

FSCA COMMUNICATION 30 OF 2020 (RF)

Publication of Draft Conduct Standard [-] of 2020 – Conduct Standard on Conditions Living Annuities in an Annuity Strategy

1. PURPOSE

The purpose of this Communication is to inform stakeholders that the Financial Sector Conduct Authority (“FSCA”) today, on the FSCA’s official website, published for public comment a revised draft of the Conduct Standard on the conditions for living annuities in an annuity strategy, to be made in terms of the Regulations made under section 36 of the Pension Funds Act, 1956 (Act No. 24 of 1956) (“the Regulations”) and section 106(1) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017).

2. BACKGROUND

- 2.1 The main objective of the draft Conduct Standard is to prescribe the conditions that living annuities need to comply with in order to be considered as part of a fund’s annuity strategy to meet the definition of “annuity strategy” as defined in the Regulations made in terms of section 36 of the Pension Funds Act, 1956. In addition, Regulation 39(3)(a) requires drawdown levels of living annuities that form part of the annuity strategy of a fund to comply with a prescribed standard.
- 2.2 Where a pensioner elects a living annuity on retirement, there is a risk that this could result in poor retirement outcomes for the individual, such as unsustainable income streams and a reduction in affordable annuity payments over time. This outcome could be caused by the following:
- the living annuity retirement savings being depleted too soon if the draw-down rate elected is too high;
 - poor investment returns on capital;
 - the pensioner living longer than expected; or
 - excessive fees and charges.
- 2.3 In addition –
- the definition of “annuity strategy” in the Regulations provides that conditions may be prescribed for purposes of an “annuity strategy”; and
 - Regulation 39(3)(a) states that drawdown levels of living annuities that form part of the annuity strategy of a fund must comply with a prescribed standard.
- 2.4 Full reasons informing the necessity to develop this Conduct Standard are set out in the Statement of need, expected impact and intended operation of the Conduct Standard attached hereto as Annexure B, along with FSCA’s responses to the comments received from the first round of public consultation.

3. PUBLIC CONSULTATION

- 3.1 The following documents are published on the FSCA's website to inform the objective of the above regulatory development:
- (a) Notice regarding the publication of draft Conduct Standard [-] of 2020 (RF) – Conduct Standard on Conditions for Living Annuities in an Annuity Strategy (Annexure A);
 - (b) A Statement of need, expected impact and intended operation of the Conduct Standard including the FSCA's responses to the comments received from the first round of public consultation (Annexure B);
 - (c) Comments template for the second round of public comment on the draft Conduct Standard for Living Annuities in an Annuity Strategy (Annexure C);
- 3.2 The draft conduct standard, together with the above listed supporting documentation is available on the FSCA's website (<https://www.fsca.co.za>) under *Regulatory Frameworks > Documents for Consultation > Retirement Funds*.
- 3.3 Interested parties are invited to, in writing, submit comments on the draft Conduct Standard and supporting documents using the comments template attached as Annexure C as available on the FSCA website, on or before **31 July 2020** to FSCA.RFDStandards@fsca.co.za.

4. ENQUIRIES

For more information regarding this Communication contact the Regulatory Framework Department of the Authority at Roslynne.vanwyk@fsca.co.za.

Date of publication: 8 June 2020