

FSCA COMMUNICATION 36 OF 2023 (RF)

Exemption from using certain prescribed formats for preparing financial statements under section 15 of the Pension Funds Act, 1956 – audit reports

1. PURPOSE

The purpose of this Communication is to inform stakeholders that the Financial Sector Conduct Authority (FSCA) has, in terms of section 2(5)(a) of the Pension Funds Act, 1956 (Act No. 24 of 1956) (PFA) read with section 281(3) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017), exempted Large Funds from the requirement to complete Schedule D1 and Schedule IB1 of Board Notice 77 of 2014 (BN 77),¹ when preparing financial statements in accordance with section 15(1) of the PFA, on condition that other reports be completed as set out in FSCA RF Notice 26 of 2023 published alongside this communication.

2. BACKGROUND

- 2.1 BN 77, which was published on 18 July 2014, prescribes the format of the financial statements that must be completed by funds in accordance with section 15 of the PFA.
- 2.2 On 5 March 2020 the FSCA published FSCA RF Notice 5 of 2020 together with FSCA Communication 6 of 2020 (RF)². FSCA RF Notice 5 of 2020 exempted large funds (which includes large ordinary funds, umbrella funds, retirement annuity funds and preservation funds) from using certain prescribed auditor's report formats when preparing financial statements, on the condition that the large funds used the illustrative auditors' reports approved by the Independent Regulatory Boards for Auditors (IRBA), in particular the IRBA's –
- "Auditor's report template: Audit of the Financial Statements of a Large Retirement Fund (Schedule D)" (IRBA Auditor's Report); and
 - "Assurance Report on Compliance with Regulation 28 of the Pension Funds Act" (IRBA Regulation 28 Report).
- 2.3 On 5 July 2022, the PFA Regulations were amended to include additional reporting requirements in relation to infrastructure assets and amendments to the asset spreading requirements. The reporting requirements in BN 77 does not make provision for these new requirements. Considering that BN77 does not reflect the changes brought about by the amendments to the PFA Regulations, the FSCA provided clarity, through FSCA Communication 19 of 2023 (RF)³ that was published on 19 July 2023, on the existing misalignment between the prescribed Schedule IB and the amended PFA Regulations. In particular, it was clarified how Schedule IB should be interpreted and applied following the amendments to the PFA Regulations.

¹ Made under section 15(1) of the PFA, as published in as published in *Government Gazette* 37844 of 18 July 2014.

² Available on the FSCA's website under *Regulatory Frameworks < Notices < Retirement Funds < 2020* or by clicking on the following link:

[https://www.fsc.co.za/Notices/FSCA%20RF%20Notice%205%20of%202020%20and%20FSCA%20Communication%206%20of%202020%20\(RF\).zip](https://www.fsc.co.za/Notices/FSCA%20RF%20Notice%205%20of%202020%20and%20FSCA%20Communication%206%20of%202020%20(RF).zip)

³ Available on the FSCA's website under *Regulatory Frameworks < Industry Communication < Retirement Funds < FSCA Communication* or by clicking on the following link: <https://www.fsc.co.za/Regulatory%20Frameworks/Pages/Industry-Communication.aspx>

- 2.4 In June 2023, IRBA issued a revised IRBA Auditors Report which incorporated updates related to narrow-scope amendments made to International Accounting Standard (IAS) 1.

3. EXEMPTIONS RELATING TO REPORTING FORMATS

Schedule IB1

- 3.1 BN 77 Notice is currently in the process of being replaced with a Prudential Standard titled *Requirements related to Regulatory Reporting and Audited Financial Statements for Pension Funds* (the Prudential Standard). The Prudential Standard incorporates refined reporting requirements, including reporting aligned to the recent amendments to Regulation 28.
- 3.2 Until the Prudential Standard has been finalised, there will be misalignment between the amended PFA Regulations and the reporting requirements prescribed in BN 77. This misalignment includes misalignment in respect of infrastructure asset reporting as BN 77 does not provide for the latter, whilst the PFA Regulations include requirements related to infrastructure assets.⁴ This misalignment creates a challenge from an auditor reporting perspective as auditors cannot provide assurance on compliance with Regulation 28 if they did not audit whether a fund complies with the infrastructure reporting requirements.
- 3.3 As such, there is a need for the Regulation 28 audit report (Schedule IB1) to provide for an exception in respect of infrastructure reporting. The FSCA engaged IRBA in this regard and IRBA was not opposed to the FSCA providing for such an exception as an interim measure pending the finalisation of the Prudential Standard.
- 3.4 Therefore, the FSCA is providing for the exception relating to infrastructure reporting through an exemption in terms of which large funds are exempted from completing Schedule IB1 contained in BN 77 on the condition that such funds complete the revised Assurance Report on Compliance with Regulation 28 of the Pension Funds Act, which is included in Annexure A attached to FSCA RF Notice 26 of 2023.

Schedule D

- 3.5 In addition, there is a need to perpetuate the current exemption pertaining to the completion of Schedule D provided that a fund completes the IRBA Auditor's Report, also taking into account that IRBA may change the IRBA Auditor's Report from time to time (such as the updated version published by IRBA in June 2023).

Exemptions

- 3.6 In summary, the exemptions published in accordance with FSCA RF Notice 26 of 2023 therefore gives effect to the following:
- It exempts funds from the requirement to complete Schedule D, on the condition that funds complete the IRBA Auditor's Report, as approved and amended by IRBA from time to time; and
 - It exempts funds from the requirement to complete Schedule IB, on the condition that such funds complete Annexure A to FSCA RF Notice 26 of 2023 titled "Assurance Report on Compliance with Regulation 28 of the Pension Funds Act". The latter will only apply for the preparation of financial statements in respect of a financial year that ends after 31 December 2022. For any financial year that ends prior to 31 December 2022, the IRBA's illustrative "Assurance Report on Compliance with Regulation 28 of the Pension Funds Act" will still apply as an alternative to Schedule IB.
- 3.7 For ease of reference, the above can be summarised as follows in terms of financial year ends:

⁴ Also refer to paragraph 3.7 of FSCA Communication 19 of 2023 (RF).

Reporting period	Reporting formats
2018 - 2022	• Schedule D can be replaced with IRBA's illustrative "Auditor's report template: Audit of the Financial Statements of a Large Retirement Fund (Schedule D)" (i.e. the approved IRBA report as at the time of financial reporting) • Schedule IB1 can be replaced with IRBA's illustrative "Assurance Report on Compliance with Regulation 28 of the Pension Funds Act"
2023 onwards	• Schedule D can be replaced with "Auditor's report template: Audit of the Financial Statements of a Large Retirement Fund (Schedule D)" (i.e. the approved IRBA report as at the time of financial reporting) • Schedule IB1 can be replaced with Annexure A to FSCA Notice FSCA RF Notice 26 of 2023 - "Assurance Report on Compliance with Regulation 28 of the Pension Funds Act".

- 3.8 The exemption notice replaces FSCA RF Notice 5 of 2020 and will be valid pending the finalisation of Prudential Standard currently under development, which will ultimately replace BN 77.

4. ENQUIRIES

For further information regarding this Communication please contact the FSCA by emailing Ms Wilma Mokupo at Wilma.Mokupo@fsca.co.za.



ASTRID LUIDIN
DEPUTY COMMISSIONER

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