes to percentages and thresholds in respect of certain items:

Item	Item description	Original %	Revised %
7	Housing Loans	95%	65%
8.	HEDGE FUNDS, PRIVATE EQUITY FUNDS AND ANY OTHER ASSET NOT REFERRED TO IN THIS SCHEDULE	15%	Delete %
8.1	Inside the Republic	15%	Delete %
8.1(b)	Private equity funds	10%	15%
8.1(b)(i)	Funds of private equity funds	10%	Delete %
8.1(b)(i) (sub-item)	Per issuer	5%	10%
8.1(b)(ii)	Private equity funds	10%	Delete %
8.1(b)(ii) (sub-item)	Per issuer	2.5%	5%
8.2	Foreign	15%	Delete %
8.2(b)	Private equity funds	10%	15%
8.2(b)(i)	Funds of private equity fund	10%	Delete %
8.2(b)(i)	Per issuer	5%	10%

(sub-item)			
8.2(b)(ii)	Private equity funds	10%	Delete %
8.2(b)(i) (sub-item)	Per issuer	2.5%	5%

B. Table relating to Investment Summary (Regulation 28)

The changes to the Authorised Dealer Manual would result in the “Africa” column no longer being applicable, hence it can be removed from the Table.

C. Table relating to Breaches in terms of sub regulation 3 of Regulation 28

(a) The amendments to Regulation 28 would result in the following changes to the percentages in respect of certain items:

Item description	Original %	Revised %
Total Asset Limits in terms of sub-regulation 3(f)	35%	45%
Total Asset Limits in terms of sub-regulation 3(g)	15%	20%

(b) Asset limits in terms of sub-regulation 3(h): The amendments to Regulation 28 would result in changes to the descriptions under this item to align to the new sub-regulation 3(h).

- 3.6 For illustration purpose, i.e. to illustrate how the above changes would impact Schedule IB if implemented, the following documents are attached to this Communication:
- Annexure A: Schedule IB, indicating the resultant changes explained above in track changes format; and
 - Annexure B: A clean version of Schedule IB that incorporates the changes explained above.
- 3.7 It should be noted, however, that the impact on Schedule IB explained above does not take into consideration the additional reporting requirements in relation to infrastructure assets and the removal of the exclusions that were previously allowed on look-through of Collective Investment Schemes, Insurance Policies and asset issued by an institution that is regulated by the FSCA, in terms of Regulation 28(8)(b)(i), (ii), (iii) and (iv). The new Regulatory Reporting Standard mentioned above will however take these matters into account. In the interim, administrators and service providers (which includes asset managers, insurers and collective investment schemes) are urged to supply the boards and auditors of funds with sufficient evidence to test compliance with Regulation 28.
- 3.8 Funds may apply for extensions online on www.fsca.co.za especially for January, February and March 2023 financial year ends where audits are underway with presentations to the boards.

Quarterly reporting in terms of Regulation 28

- 3.9 The FSCA wishes to clarify that since the draft Regulation 28 Reporting Standard (quarterly reporting) has not yet been finalised, quarterly reporting as contemplated in that Standard is not yet in effect.
- 3.10 However, existing Board Notices dealing with quarterly reporting of non-compliance with Regulation 28 will still apply and funds must continue to complete these reports pending the finalisation of the Regulation 28 Reporting Standard.
- 3.11 It is likely that the current non-compliance reporting (mentioned in paragraph 3.7) will continue throughout 2023, and that quarterly reporting on Regulation 28 as contemplated in the draft Regulation 28 Reporting Standard will only commence in 2024 (subject to the finalisation of the draft Regulation 28 Reporting Standard). This is, however, still under consideration and a final decision will be communicated in due course.

4. ENQUIRIES

For further information regarding this Communication please contact the Authority by emailing Mr. Kgame Kgaka at kgame.kgaka@fsc.co.za.



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Date of publication: 19 July 2023