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28 April 2006.

The Financial Services Board

By email: dubet@fsb.co.za

Dear Sirs

We are responding to your request to disclose any form of bulking arrangement in your General Circular to Pension Fund Administrators dated 24 March 2006. We would like to place on record the following information:

We have a bulking arrangement with our Banking Facility which is held by Standard Bank. All our Fund main accounts, our plan accounts (individual participating employers under our Umbrella Funds) and our Clearing accounts are all with the Standard Bank CASMAN system. This is a prerequisite in our administration agreements (Annexure A attached) with all our clients, that all standalone funds, umbrella funds and their participating employers must use Standard Bank Fund Bank Accounts linked to our CASMAN profile, as it is part of the integration of our Administration Platform, with its processes and procedures.

Outlining our Integration of our Administration Platform:

1. The OMNI system holds the individual member's liability records;
2. ACCPAC is our Fund Accounting System;
3. CASMAN is our payment system for all, Fund Expenses, Investments and Claims.

All three of these systems are fully integrated which means, the OMNI system is set up with the fund profile and structure of each individual unique plan within an umbrella fund or standalone fund, i.e. the risk provider with the structure of risk benefits and the costing on the actual benefits, Investment strategy by member, administration fees and broker commission. Once data is fed into the OMNI system, OMNI updates ACCPAC electronically. CASMAN is then updated electronically and fed from ACCPAC, thus allowing us to make the standard monthly payment by the fund to the correct parties or members, by loading the information once into the system.

Additional Benefits of the CASMAN system:

- Fixed reduced monthly bank charges by Plan (Plan is a participating employee on an umbrella arrangement) and or Fund;
- Any excess bank charges, due to abnormal transactions in any specific month in any plan/fund bank account, will not be charged to that applicable plan /fund bank account instead these bank charges will come out of the clearing account.
- All CASMAN plan/fund current bank accounts share in the bulk interest received in the clearing account, without the CASMAN structure the plan/fund current accounts would earn NO interest. (see Standard Bank Annex B attached)
- The clearing account also receipts the bulk interest received on all the plan/fund bank account balances. This interest is then distributed on a sliding scale based on the balance in each individual plan/fund bank account. The difference between the interest received on the bulk balance and the interest paid at plan/fund level is utilized to cover the other bank charges mentioned above and in paying the consolidated payments of all plan/fund expenses to suppliers.
- Clearing account receipts all risk payments from each plan/fund enabling us to make one payment to the risk providers or suppliers thus reducing the administration cost and reconciliation process on risk benefits making our risk costs more competitive and reducing the overall cost of risk cover to each plan/fund.
- The individual plan/fund current bank accounts earns interest on all monies held in the bank account until monies have been released for fund expenses or member payments;
- Allows us the administrators to give an authorized user, one operating ID to access all plan/funds bank accounts on our platform;
- Allows authorized users on our network to access all plan/fund bank statements on demand;
- ACCPAC the accounting package feeds into CASMAN all payments by the plan/fund bank account allowing for faster and more accurate and secure processing;
- Better bargaining power on all plan/fund accounts held at one bank, i.e. negotiating all banking costs and all terms and conditions for housing loans on each participating plan/fund administered by us.
- All plan/fund monthly suppliers account details are loaded once in ACCPAC and then locked by a senior authorized user, restricting the authorized administrators releasing the monthly plan/fund payments and thereby reducing errors and increasing internal control on these repetitive standard payments.
- All monies receipted into a plan/fund banking account are cleared daily so that we can make payment on behalf of the plan/fund to the fund creditors and investment managers with no risk of the receipt being returned to drawer;
- All transfers of monies from plan to main fund account or visa versa on the Umbrella Schemes are cleared instantaneously;

- All monies disinvested on a plan/fund from any asset managers are paid into the main umbrella fund account and then transferred to the plan account with instantaneous clearance facilitating the release payment from the plan account to the members;
- Opening of new fund/ plan bank accounts are handled efficiently with no initial fees.

Please find attached Annexure B, where an exercise done by Standard bank shows the advantage of the reduced costs on the CASMAN system in comparison to having individual fund/ plan accounts not bulked on the CASMAN system.

It is important to note that our integrated system was designed around the CASMAN bulking system, and this is why it is a prerequisite of our administration agreement, as this would create the following problems:


- Increased administration fees as all authorized users would not be able to use one operator ID for all plan/fund bank accounts on our platform;
- Increased processing charges on a non integrated system as all payment details would have to be added separately to OMNI, ACCPAC and then bank payment system in order to make payments on behalf of the plan or fund.
- There would not be instantaneous clearing between plan and fund bank accounts with the result that there would be a delay in the processing of payments to providers and members;
- Fixed agreed bank charges allow us to set annual provisions for plan/fund expenses setting a standard monthly disinvestment before any claims are paid. Varying bank charges by plan/fund would create more calculations and checking functions increasing our administration function thereby indirectly increasing the administration fees for each plan/fund.
- No interest will be paid on any plan/fund bank accounts.

Standard Banks CASMAN system has added absolute value to our administration platform allowing us more competitive processing charges.


In conclusion, upon installation of a new fund we promote our integrated system and make it a prerequisite in our administration agreement for all plan/funds to bank with Standard Bank disclosing to the trustees and the clients the advantage of our integrated system with our bulking arrangement. The actual fluctuating monetary profit made in the clearing account by plan/fund is not disclosed on a rand basis by fund/plan to the trustees and clients, as the cost of this calculation would be astronomical and far exceed the benefits receipted in the clearing account. Therefore the disclosure is sufficient in our understanding and this is not perceived by the trustees as a "secret profit" as referred to in your general circular, but a sharing arrangement where the plan/fund bank accounts can now earn interest as apposed to not receiving any interest at all.

Hope this gives you a better understanding and is sufficient to your request if you need any more information please feel free to contact us.

Regards



Richard Olisen
Director



Lindy Wingrove-Gibson
Head: legal and Technical

Rules of the Fund and subject to such limitations and controls as supplied to the Administrator by the Fund from time to time.

5.1. Financial Services

The Administrator shall -

- 5.1.1. open and maintain appropriate bank current and, if necessary, call accounts in the name of the Fund with Standard Bank; provided that the Administrator shall appoint at least two signatories who shall have signing authority from time to time. Such signatories shall be appointed from a range of individuals authorised by the Trustees; All interest earned in respect of any monies deposited in the said bank accounts shall be for the benefit of the Fund and any bank charges or levies in respect of the monies held in such accounts shall be deducted from the said accounts.
- 5.1.2. deposit all contributions received from the Employer and/or members of the Fund by no later than the first business day following the date of receipt in the bank accounts referred to in clause 5.1.1.
- 5.1.3. supply cash flow details to the Fund and ensure that the investment mandate stipulated by the Fund's board of Trustees is carried out;
- 5.1.4. ensure that procedures are in place for reporting of contributions not received timeously in accordance with the provisions of the Act;
- 5.1.5. maintain records of accounts and registers for the Fund in accordance with the requirements of the Act, the Rules of the Fund and Generally Accepted Accounting Practice;

- 5.1.6. prepare the audit file for the annual external audit. This includes the presentation of fully reconciled accounts with supporting documentation;
- 5.1.7. reconcile and pay risk benefit premiums and other Fund expenses;
- 5.1.8. maintain the various fund reserves (data, risk, investment etc.,) necessary in terms of the rules of the Fund;
- 5.1.9. compile and submit all schedules and information necessary to enable the Auditors to prepare the Annual Financial Statements in the format required in terms of the Act and in accordance with generally accepted accounting practice;
- 5.1.10. prepare and submit returns to the relevant statutory authorities;
- 5.1.11. prepare or procure the preparation of the annual tax returns for the Fund, to lodge the same with SA Revenue Services and deduct the relevant taxes in terms of the Income Tax Act, 1962 (Act No. 58 of 1962) and any other taxation legislation which may be applicable from time to time;
- 5.1.12. ensure that the Fund participates in a cash management service.
- 5.1.13. pay all expenses and distributions authorised in terms of this Agreement from the bank account referred to in clause 5.1.1.

5.2. Data Maintenance and Management

The Administrator shall -

**Pricing pertaining to AOS
Accounts Not Administered**

Accounts Administered

Current Accounts

Opening of Account
Service Fee

No Charges
Charges will be negotiated for each individual account based on its own merits

No Charges
2.27:1.06%:R9.25

Cash Deposit Fee
Cheque Deposit Fee
Electronic Banking Charges

As above
As above
To be negotiated on the type of Business
On Line Product used

0.69: R17-95
0.92%
R596-00

Interest Rate

No interest earned on a current accounts

Preferential Rate negotiated:

Account linked to cash management
Interest earned on creditor balances negotiated. Currently on sliding scale rates: 1.50% up to R499 999 thereafter 4.50% up to R999 999 thereafter 5.00% up to R9 999 999 thereafter 5.25%

(Each account earning its own interest rate based on the sliding tiered rate depending on the balance of each account) eg: Group Balance R54m ie.interest at 5.25%. Account Balance R5 000 000 earning 5.00% with the difference of interest earned by the group

Investments

Opening of Account
Investment - Interest Rates

No Charges
Interest rates are depending on the type of investment and the period invested for. ie notice deposit, fixed deposit etc

No Charges
Interest rates are depending on the type of investment and the period invested for. ie notice deposit, fixed deposit etc

ANNEXURE B

PARLEMENT VAN DIE REPUBLIEK VAN SUID-AFRIKA
PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICATelefoon 403-2911
TelephonePosbus 15
P.O. Box
KAAPSTAD
CAPE TOWN
8000

Verw./Ref.

07 June 2006

Ms L Wingrove-Gibon (Head: Legal and Technical)
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2196

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Dear Sir

Public hearings on the practice of "bulking"

The Portfolio Committee on Finance notes with concern recent reports of secret profits being earned from "bulking" and other practices by administrators of pensions funds that are in clear breach of the obligations and conditions in terms of the licence received from the Registrar of Pension Funds. A circular dated 24 March 2006, issued by the Registrar of Pension Funds, called for a "full and frank disclosure of all practices that amount to the making of secret profits or gaining an improper benefit".

On Friday, 2 June 2006, a statement read in the National Assembly called for Parliament to hold public hearings on "bulking" as matter of urgency. In order to maintain public confidence in retirement fund industry, and in the financial sector as whole, the Portfolio Committee would like to invite Cubed Employee Benefits to the hearings on the issue of "bulking" to afford the industry role-players with the opportunity to brief the Committee on its role, if any, and allow for a proper debate on the matter. This is line with Parliament's vision of providing a national forum for public consideration of issues and seeking to act as the voice of the people.

The hearings have been scheduled for 20 June 2006, in the Room V474, Old Assembly Wing and 21 June 2006 in Room E.249, National Assembly Wing, Parliament. A copy of a more detailed programme will be circulated at a latter stage.

Please forward a written confirmation for the attention of Andre Hermans via e-mail at ahermans@parliament.gov.za or via fax at (021) 403 2182 or if you have any inquiries do not hesitate to contact him at (021) 403 3776.

Yours sincerely

N Nene, MP
Chairperson: PC on Finance

Is Bulking Unlawful?

In paragraph 1 of their circular dated 24 March 2006, the Registrar refers to the Pension Funds Act. Section 13B (1) of the Act states “ No person shall administer on behalf of a pension fund, or the disposition of benefits provided for in the Rules of the fund, unless the Registrar has in a particular case or in general granted approval thereto and the person complies with such conditions as the Registrar may from time to time determine in the particular case or in general.”

The Pension Funds Act therefore does not assist in determining the legality of bulking

In the Portfolio Committees invitation dated 7 June 2006 it is stated that Administrators of pension funds are “in clear breach of obligations and conditions in terms of the license received from the registrar”

- We submit that in terms of the obligations and conditions as contained in the license received from the Registrar, the issue of bulking cannot be considered to be clear
- If it was so clear why then did Alexander Forbes need to seek legal advice if they were in “clear breach of their obligations”?