The Financial Services Board

SOUTH AFRICA

Annual Report **2007**

FSB

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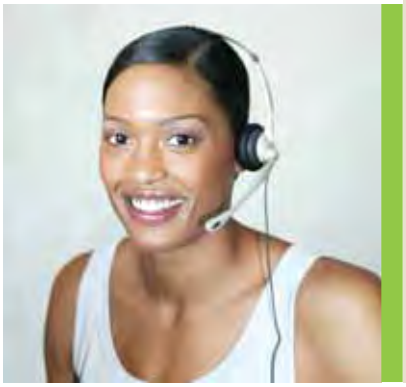


Vision

The FSB vision is:

To promote and maintain a sound financial investment environment in South Africa.

Mission

The FSB mission is:

- To continuously develop an effective regulatory framework
- To ensure effective supervision of our regulated entities
- To facilitate consumer education regarding financial products and services
- To collaborate with other government agencies, locally and internationally
- To comply with international standards
- To promote effective competition in the Industry.

Values and Guiding Principles

We at FSB will act professionally at all times in all that we do and say. To this end, we undertake to:

- Demonstrate the highest level of technical competence
- Conduct all our business in the highest level of confidence
- Collaborate effectively as team members to deliver effective services
- Enhance stakeholder synergy through collaboration
- Apply the regulatory framework in a consistent and fair manner
- Treat all with respect and empathy.

Dr CDR (Cyrus) Rustomjee

The work of the Financial Services Board (FSB) in the period under review has taken place against the background of bullish markets boosted by a strong economy. Figures by Statistics South Africa show that real GDP rose by an annualised 5,6% in the fourth quarter of 2006 and by 5,0% over the full year.

Higher levels of economic growth offer important opportunities for more South Africans to participate in the economy. Higher growth rates are generally associated with the deepening and broadening of the financial system, with a larger proportion of the population placing their savings and conducting their transactions through the intermediated financial system. South Africa has been no exception to this rule and, in the year under review, both access to financial services and the range of services provided in the financial sector have expanded significantly. The broadening and deepening of financial systems can also bring risks to consumers of financial services, to service providers and to the financial and economic system. In the period under review, these risks have been soundly managed by service providers and regulators alike.

"We have strengthened our focus on implementation and enforcement."

Developments

To implement the FSB's focus on enforcement, the Financial Advisory and Intermediary Services (FAIS) division has been split into three units – Enforcement, Supervision and Registration. Likewise, the institutions' Retirement funds division has been split into Enforcement and Surveillance, Licensing and Registration and Prudential units.

A new holistic approach for intensified supervision was established in 2005 to promote the early identification and ongoing management of systemic and organisational risks. Risk-Based Supervision, or RiBS, is now being successfully implemented.

Corporate Governance

The FSB Board regards corporate governance as vital to its well-being as a regulator and, as such, is fully responsible for its application within the organisation.

Committed to the highest levels of corporate governance, the FSB has complied with the key provisions of the King Report on Corporate Governance in South Africa – 2002 (King II) in the review period.

In keeping with that commitment, compliance with the relevant statutory and governance provisions of the FSB's governance policies also continued as a priority to safeguard the interests of all stakeholders.

The FSB's corporate governance structures and systems are subject to intense continuing internal scrutiny and refinement and in the year ahead we will continue to make appropriate investments to strengthen and protect our organisation's determination to maintain the highest standards of corporate governance.

International Cooperation

The FSB has regular contact with international organisations, including the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS) and the International Organisation of Pension Supervisors (IOPS). We have maintained and enhanced our relationships with these institutions in the past year.

Appreciation

The work of the FSB is crucial to position South Africa as the financial hub for Africa and for our country to be globally relevant. An industry survey conducted during the review period rated the FSB as highly relevant and professional. This would not have been possible without the very substantial contribution of the institution's dedicated and professional staff.

I would like to express my appreciation to all of the staff of the FSB, as well as the Executive Committee (Exco) for their continued and determined contribution to the creation of a professional, efficient and effective regulatory environment in South Africa. I would particularly like to thank the Executive Officer, Mr Rob Barrow, whose example of openness, transparency, integrity and professionalism is an inspiration to his team.

Finally, I would like to express my sincere appreciation to the members of the Board who continue to provide support and commitment to the FSB. In so doing they make a valuable contribution to the ongoing stability and development of the regulatory and supervisory framework underlying our robust financial system.

Dr Cyrus Rustomjee
Chairperson

1 **Dr CDR (Cyrus) Rustomjee, Chairperson (45)**
BA (Hons) CAIB (SA) BCom BProc MSc PhD.
Joined the Board in July 2003.

2 **Ms JV (Jabu) Mogadime (51)**
BA Marketing Diploma MBA.
Joined the Board in March 2004.

3 **Prof PJ (Philip) Sutherland (39)**
BCom LLB PhD.
Joined the Board in April 2002.

4 **Ms LM (Louisa) Mojela (51)**
BCom.
Joined the Board in January 2002.

5 **Mr BM (Brian) Hawksworth (71)**
CA (SA).
Joined the Board in March 2004.

6 **Ms HS (Hilary) Wilton (51)**
BCom MBA FCII.
Joined the Board in July 1997.

7 **Ms T (Tshidi) Mokgabudi (52)**
BCom (Hons) CA (SA).
Joined the Board in January 2006.

8 **Mr AM (Abel) Sithole, Deputy Chairperson (44)**
BA MBA CFP.
Joined the Board in January 2002.

1 Mr M (Mashudu) Munyai (47)
Deputy Executive Officer: Insurance. BCom BAcc CA (SA).
Joined the FSB in June 2004.

2 Mr GE (Gerry) Anderson (53)
Deputy Executive Officer: Market Conduct and Consumer Education. Nat Dip BCom (Law) BAdmin (Hons).
Joined the FSB in June 1991 as Head: Management Services.
Became Deputy Executive Officer in January 2002.

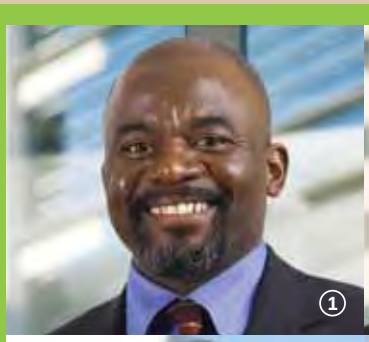
3 Mr JA (Jurgen) Boyd (50)
Deputy Executive Officer: Retirement Funds and Friendly Societies since May 2006. BCompt (Hons) CA (SA).
Joined the FSB in 2000 as Head: Collective Investment Schemes.

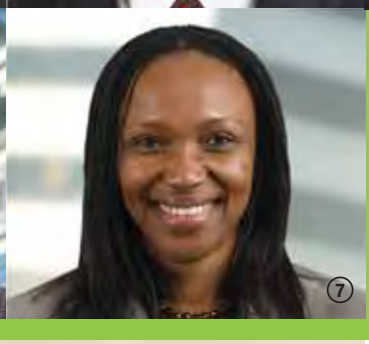
4 Mr RJG (Rob) Barrow (60)
Executive Officer. CA (SA).
Joined the FSB in 1997 as Deputy Executive Officer: Investment Institutions.

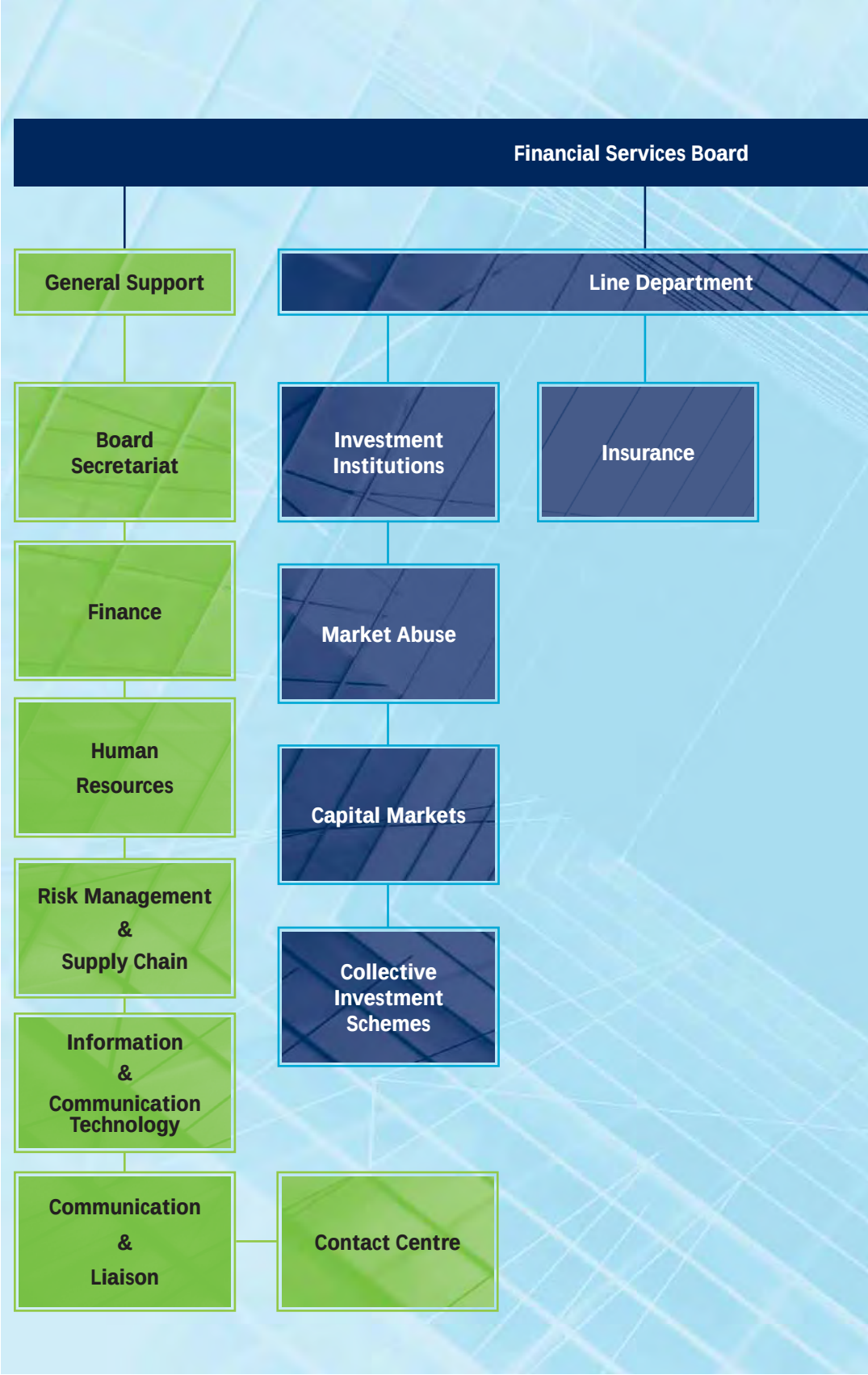
5 Mr MM (Marius) du Toit (45)
Chief Actuary. B.Com., F.I.A.
Joined the FSB in May 2007.

6 Mr DP (Dube) Tshidi (55)
Deputy Executive Officer: Investment Institutions since May 2006. LLM. Joined the FSB in 1994.
Became Deputy Executive Officer: Retirement Funds and Friendly Societies in January 2002.

7 Ms CWN (Nosipho) Molope (42)
Chief Financial Officer. BSc (Med) B Compt (Hons) (CTA) CA (SA).
Previously a member of the FSB Board since March 2004.
Appointed Chief Financial Officer of the FSB in August 2005.






Financial Services Board
General Support
Line Department
Board Secretariat
Investment Institutions
Insurance
Finance
Market Abuse
Human Resources
Capital Markets
Risk Management & Supply Chain
Collective Investment Schemes
Information & Communication Technology
Communication & Liaison
Contact Centre


Financial Services Board
Line Department
Line Support
Retirement Funds & Friendly Societies
Market Conduct & Consumer Education
Actuarial
FAIS
Inspectorate
Consumer Education
Legal & Policy

Report by the Executive Officer

Left to right:

Russel Michaels
Head: Communication and Liaison

Elias Phiyega
Head: Legal and Policy

Nosipho Molope
Chief Financial Officer

Dawood Seedat
Head: Inspectorate

Jabulane Hlalethoa
Head: Human Resources

George Beyl
Head: Information and Communication Technology

Marius du Toit
Chief Actuary

Rob Barrow
Executive Officer

Introduction

This section of the annual report covers the operational and administrative activities of the support departments of the FSB. Reports on consumer education and market conduct, the industries we supervise, market abuse and our financial statements follow this section. The reports cover the period from 1 April 2006 to 31 March 2007, although some of the statistics and information relate to other periods, as is explained.

While the divisional and departmental reports deal with issues in detail, my comments focus on the more significant issues only.

From a regulatory perspective, the year was dominated by two significant issues:

The first was the detection of secret profits being made by pension fund administrators. It is disturbing to note that various practices that skimmed off revenue into the hands of administrators without the knowledge of pension fund trustees were wide-spread in the industry. These practices were in many cases not specified in contractual agreements and clearly in contravention of the agency capacity within which pension fund administrators are required to operate, let alone the duties of good faith they owe to the pension funds they administer. In most cases the matter was resolved by administrators agreeing to repay the amounts to the pension funds together with compensatory interest thereon. We are still dealing with certain administrators who are resisting making refunds to their pension fund clients.

The second major issue was the inspection and subsequent application for curatorship of the investment management business of the Fidentia Group, as well as two other entities with which Fidentia had been involved. The extent of the abuse of client funds and the profile of investors that will lose money is a cause for concern. It must be appreciated that when unscrupulous management set out to fraudulently misappropriate investor funds, it is virtually impossible to detect their wrongdoings at an early stage. The media smear campaign that Fidentia management embarked upon through the use of an irresponsible public relations firm in an attempt to discredit the FSB was clearly an attempt to divert attention from their own criminal activities. I am pleased to confirm that none of their allegations proved to have any substance and that the FSB's reputation has remained intact. It is anticipated that the curators' investigation will reveal numerous instances of fraud, theft, bribery and corruption. It is pleasing to note that the National Prosecuting Authority (NPA) has already instituted criminal proceedings against certain individuals and we hope that this will extend to all parties that were involved.

Risk-based Supervision

We have now successfully introduced a risk-based approach to supervision. While certain aspects of the approach are in the early stages of development, it is anticipated that this approach will enhance the intensity of our supervisory processes and maximise utilisation of our limited resources. To fully implement the revised supervisory approach it has been necessary to increase staff numbers, particularly in the Financial Advisory and Intermediary Services (FAIS) division, and our resource plan anticipates further increases in the coming year.

Stakeholder Relationships

During the year we commissioned a survey of industry opinion about our service levels and standards. I am pleased to say that overall there was agreement among respondents about the relevance of the FSB's delivery standards. Almost three-quarters (74%) rated the relevance of the delivery standards positively and 71% of the respondents were either satisfied or very satisfied with the FSB's professional conduct. A majority of 72% were of the view that the FSB is fulfilling its mandate.

The results show that a substantial majority of respondents felt that the FSB performs its regulatory functions either very well or quite well, with relevance being rated extremely highly by nearly 90% of the respondents.

It is clear that the industry generally is highly supportive of the FSB and appreciative of its professional standing. Certain negative perspectives that were highlighted are issues that are being addressed in our strategic and business plan objectives.

Generally, the industries we supervise are in a sound financial position. This must be seen against the backdrop of a growing economy and sustained bull market which has now continued for longer than most growth phases in the past. While economic fundamentals remain sound it must be anticipated that a cooling-off cycle, or even a marked down-trend, can be expected. For this reason it is important to ensure that our regulatory structures and the conduct of individual players in the financial markets are sufficiently robust to withstand the bad as well as the good times. We continually review and assess our functions to ensure that our processes remain robust.

Appreciation

I attribute the success we have achieved in the past year and the favourable perception by industry to the cooperation and support of the FSB staff. To the members of Exco, I owe gratitude for hard work, commitment, enthusiasm, loyalty and support in the past year.

I also wish to express my appreciation and thanks to the members of the Board, especially the Chairperson, Dr Cyrus Rustomjee, for his sterling leadership.

Finally, I extend thanks to the Honourable Minister of Finance, the Deputy Minister of Finance and the Director-General of the National Treasury and his staff for their cooperation and encouragement.

Human Resources

Staff Complement

The staff complement on 31 March 2006 was 309, including contract staff. This figure increased by 4,21% to 322 on 31 March 2007. Due to operational reasons such as the lack of space and staff turnover, the FSB could not reach its target of employing an additional 77 people for the period under review. Plans are under way to take the capacity up to 420 by March 2008.

The workforce (including contract staff) as at 31 March 2007 was as follows:

	2002	%	2003	%	2004	%	2005	%	2006	%	2007	%
Black Female	55	27	69	31	70	29	71	28	101	33	111	40
White Female	53	26	56	25	40	17	57	23	61	20	40	12
Black Male	59	29	64	28	73	31	81	32	97	31	125	34
White Male	38	18	37	16	54	23	42	17	50	16	46	14
Total Staff	**205**	**100**	**226**	**100**	**237**	**100**	**251**	**100**	**309**	**100**	**322**	**100**

Employment Equity

The FSB employed 52% female staff and 74% black staff as at 31 March 2007. At the executive level, 57% were black and 43% white. At senior management and senior specialist level, representation was 59% white and 49% black. Efforts are being made through training and secondment to develop potential talent in our middle management to ensure that black talent can be advanced where opportunities arise.

Recruitment and Selection

The following 93 vacancies were filled from 1 April 2006 to 31 March 2007:

Organisational Band	Narrative	Total Number
Band A	Executives	1
Band B	Senior management and senior specialist	2
Band C	Middle management and professional staff	15
Band D	Junior management and professional staff	42
Band E	Administrative and professional staff	30
Fixed-term contract	Administrative and professional staff	3

Significant Appointments and Terminations

The following senior appointments were made in the year under review:

- Mr Dube Tshidi was transferred from his previous role as Deputy Executive Officer: Retirement Funds to Investment Institutions
- Mr Jurgen Boyd as Deputy Executive Officer (Retirement Funds)
- Ms Felicity Mabaso as Head: Market Conduct FAIS Registration – internal appointment
- Ms Wendy Hattingh as Head: Market Conduct FAIS Supervision – internal appointment
- Mr Dawood Seedat as Head: Inspectorate – external appointment
- Mr Jacob Mahlangu as Head: Collective Investment Schemes – external appointment.

The following senior level retirement took place:

- Mr Mike Codron, Chief Actuary, retired at the end of February 2007.

Staff Turnover

From April 2006 to March 2007, the total staff turnover was 13,9%, comprising the following:

- Employer-controllable (retirement, dismissals) – 1,7%
- Employee-controllable (resignation/other) – 12,2%.

The statistics included:

- 43 Resignations (13 at Band C, 19 at Band D, 10 at Band E and 1 fixed-term contractor)
- 3 Retirements (1 Band A, 1 Band C and 1 Band E)
- 3 Dismissals (3 x Band E).

Employment Practices

The FSB complies with the provisions of Employment Equity (EE), skills development legislation and labour law in general. Staff meetings are held regularly to ensure ongoing communication. During the year under review, the FSB reward strategy was revised to ensure that the staff is remunerated in line with market trends and that salaries out of line with the market median are amended through structural adjustments bi-annually.

Employee Health

We maintain a healthy working environment by protecting the physical and emotional health and well-being of all employees. The utilisation of the FSB wellness programme is on par with industry norms at 14%. The FSB has adopted non-discriminatory practices and is committed to employing people with disabilities.

Performance Management

Exco considered exceptional performance during the year under review and cash incentives in the form of performance bonuses were paid to the top 25% performers. Exco members were also awarded performance bonuses during the year under review.

Training, Bursaries and other Development Programmes

Staff attended several training programmes during the review period, some of which are tabled below:

Course	Number of attendees
Work Life Balance	21
Executive Development	1
Emotional Intelligence	71
Targeted Selection Training (Recruitment)	25

Disciplinary Hearings

There were three disciplinary hearings during the year under review. The cases related to various misconducts by employees. Two employees were dismissed and one was acquitted on all charges.

Financial Report

The FSB is funded entirely from levies and fees that it charges regulated entities. The FSB prepares its budget annually based on its operational requirements, which are in turn informed by its business plan that incorporates a resource plan. Actual levies raised for the year were R224,4 million (2006: R187,3 million), including R21,8 million (2006: R11,8 million) and R11,2 million (2006: R8,8 million) for funding the Offices of the Pension Funds Adjudicator (PFA) and the Ombud for Financial Services Providers (FAIS Ombud) respectively. The increase in FSB levies accounts for 75% (2006: 15%) of the overall increase of 20% and the increase in levies raised to fund the Offices of the PFA and the FAIS Ombud accounts for the balance of 25% (2006: 5%). The increase includes both a rate and a levy base increase, with FAIS accounting for 40%, pensions 30% and insurance 20% of the FSB levy increase. The balance of 10% comes from other regulated industries.

The net surplus for the year under review was R61,4 million (2006: R31,5 million) against a budgeted deficit of R346 000 (2006: R9,1 million surplus). The FSB budget for the 2006/7 financial year excluded the budgets of the Offices of the PFA and the FAIS Ombud as these were treated differently at the time the budget was prepared. The FSB subsequently changed its accounting policy with regard to accounting for the levies raised for funding these Offices, which was effected in the 2006 annual financial statements.

It is the policy of the FSB not to allow cross-subsidisation between industries and the accumulated industry surpluses or deficits are reflected separately. An analysis of accumulated funds per industry is set out in Annexure B. In the past, the FSB rebated over-recovery of levies in excess of its requirements. In the last few years though, with the implementation of the FAIS Act having caused a strain on the FSB's cash flow, it has not been possible to rebate any industries. In view of the significant net surplus for the year under review and improvement in cash flow, the FSB Board has resolved to rebate R23 million in total: Pension Funds (R10 million), Insurance (R10 million), and Collective Investment Schemes (CIS) (R3 million).

The analysis of the net surplus is set out below:

Income – Favourable variance of R64,3 million

The favourable variance comprises the following:

- Fines and penalties of R1,9 million (2006: R4,2 million) (refer to note 12). Fines and penalties are charged to regulated entities for non-compliance with submission deadlines. Due to the nature of fines and penalties, they are not normally budgeted for. The inconsistency or volatility of this line item from year to year makes it difficult to gauge with any certainty what level of activity can be expected in any given year. The reduction in fines and penalties could also indicate improvement in compliance by industry

- Inspection cost recoveries of R560 000 (2006: R4,6 million) and other income and cost recoveries of R4,8 million (2006: R2,6 million) (refer to the income statement and note 12). Other income and cost recoveries include legal fees recovered and monies recoverable from the Directorate of Market Abuse. These income categories are of a similar nature to fines and penalties and are difficult to budget for

- Levies raised to fund the Offices of the PFA and the FAIS Ombud amounting to R21,8 million (2006: R11,8 million) and R11,2 million (R8,8 million) respectively (refer to note 11). The FSB is responsible for funding the operations of the Offices of the PFA and the FAIS Ombud in terms of the Pensions Funds Act, as amended and the FAIS Act, respectively. To enable the FSB to honour its legal obligation, it raises separate levies from the regulated entities that fall within the relevant industries. These levies were not included in the FSB levy budget for 2006/7 as mentioned above

- Income from investments of R9,2 million (2006: R5,7 million). This comprises interest income of R5,4 million (2006: R2,5 million) which includes interest earned from monies recoverable from the Directorate of Market Abuse and outstanding FAIS debtors, as well as interest earned on bank balances. The balance of the variance is made up of interest income from the post retirement medical (PRM) portfolio and discretionary funds of R3,1 million and R700 000 respectively, both of which were not budgeted for

- An over-recovery of R4,8 million (2006: R7 million) in levy income. The over-recovery of levies was due to the fact that, for some industries, the levy budget is based on historical industry information available at the time of the budget, while levy invoices are based on updated information. In addition, the number of regulated entities may have increased during the year, which is normally the case with FAIS

- Fee income of R10,1 million (2006: R5,1 million) more than budget, which is due to the nature of fees as these depend on the amount of profile changes requested by clients, as well as the number of applications received and processed, and includes claims from the Directorate of Market Abuse (refer to note 22.2).

Expenditure – Unfavourable variance of R2,5 Million

The unfavourable variance comprises the following:

- Funding provided to the Offices of the PFA and FAIS Ombud, which amounted to R14,8 million (2006: R13,3 million) and R10,8 million (2006: R9,1 million) respectively. These amounts were not included in the FSB expenditure budget as mentioned above, but did form part of the approved budgets of the respective offices

- Included in other operating expenses are:
  - Discretionary expenses of R2,3 million (2006: R4 million), which were incurred in relation to approved consumer education projects funded from the discretionary funds (refer to note 15.2)
  - PRM expenses of R580 000, which are not normally budgeted for

- Savings of R20,4 million in staff-related costs, which include an adjustment of R3 million due to an increase in the pension fund asset. The FSB is on a recruitment drive to increase its resources particularly in the FAIS department which has progressed into the supervision and enforcement phase of the implementation of the FAIS Act. The employment of people with the requisite skills is proving to be a challenge. This has resulted in some delays in filling vacant positions, which in turn results in savings in budgeted related costs

- Savings of R5,6 million in general expenses.

Information and Communication Technology (ICT)

Systems Development

During the reporting period, a new workflow system was developed and implemented for the Collective Investment Schemes (CIS) department, incorporating all registration, compliance, supervision and legislative functions into 19 automated workflow processes.

These workflow processes were integrated with the FSB's document management system. Additional modules for utilisation by external parties, such as management companies, were also developed for electronic submission of annual financial statements, quarterly reports and capital adequacy reports.

Ongoing maintenance was performed on the existing pensions, FAIS and insurance workflow systems:

- For the Pensions department, the analysis functions of financial statements received electronically were refined
- Packaged software was developed to enable trustees to submit risk-based supervision questionnaires to the Pensions department.

Risk-based supervisory functions were developed for the FAIS division, which were incorporated into a number of existing workflow processes. Other developments for the FAIS division included:

- hedge fund licensing functions
- various management statistics reports
- changes to a number of processes such as profile changes, statutory returns and compliance reports.

For the Insurance division, changes were made to the mechanism of electronic submission of financial statements:

- A Business Intelligence System developed by external consultants during the previous financial year was also implemented during the period under review. This system was integrated with the in-house developed workflow system and allows for a detailed analysis of financial statements by the Insurance Prudential and Actuarial departments.

Document Management

The document and content management system implemented during the previous financial year was customised further and rolled out to the entire organisation, including integration with the

newly developed CIS workflow and insurance workflow systems. Special software had to be developed to convert all documents stored in these systems to the new document management system. Conversion is under way, after which the integration between the new document management system and the FAIS and pension systems will be implemented. This integration includes automatic indexing of documents received in bulk through various electronic mechanisms, as well as web submissions.

Network Infrastructure and Data Storage

A storage attached network (SAN) solution was acquired in December 2006. The installation is scheduled for completion by July 2007. The first system to be migrated, without any major disruptions to users, was the MS exchange (e-mail) server. The ICT department is monitoring the mail system to ensure that maximum performance is achieved.

Disaster Recovery

The SAN system includes a fully duplicated disaster recovery setup of the production environment and will dramatically change and simplify the disaster recovery and business continuity process.

Inspectorate

The department finalised 18 inspections during the period under review.

The following table summarises the number of inspections per line department:

Department	Number of inspections
Financial Advisory and Intermediary Services	5
Insurance	2
Retirement Funds	10
Collective Investment Schemes	1
Total	**18**

Considerable time, effort and resources were spent conducting the Fidentia and related entities inspection. The department continues to support the investigating law enforcement agencies and the curators of Fidentia, Ovation and Common Cents. It also assists the NPA to prosecute individuals in the Life Care Pension Fund ('Ghavalas option') prosecutions.

As a result of inspection reports emanating from the department, the Registrar was able to take various forms of action. These included suspension or withdrawal of licences, submissions to prosecuting authorities and applications to place certain retirement funds and Financial Services Providers (FSPs) under curatorship. In addition, the Registrar was able to provide information to foreign regulators requested in terms of Memoranda of Understanding (MoU) with the FSB.

On 21 June 2006, the High Court (Durban and Coast Local Division) found in favour of the applicant in the matter of VHM Wasserfall vs the FSB. This ruling requires that there should be sufficient evidence that an entity is an associated institution before an inspector conducts a search of the premises in terms of the powers conferred on him by Section 4 of the Inspection Act. The inspectorate has accordingly realigned its policy and guidelines on search and seizures in terms of the Inspection Act.

The department has realigned its processes around inspections to take into account the evolution of computer and cyber forensics as a tool in unearthing information used in inspections. This service

is outsourced at a substantial cost to the FSB. The feasibility of creating an in-house computer and cyber forensics laboratory is being explored.

Liaison with and Assistance to Law Enforcement Authorities and Other Regulators

The department ensures that requests from other regulators and law enforcement agencies are dealt with satisfactorily. The inspectorate provides support to the Specialised Commercial Crime Unit and Directorate of Special Operations on matters referred to them by the Registrar.

The department is involved in training programmes for the Commercial Branches of the South African Police Services countrywide. We will be providing further training on the Pensions Funds, Inspection and Financial Institutions (Protection of Funds) Acts, as well as the Short- and Long-term Insurance Acts.

We are in discussions with the NPA for the inclusion of legislation under the jurisdiction of the FSB to be incorporated as part of the prosecutors' college training programme.

Actuarial

Mr MJ Codron retired as Chief Actuary during February 2007. Mr MM du Toit was appointed to the position on 1 May 2007.

Pensions

This area of the department primarily deals with transfers between funds, actuarial valuation reports and surplus schemes in terms of the Pension Funds Act.

Transfers between Funds

During the financial year, the Registrar of Pension Funds issued one Information Circular dealing with transfers between funds (section 14 applications) to provide clarity and guidance to Industry.

The department largely managed to maintain a turnaround time of less than 14 days for the processing of section 14 applications. These applications are often pended, due to a variety of reasons, an action that causes significant delays. A total of 1 605 applications were pended as at 31 March 2007. Regular follow-ups are made, but should no response be received, these are cancelled in terms of the Service Level Commitment with Industry (Information Circular 7 of 2005).

The main reasons for pending section 14 applications are as follows:

- The submission of applications falls outside of the 180-day period in terms Circular PF120
- General non-compliance with PF120
- Submission of incomplete applications
- Funds losing their valuation-exempt status but applying as if they were valuation-exempt.

Actuarial Valuation Reports

The Registrar of Pension Funds introduced penalties for the late submission of statutory actuarial valuation reports. For each day that a report is late, a penalty of R50 is charged.

Surplus Schemes

During the financial year, the Registrar of Pension Funds issued two Pension Fund Circulars and two Information Circulars providing guidance on surplus schemes. The Registrar reviewed Board Notice 35 of 2003 and re-issued it as Board Notice 44 of 2006. In terms of this Board Notice, a schedule of economic statistics is regularly updated on the FSB website.

Nearly five-and-a-half years have passed since the Pension Funds Second Amendment Act came into being on 7 December 2001 and all funds have already passed their surplus apportionment dates and should already have submitted their surplus schemes. The Chief Actuary has on several occasions met and corresponded with administrators to speed up the process, but the response remains poor.

As at 31 March 2007, 6 432 surplus schemes had been submitted out of an estimated 12 600 for stand-alone funds (approximately 51%). It is estimated that there are up to 1 500 schemes outstanding with respect to stand-alone funds and it is uncertain as to whether or not these have a surplus to apportion. The balance of the stand-alone funds is likely to be dormant and would be dealt with in terms of Circular PF127. Funds that commenced and registered after 7 March 2002 are not required to submit surplus schemes.

Furthermore, 9 296 surplus schemes had been submitted out of an estimated 26 000 sub-funds of umbrella funds (approximately 35%). The vast majority of these schemes do not have a surplus to apportion.

Of the surplus schemes submitted, only 594 have a surplus to apportion and the balance is nil surplus submissions.

In certain cases the Registrar exercised his remedies and specialist tribunals were appointed in 89 cases for the non-submission of a surplus scheme.

The Chief Actuary will continue interacting with administrators and advisors to funds in order to finalise the process.

As a result of the decision by the High Court in the matter between the Sanlam-Pensioenfonds (Kantoorpersoneel) and the Registrar of Pension Funds, Circular PF128 was issued to clarify the Registrar's position and to give guidance on the submission of surplus schemes pending the outcome of an appeal against the Court's decision. This judgement resulted in a significant setback and will only be resolved when the appeal is heard by the courts or when proposed amendments to the Act have been passed by Parliament.

National Treasury published an explanatory summary of the Pension Funds Amendment Bill, 2007 as Notice 169 of 2007 in the Government Gazette dated 16 February 2007. Written representation on the Bill had to be submitted by 16 March 2007.

Insurance

Long-term Insurance

The Chief Actuary and the Insurance Specialist Actuary have been assisting the National Treasury in developing regulations to integrate the Statement of Intent (which was signed between the Minister of Finance and various long-term insurers in December 2005) into the Act. The new Regulation 5, dealing with minimum values on certain events, was promulgated in December 2006.

Directive 147 dealing with the governance of discretionary participation products was published in December 2006. This Directive requires that long-term insurers should define a document called the "Principles and Practices of Financial Management" (PPFM) that are applied in the management of discretionary participation products by their 2007 year-end. By publishing the PPFM insurers will disclose the nature and extent of the discretion used by them, and the parameters within which this discretion will be used. The directive aims to ensure that decisions by the insurers are in accordance with the PPFM, to monitor any changes that are made to the PPFM and to introduce an annual confirmation of compliance to the PPFM in the statutory return.

Short-term Insurance

The Financial Condition Reporting (FCR) working group, with representatives from the South African Insurance Association, South African Institute of Chartered Accountants, South African Revenue Services and Actuarial Society of South Africa (ASSA) continued its quarterly meetings during 2006 to develop a new proposal on FCR for short-term insurers by the end of the year, as planned. The working group was divided into three subcommittees that investigated internal models, certified models, and risk management and disclosure respectively. The FCR working group released an issues paper for industry comment on 15 December 2006.

The statutory returns for 2006 and 2007 include an FCR calculation "engine." This will automatically calculate the capital requirement on the new proposed prescribed basis. This enables insurers to:

- Determine the impact of the new prescribed basis on their required capital
- Do some scenario testing.

Relationship Management

The department continues to develop and maintain sound industry relationships. The Chief Actuary has enjoyed substantial media coverage regarding surplus apportionment schemes.

On the international front, the Chief Actuary has maintained his involvement with the International Actuarial Association (IAA) by serving as a member of the Professionalism Committee of the IAA and as secretary to the Pension Benefits and Social Security section of the IAA.

The Chief Actuary and the pensions specialist actuary attended the 28th International Congress of Actuaries in Paris from 28 May to 2 June 2006.

The Chief Actuary and the pensions specialist actuary attend meetings of the Retirement Matters Committee of the Actuarial Society of South Africa (ASSA).

At the end of 2006, the insurance team made a presentation to ASSA on the results of an investigation into the typical long-term valuation basis used by statutory actuaries during 2005.

The insurance specialist actuary continues to serve on the Short-term insurance and Life Assurance committees of ASSA. The Chief Actuary also attends the meetings of this Life Assurance committee.

The Insurance specialist actuary became a member of the International Association of Insurance Supervisors' Solvency and Actuarial subcommittee and actively participates in its work. The FSB hosted one of this subcommittee's meetings in January 2007.

Objectives for 2007

The department's main objectives over the next year are to:

- Ensure that the required turnaround time is maintained for section 14 applications
- Encourage industry to finalise the submission of all surplus schemes
- Assist National Treasury with legislative changes to the Pension Funds Act, the Retirement Reform process and investigations regarding social security, as required
- Continue developing proposals with industry to introduce Financial Condition Reporting for short-term insurers

- Start with an investigation regarding the role of the statutory actuary in a life insurer
- Continue to provide support in developing the details of the issues paper on contractual savings
- Assist with legislative changes to the Long-term and Short-term Insurance Acts.

Communication and Liaison

The function of the Communication and Liaison department is to manage communication, perceptions and strategic relationships between the FSB and its various stakeholders. It also entails enhancing communication with industry, providing information to consumers, facilitating interaction between the FSB and the media and monitoring the organisation's media exposure and branding.

During the review period, the department issued several media releases on topics ranging from consumer alerts, through FAIS licence updates and court determinations involving FSB litigation to important industry issues. The Fidentia matter, in particular, generated significant media coverage.

Media coverage of the FSB equaled an Advertising Value Equivalent (AVE) of R11,4 million (2006: R17,8 million).

In terms of publications, the department

- Produces the in-house staff newsletter, *Regulators Rumours*
- Serves on the editorial committee of the *FSB Bulletin*
- Assists with the production of the FSB annual report.

The head of the department is a member of the Public Relations Institute of South Africa (PRISA), the Gauteng North region of the International Association of Business Communicators (IABC) and the National Press Club, Pretoria.

Contact Centre

The FSB Contact Centre, which also manages the Call Centre function for the Office of the Ombud for FAIS, received 114 935 calls during the year under review. This figure represents a 14,9% decrease on the previous year. However, due to increased demand, the Contact Centre showed a call abandon rate of 15,6% or 17 983 calls. Due to the nature of contact centres generally, we experienced high staff turnover and are in the process of recruiting staff.

	Calls received	Calls answered	Calls abandoned
FSB	109 347	92 722	16 603
FAIS Ombud	5 588	4 208	1 380
Total	**114 935**	**96 930**	**17 983**

During the review period, the FSB Contact Centre dealt with a variety of call types. A large number of calls were FAIS-related, regarding compliance reports, new applications and financial statements. The Contact Centre still receives calls relating to pension funds surpluses. Enquiries by fax, mail, e-mail, voice-mail and walk-in clients also increased during this period.

Legal and Policy

The function of the FSB's Legal department is to provide legal support to the Board that is professional, effective and easily implemented.

The year under review provided the department with eventful, exciting and precedent-setting opportunities which enabled the FSB to discharge its supervisory obligation properly and in a legally compliant manner.

Some of the activities that occupied the department during the year are as follows:

Legal Proceedings

Legal proceedings constituted the bulk of the department's activities.

Curatorships

During the review period, the department prepared and launched High Court Applications to place the business of numerous financial institutions under curatorship. The curatorships resulting from these applications were often complex, attracted a high level of media and public attention and affected the interests of many people.

The most complex of these was the Fidentia Asset Management (Fidentia) curatorship. Indeed, the impact of this curatorship is still attracting public and media attention.

Other related curatorships the department helped launch involve Common Cents Investment Portfolio Strategies (Common Cents) and Ovation Global Investment Services (Ovation).

The FSB Board of Appeal

The FSB Appeal Board ensures that decisions of the various Registrars are subjected to a Tribunal which is independent and impartial. However, the decisions of the Appeal Board itself are sometimes subjected to the scrutiny of the High Court.

The number of appeals to the FSB Appeal Board escalated dramatically during the year under review. This was due to the advent of the FAIS Act and the Registrar's determination of the fit and proper requirements applicable to FSPs, as well as the implementation of the surplus legislation under the Pension Funds Act. At the beginning of the year, 15 appeals were pending before the Appeal Board and by the end of the year 33 new appeals had been received. These appeals are in various stages of finalisation.

Reviews were brought against the Appeal Board's determinations relating to situations in which it upheld the Registrar's rulings on the interpretation of various statutes under the FSB's control.

Where the FSB and individual financial institutions differ on the interpretation of certain laws, declaratory orders are often sought from the High Court. This is to provide certainty for the Registrar and regulated financial institutions regarding their operations. One such declaratory order is being sought in terms of section 45 of the Long-term Insurance Act relating to the interpretation of the prohibition on inducements, continuation and cancellation of insurance. This matter is before the courts and ought to be finalised soon.

Declarators

During the year under review, a declarator was sought to ascertain whether legislation relating to the improper use of pension funds before the introduction of surplus legislation should have retrospective effect.

The matter was decided against the FSB and we have approached the Supreme Court of Appeal for further clarification of the matter, which is still pending. However, in view of the amendments that have been introduced to the Pension Funds Act, the clarification sought by the FSB may become moot.

Joint Municipal Pension Fund v Registrar of Pension Funds and 23 Others

As reported in the previous financial year, this retirement fund suffered a loss as a result of injudicious investments in agricultural derivative products. The fund instituted action against a number of defendants, including the Registrar of Pension Funds, to recover its loss, which was in excess of R1,9 billion.

The plaintiff's claim has highlighted the nature of the relationship between the regulator and a regulated entity and specifically the question of whether or not there is a duty on the regulator to prevent a retirement fund from acting contrary to its own interests when making high-risk investments. The Registrar filed an exception to the plaintiff's claim on the basis that its actions (or inactions) do not warrant legal action as it acts, *inter alia*, in the public interest without attracting liability towards regulated entities. The exception is pending before the High Court.

Legislation

During the year under review, the department was involved in drafting and scrutinising various pieces of legislation, the most important of which is the Financial Institutions Amendment Bill, 2007. The purpose of this Bill is to provide for issues such as the rectification of outdated references, the appointment of an acting executive officer, the establishment of an enforcement tribunal and various other matters.

The final version of the Bill has already been submitted to National Treasury. It is hoped that it will pass through Parliament this year.

Non-legal Matters

Information Centre

During the year, the department dealt with various issues such as ensuring that the Information Centre of the FSB is properly resourced and operates at optimal level.

Security Vettings

The department has also been involved in ensuring that the FSB complies with the Minimum Information Security Standards prescribed by the State. This has been done by having the staff of the FSB properly security-vetted.

Financial Intelligence Centre Act

The FSB is a supervisory institution as defined in the Financial Intelligence Centre Act (FICA). As such, it is required to ensure that the institutions it regulates are fully compliant with the provisions of that legislation, especially regarding their Customer Due Diligence obligation. The FSB has already gone a long way towards ensuring that the institutions under its supervision are compliant and has considered such compliance as a prerogative when on-site inspections are undertaken.

The Financial Action Task Force (FATF), an international organisation established to combat money laundering and the financing of terrorism, is to assess South Africa's compliance with its recommendations. Self-assessment questionnaires, which are sent to all supervisory institutions to enable them to prepare for the FATF assessment, have been received by the FSB and are being reviewed.

These assessments will be used by the FSB and the Financial Intelligence Centre (FIC) to gauge South Africa's readiness for and compliance with the FATF standards. Consequently, the FSB's Legal department is ensuring that when the assessments take place in 2008, our regulated institutions will be compliant.

RJG Barrow
Executive Officer

Market Conduct and Consumer Education

Left to right:

Wendy Hattingh
Head: FAIS Supervision

Manasse Malimabe
Head: FAIS Enforcement

Felicity Mabaso
Head: FAIS Registration

Olivia Davids
Head: Consumer Education

Gerry Anderson
Deputy Executive Officer: Market Conduct and Consumer Education

Financial Advisory and Intermediary Services

The FAIS division of the FSB is responsible for the oversight and supervision of financial advisory and intermediary activities in the financial services sector in terms of the Financial Advisory and Intermediary Services (FAIS) Act. The purpose of the Act is to regulate and supervise, in the interest of consumer protection, the provision of advice and intermediary services to clients in respect of a range of financial products and services.

In pursuit of efficiency, the FAIS division was restructured into three separate departments from 1 November 2006. These are Registration, Supervision and Enforcement. The pre-existing single FAIS department that was established in 2002 had been intensively involved in preparations for the implementation of the FAIS Act in 2004 and thereafter mainly in the processing of licence applications received from FSPs.

The creation of effective structures for the supervision of more than 14 000 licence holders entailed, *inter alia*, the expansion of the staff complement responsible for the administration of the FAIS Act. As a result, the staff complement as at 31 March 2007 (excluding the Office of the Deputy Executive Officer), consisted of 56 persons and is expected to increase further during 2007.

Advisory Committee on Financial Services Providers

The Minister of Finance appoints the Advisory Committee on Financial Services Providers whose function it is to investigate and report or advise on any matter covered by the FAIS Act. Members of the Advisory Committee, except for the Registrar, who is an *ex officio* member, hold office for a period determined by the Minister. The Committee met on three occasions during the period under review.

Legislative Developments

The following exemptions from the FAIS Act were granted during the reporting period:

- Exemption relating to foreign-based FSPs
- Notice on particular exemption – Medu Capital
- Exemption of Lehman Brothers International in respect of certain clients
- Notice on amendment of exemption – extension of date (merchant banking)
- Notice on particular exemption – Highland Star (Africa) Investments (Pty) Limited
- Notice on particular exemption – Andisa Capital (Pty) Limited
- Exemption of UBS South Africa and Deutsche Securities in respect of certain clients.

Other notices included:

- The determination of compliance reports by compliance officers of authorised financial services providers for 2006.

The Determination of Fit and Proper Requirements for FSPs was amended during August 2006 to make provision for specific deadlines relating to the required qualifications needed by individuals employed by FSPs (key individuals and representatives for different financial products). During November 2006, a forum consisting of industry body representatives, the South African Qualifications Authority and the Sector Education and Training Authorities was constituted with the following objectives:

- To identify problems relating to the current qualifications and experience requirements
- To develop a new framework for these requirements that will achieve the objective of the Act, namely to professionalise the industry.

The department also consulted widely on the issues of conflicts of interest and transparent disclosure and the regulation of hedge fund managers during the period under review. Detailed provisions are expected to come into operation in the coming year.

Licensing of Financial Services Providers

The FSB approves and renders ongoing supervision over three categories of FSPs in terms of the Act. Category I consists of financial advisers and those intermediaries without discretionary mandates. Category II consists of individuals or entities involved mainly in the discretionary management of securities, loan stock and derivatives on behalf of both individual and institutional clients. Category III represents investment managers specialising mainly in the bulking of collective investments on behalf of clients (linked investment services providers).

The number of approved FSPs at 31 March 2007 was:

Category I	13 444
Category II	511
Category III	23

The total assets under management of the category II and III FSPs exceeded R2 613 billion at 30 June 2006.

During the reporting period, the Registrar authorised 1 377 licence applications as FSPs, bringing the total number of approved FSPs to 13 978 on 31 March 2007.

Since 2004, 1 089 applications have been declined, 12 authorisations have been withdrawn and two have been suspended.

The Registrar of Financial Services Providers granted an exemption on 23 September 2004 in respect of certain applicants for authorisation. The object of the exemption was to accommodate late applicants for authorisation in terms of section 8 of the Act, which applications would not have been finalised by 30 September 2004, on which date the Act became fully operative. The exemptions allowed such applicants to continue their business activities relating to the rendering of advisory and intermediary services until finalisation of their respective applications. At the end of the reporting period, 34 applicants were operating under this exemption.

Sixteen appeals were lodged against decisions of the Registrar during the period under review, mainly with regard to declines of licence applications and decisions to withdraw licences.

Recognised Bodies

Section 6(3)(iii) of the Act makes provision for the Registrar of Financial Services Providers to delegate any of his powers in terms of the Act to any body recognised by the Act. Two such functions, the review of applications for licences under section 8 and the review of applications for approval of compliance officers under section 17(2) of the Act, were delegated to the three recognised representative bodies listed below:

- Moonstone Information Refinery
- Celestis Broker Services
- The South African Financial Services Intermediary Association (SAFSIA).

The final decision on the granting of licenses and approval of compliance officers remained the responsibility of the Registrar.

Ongoing Supervision of Financial Services Providers – Risk-based Supervision and On-site Visits

The FAIS division implemented a tailor-made risk-based supervision framework during the period under review. This framework is crucial to the success of implementing an effective supervision programme of FSPs. The diversity that exists within this sector of the financial services industry requires an approach that enables the FAIS Supervision department to concentrate its efforts on FSPs that require a higher level of supervisory oversight to ensure a smooth transition from the previous compliance-based supervision approach. Initial risk ratings were used to classify FSPs into three main categories, namely small impact FSPs, medium impact FSPs and high impact FSPs. The level of supervision for the different impact tiers will range from on-site visits for small impact FSPs to on-site risk assessment visits for medium and high impact FSPs.

Financial Intelligence Centre Act

In terms of the FSB's responsibility as a supervisory body, the department conducted 59 on-site visits to FSPs focusing on their compliance with FICA, as well as other anti-money laundering legislation. Future visits are planned to enable the FSB to ensure compliance by the different categories of FSPs.

Submission of Compliance Reports and Financial Statements

All FSPs are required to submit compliance reports to the Registrar as prescribed, from time to time. In addition, all licence holders are required to submit financial statements annually. As a large number of providers failed to submit their reports timeously, a project was launched to create increased awareness aimed at redressing the situation. During December 2006, the FAIS supervision department commenced analysis of all reports and financial statements submitted.

Inspections

The Enforcement department requested inspections on the activities of nine entities. These were mainly in respect of suspected material FAIS Act contraventions. The most prominent inspection requested was in respect of Fidentia Asset Management which was reported to have misappropriated investors' funds. It was found that an amount of R689 million could not be accounted for. A curatorship order was granted while possible criminal investigations are under way.

After obtaining separate reports pertaining to the Leaderguard matter which involved Leaderguard Securities on the one hand and 210 intermediaries involved in selling the Leaderguard foreign exchange product to clients on the other, this report has been handed over to the prosecuting authorities for further investigation. As reported last year, the intermediaries involved were contacted individually and requested to explain their involvement in these transactions. Their individual responses are currently being scrutinised with a view to possible regulatory action.

Debarments

Section 14 of the FAIS Act provides for the debarment of representatives by FSPs for misconduct. During the period under review, 93 representatives were debarred and their names placed on the Debarred Representative Register maintained by the FSB. These representatives may not be employed in the provision of financial services until the duration of their debarment has ended.

Curatorships

Successful applications for curatorships of three FSPs, namely Common Cents, Fidentia and Ovation were granted.

In the case of Common Cents, the auditor of Ovation (a regulated linked investment services provider, on whose administrative platform investors were enabled to access Common Cents portfolios)

reported that verification of the existence of a substantial part of investments made, in excess of R150 million, could not be obtained. Further investigation by the FSB culminated in the decision to apply for a curatorship order.

The findings of the FSB Inspectorate referred to above resulted in an application being made for Fidentia to be placed under curatorship. Due to the intertwining of the business activities of Common Cents, Fidentia and Ovation, it later became necessary to seek a third curatorship order application in respect of Ovation in the interest of investors. The three sets of curators are responsible for running these businesses with the primary objective of maximising the interest of investors therein and investigating the causes for all losses that may be identified.

Nominee Companies

During the period under review, the overarching nominee policy of the FSB was reviewed to incorporate new legislative changes and to provide for nominee companies other than those of central securities depository participants to participate in Strate Limited (Strate), the South African central securities depository for share transactions. The latter, in conjunction with the FSB, started identifying nominee companies that were not approved by the FSB, Strate itself or the JSE and this has led to applications to the FSB by various nominee companies seeking approval.

Consumer Education

Introduction

The Consumer Education Department (CED) of the FSB has a mandate to promote programmes and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users and potential users of financial products and services as required by the Financial Services Board (FSB) Act.

The department's vision is to enable all South Africans to manage their personal and family financial matters soundly and to eradicate irresponsible spending by advising consumers on financial services and products, their rights and responsibilities, and the available recourse mechanisms.

The two main pillars of financial consumer education, around which many other related activities revolve, are formal education and community education.

Formal Education

During the past year, the CED has expanded its networks within, and forged a strong working relationship with various sectors in the Department of Education. This has resulted in the development of a substantial strategy for promoting the integration of financial consumer education into the formal education system. Some significant aspects of the strategy deal with pre-packaging resources for teachers in a usable format, which includes lesson plans relevant to the particular curriculum.

Another aspect of the strategy deals with starting consumer education clubs as an extra-curricular activity for students. Making financial consumer education resources available to educators at universities, including those that train teachers, as well as establishing working relationships with relevant teacher bodies, are other priority areas identified in the formal education strategy.

In 2006, the department began to focus on resource development for teachers, either by providing invited input into curriculum development processes or by exploring possibilities for localising internationally available financial consumer education lesson plans and digitising teacher resources for use in CD-Rom formats. An inseparable part of the development of teacher resources is informing teachers of how best resources can be used to convey financial education to students.

A major function of the department is to negotiate funding partnerships with other players in the financial sector and other interested parties. Several proposals have been prepared, one for the digitisation of the FSB's consumer education booklets 1, 2, and 3 for presentation to teachers in CD-Rom format, another for the localisation of financial consumer education lesson plans and financial terminology, and yet another for the establishment of consumer clubs for students after school. Each of these proposals includes a teacher development component, as well as an assessment methodology.

Community Education

The development and translation of consumer education and information materials are an important function of the CED. The department revised and reprinted brochures on pension funds surplus, while information leaflets on funeral policies were also reprinted. Each of the government's nine provincial Consumer Affairs Offices has committed to printing the funeral policy pamphlets in the official languages of its respective province at its own cost. The internationally identified need for retirement fund trustees to be trained on all aspects of their role prompted the development of a brochure on the role and responsibilities of trustees. Information leaflets on collective investment schemes are nearing completion. The objective is to use these materials together with interaction with consumers, such as at workshops or on a one-to-one basis.

The department has prepared a resource file containing detailed reference materials for use in capacity-building programmes for consumer advisers and educators in the field. Workshops, multilingual radio broadcasts, road shows, and the presentation of papers at conferences and seminars were other activities in the education of employees of companies, nurses, other health workers, community development workers, ward councillors, trade unions, government employees, and traditional and church leaders, as well as others.

All in all, 2006/7 was a year in which networks were extended and strengthened. Close working relationships have been established with other regulators, provincial consumer bodies, NGOs and relevant government departments.

Partnerships

The South African Insurance Association

The FSB continued its consumer education partnership programme with SAIA for the second year in 2006. Details of the projects undertaken are as follows:

Teacher Support Programme

The department again used the financial literacy and sustainable living edition of EnviroTeach, a resource for teachers developed in 2005, in the 2006 teacher workshops in all nine provinces. The 2006 edition also included a lesson plan on the principles of Mzansi short-term insurance.

Of a total of 146 teachers who responded to the interim evaluation questionnaire on the EnviroTeach programme, 95,2% indicated that the resource was useful to facilitate consumer financial education among students. Eighty-three percent reported that they would be able to use the EnviroTeach resource in their classrooms, while 90% said they would like to have more workshops on financial consumer education in the future, using the EnviroTeach resource. It should be noted that not all the workshops have yet been completed and that the information reported here comes from an interim evaluation report. Of 3 000 teachers, 146 indicated they will have completed the workshops by the end of May 2007.

Commuter Education

This project, aimed at commuters at taxi ranks and train stations throughout South Africa, was repeated for the second time in 2006. Using huge television screens at taxi ranks, broadcasts on train stations and taxis and interactive consumer education at kiosks and stage trailers, consumers were educated about money management, debt, credit, short-term insurance and the rights and responsibilities of financial consumers. Five thousand cassettes, containing lively music interspersed with educational messages, were distributed free of charge to taxi drivers. The FSB and SAIA trained staff conducting the education at taxi ranks on the messages that had to be conveyed to commuters.

Research was conducted at taxi ranks to determine what commuters had remembered from the financial education programme. Staff interviewed 11 831 commuters, the majority of whom were between the ages of 25 and 49 years. When asked what three things they could do to be financially responsible, they responded in almost equal numbers that they would keep their pin numbers a secret, use a budget and take out short-term insurance.

Numerous comments were recorded from respondents at taxi ranks throughout South Africa. The common thread running through all of these comments was that such information is very important, that they wished that they had known before, that they were happy there are organisations that are able to assist with their problems and that they appreciated the efforts of the FSB and SAIA.

BankSETA

The department participated in a project steering committee to develop and pilot educational materials to educate members of cooperative banks in rural South Africa. The pilots were completed successfully and a roll-out of the workshop programme is expected to take place in 2007.

Reviews

The department has almost completed the revision of its three consumer education booklets. Publication of these has been placed on hold for the moment since the FSB's Consumer Education Strategy is to be reviewed shortly, which could have an effect on the content of the booklets. The department expects to complete the booklets and strategy reviews later in 2007.

Measurement of Success

The need to report on the success of consumer education programmes in terms of their affect on attitudes and behaviour has become increasingly important to donors and prospective donors, particularly as a means of accountability for funds spent. However, it is sometimes difficult to measure the effectiveness of consumer education projects such as those using the radio, television, websites and other awareness programmes. The FSB has therefore prepared terms of reference for research into the most effective and efficient ways to measure the success of consumer education programmes. The research study is expected to produce information about the most effective ways to measure the success of consumer education programmes.

Financial Services Consumer Education Foundation

The Financial Services Consumer Education Foundation was established in January 2005. Twelve eminent South Africans were appointed as trustees to enable the promotion of financial education to consumers through their funding decisions. The Foundation was registered as a non-profit organisation and has developed a series of governance policies and procedures. Tax deduction status for donors to the Foundation in terms of Section 18A of the Income Tax Act is expected to become effective later this year as part of the Minister's recent budget proposals.

Insurance

Left to right:

Jacky Huma
Head: Insurance Compliance

Suzette Vogelsang
Head: Insurance Prudential

Patrick Ward
Head: Insurance Registration and Policy

Mashudu Munyai
Deputy Executive Officer: Insurance

Introduction

The Insurance division of the FSB supervises the long-term and short-term insurance industries in terms of the Long-term Insurance Act, 1998, and the Short-term Insurance Act, 1998. In South Africa only insurers registered in terms of these Acts may conduct business.

The Insurance division consists of three departments. One focuses on policy and licensing requirements, the second on the financial soundness of insurance companies and the third on compliance. The latter deals with unregistered insurance business, policyholder complaints and other market conduct matters.

The Insurance division's staff is as follows:

Office of Deputy Executive Officer	4
Heads of Department and Managers	9
Analysts	24
Specialist Analysts	2
Specialist	1
Administrative staff	4
Total:	**44**

This report deals with an overview of the long-term and short-term insurance industries. The general section deals with matters common to both.

Long-term insurance industry overview

During the year under review one new licence was issued. Three new licences were issued during the previous financial year.

The number of long-term insurers registered at 31 March was as follows:

Type of insurer	2006	2007
Insurers		
Typical insurers	46	46
Health insurers	2	2
Cell captive insurers	7	7
Assistance insurers	6	6
Link investments only	13	14
Reinsurers		
Long-term only	3	3
Long- and short-term (composite)	4	4
Total	**81**	**82**

Note: Every insurer or reinsurer is required to be registered for a specific class or classes of business, namely assistance, disability, fund, health, life, and/or sinking fund.

The following are challenges facing the long-term insurance industry:

- Compliance with regulatory requirements
- Increased competition
- Financial Sector Charter

- International Financial Reporting Standards (IFRS)
- Addressing the needs of the low-income market for appropriate products
- Technology
- Low inflation and interest rates
- Minimum benefits to be paid in the case of contractual changes made to policies i.e. new regulations to implement the Statement of Intent signed by the Minister of Finance and the major players in the long-term insurance industry
- Rebuilding public confidence
- Dealing with issues emanating from the determinations by the PFA
- Consumerism.

The effective management of capital remains important to all insurers. This is clear from the number of applications received from some of the major players in the long-term insurance industry for the issuing of subordinated debt instruments.

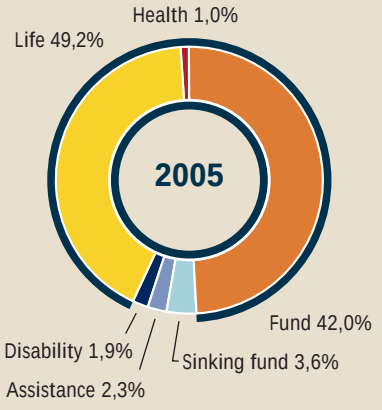
Financial overview

Premium income

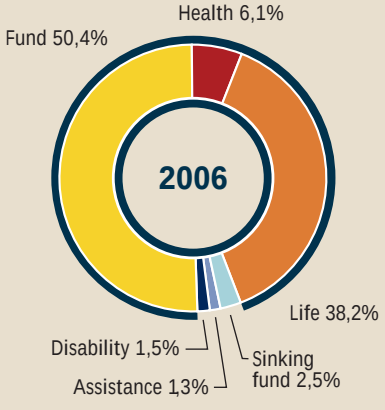
Unaudited figures indicate that net premium income for long-term insurers at their financial year-ends during the calendar year 2006 totalled R220,3 billion (2005: R165,1 billion). Premiums originating from business that was transferred between insurers could not be identified separately.

The charts on the left illustrate the spread of 2005 and 2006 net premiums:

Net Premiums



Total: R165,1 billion



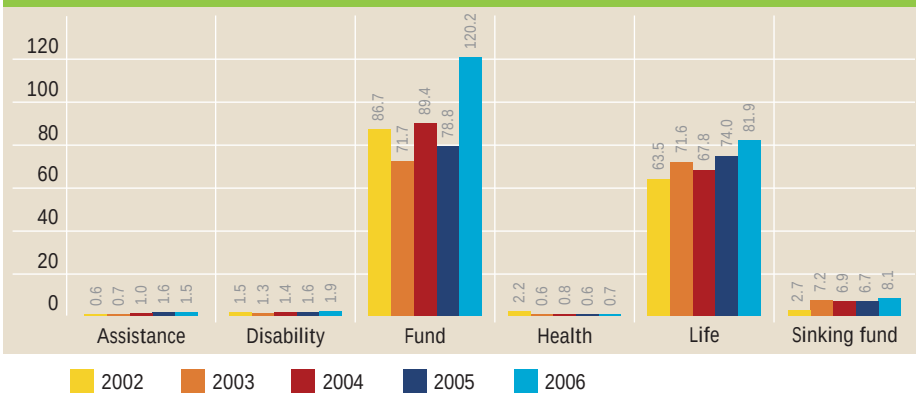
Total: R220,3 billion

Benefits

Unaudited figures indicate that R214,3 billion was paid in benefits by long-term insurers at their financial year-ends during the calendar year 2006 (2005: R163,3 billion). Benefits paid resulting from business that was transferred between insurers could not be identified separately.

The following diagram gives details of benefits paid in rand billion:

Benefits total: R214,3 billion



Assets

Unaudited figures indicate that the total assets of the long-term insurance industry in South Africa increased by 19,9% to R1 302,1 billion as at December 2006 (2005: R1 085,8 billion).

	2004		2005		2006	
	R million	%	R million	%	R million	%
Fixed interest rate stock, deposits and cash	238 863	26	274 770	25	296 950	23
Shares	427 923	47	560 307	52	678 424	52
Fixed properties	32 881	4	37 953	3	41 838	3
Miscellaneous assets, loans and mortgages	107 360	12	108 057	10	138 081	11
Foreign approved assets	99 889	11	104 718	10	146 782	11
Total	**906 916**	**100**	**1 085 805**	**100**	**1 302 075**	**100**
% Increase		**10,3**		**19,7**		**19,9**

Surplus assets to capital adequacy requirement

The ratio of surplus assets to capital adequacy requirement (CAR) gives an indication of the financial strength of a long-term insurer, or how many times the CAR is covered by surplus assets. The median for long-term insurers who submitted unaudited reports for the quarter ending December 2006 was 2,8 (2005: 2,9). This compares favourably with the minimum requirement of one.

The table below gives an indication of the financial strength of the long-term insurance market at December 2004, 2005 and 2006:

Surplus assets to CAR	Number of insurers		
	2004	2005	2006
Covered 0 – 1 times	6	1	1
Covered 1 – 2 times	13	20	24
Covered 2 – 5 times	37	36	33
Covered 5 – 10 times	8	11	15
Covered 10+ times	3	3	2
Total	**67**	**71**	**75**

The insurer with a CAR cover below one has been requested to implement corrective measures.

Variation of conditions of registration

The license of one long-term insurer was amended to restrict it from conducting new business. This was as a result of the inability of the insurer to comply with the requirement to submit statutory returns and meet other requests for information.

Transfers

The application for the transfer of part of the business from Investec Employee Benefits Limited to Liberty Group Limited was approved by the High Court on 22 November 2006. Papers opposing the transfer by a number of pension funds that were filed with the High Court were withdrawn before the final hearing.

The application for the transfer of the entire business of Metropolitan Odyssey Limited to Metropolitan Life Limited was approved by the High Court on 6 December 2006.

Regulatory developments

Important regulatory developments include the Statement of Intent, regulation of commission, Discussion Paper on Contractual Savings in the Life Insurance Industry and micro-insurance. These are discussed below:

Statement of Intent

The previous report refers to the Statement of Intent (SoI) that was signed in December 2005 between the Life Offices' Association (LOA) and the Minister of Finance.

This agreement addresses ways to enhance values and benefits of certain existing and new savings policies. It also addresses ways to retrospectively rectify poor benefits paid under investment policies where contractual changes took place, going back to 1 January 2001.

The products identified are mainly retirement annuity policies, fund member policies, endowment policies and other savings policies excluding fund policies. The SoI also includes a commitment by National Treasury to examine other issues affecting costs, including commission structures, disclosure standards and consumer education.

National Treasury took responsibility to convert the SoI into regulations with the assistance of the FSB. A Regulatory Workgroup and an Actuarial Workgroup were established to address the new regulations. Following an intensive process the draft regulations were made available for public comment during October 2006. The final regulation was published on 1 December 2006.

National Treasury proposed further enhancements to the prescribed minimum values of investment policies in cases where contractual changes are made.

Commission regulations – special provisions concerning commission on replacement policies

The introduction of the minimum values to be paid when contractual changes are made to investment policies necessitated the introduction of further regulatory requirements. These requirements relate to the payment of commission on multiple premium investment policies that are replaced.

National Treasury and the FSB were concerned that there could be an incentive for intermediaries to convince policyholders to terminate their existing policies and replace them with other policies as the regulations will prescribe that policyholders must receive a minimum benefit.

It was therefore decided to introduce special provisions regarding commission payments on replacement policies in the case of multiple premium investment policies. The new commission regulations prescribe that in the case of a replacement policy the same percentage commission must be applied to each of the premiums received on a multiple premium investment policy. No upfront commission payment is allowed in the case of a replacement policy.

The new commission regulations on replacement policies became effective on 1 March 2007.

Discussion Paper on Contractual Savings in the Life Insurance Industry

On 30 March 2006 the National Treasury distributed a discussion paper, called "Contractual Savings in the Life Insurance Industry".

The key recommendations made by National Treasury in the paper are:

- Efforts to lower costs and improve effective competition
- Regulatory changes to reduce the possibility of product opaqueness and conflicts of interest in the governance of retirement annuity funds
- Measures to better align the incentive structure of intermediaries with the interests of the client
- Continued regulation of commissions until there is evidence that other measures such as disclosure, consumer education and competition are effectively protecting policyholders, with the regulated level and structure of the sales commission subject to certain conditions
- Measures to ensure an improved "safety net" for investors in cases where the investor reduces or discontinues contributions to a contractual savings product.

The release of the discussion paper was followed by a timetable, dividing the project into three work streams which would be addressed over the short, medium and long-term.

Outcomes that have already been finalised are the regulation of minimum values in cases where contractual changes are made to investment policies and also regulations to disincentivise churning of policies. Regulations covering these matters were published.

Micro-insurance

A working group comprising representatives from the FSB and National Treasury has been constituted to determine the way forward for the regulation of micro-insurance, which includes assistance business. The National Treasury has appointed Genesis: Analytics as the consultants and they have been tasked to draft a discussion paper on micro-insurance. It is envisaged that this discussion paper will be circulated to all interested stakeholders for comments, after which plans will be put in place for the future regulation of micro-insurance.

The International Association of Insurance Supervisors (IAIS) issues globally accepted principles, standards and guidance papers for insurance regulation and supervision. The IAIS through its Implementation Committee has expressed support for insurance markets in establishing a sound insurance supervisory system. In order to give practical support the IAIS created a joint working group to address the issues of micro-insurance.

Advisory committee

The Advisory Committee on Long-term Insurance is a statutory committee appointed by the Minister of Finance to investigate and advise on matters relating to the long-term insurance industry. The committee held three meetings during the period under review.

Supervisory developments

Directives

The Insurance division issued the following directives:

Subject	Number	Issue date
Governance of discretionary participation products	147.A.i(LT)	04 December 2006
FIC compliance and reporting information	148.A.i(LT)	31 January 2007

Information Letters

The Insurance division issued the following information letters:

Subject	Number	Issue date
Cross-border operations of insurance companies	1/2006(LT&ST)	10 April 2006
Service level commitments by the Registrars of Long-term and Short-term Insurance	2/2006(LT&ST)	20 December 2006
Requirements for minimum values where contractual changes are made to savings policies	3/2006(LT)	21 December 2006
Cross-border operations of insurance companies	1/2007(LT&ST)	05 February 2007
Amendments to Part 3 of the Regulations under the Long-term Insurance Act: Special provisions concerning commission on replacement policies	2/2007(LT)	26 March 2007

The Insurance division also issued a questionnaire on unclaimed insurance benefits in the long-term insurance industry on 15 June 2006. The Insurance division will analyse the responses and decide on the way forward.

Inspections

The FSB requested one inspection on an entity that was alleged to have been conducting unregistered insurance business. This inspection has been finalised.

Prosecutions

The FSB referred an entity alleged to have been conducting unregistered insurance business in the Kimberley area for prosecution. The entity subsequently pleaded guilty to the criminal charge and was fined R30 000.

Six other entities which were found to have been conducting unregistered business were handed over for investigation and prosecution.

Short-term insurance industry overview

During the year under review, the Insurance division issued three new short-term insurance licences; two to typical insurers and one to a niche insurer. No licences of short-term insurers were cancelled.

The number of short-term insurers at 31 March were as follows:

Type of insurer	2006	2007
Insurers		
Typical insurers	28	30
Niche insurers	44	45
Cell captive insurers	10	10
Captive insurers	12	12
Reinsurers		
Short-term only	5	5
Short- and long-term (composite)	4	4
Total	**103**	**106**

Note: Every insurer or reinsurer is required to be registered for a specific class or classes of business, namely accident and health, engineering, guarantee, liability, miscellaneous, motor, property and/or transportation.

The following are challenges facing the short-term insurance industry:

- Effective management of cost
- Compliance with regulatory requirements
- Increased competition
- Financial Sector Charter
- International Financial Reporting Standards (IFRS)
- Addressing the needs of the low-income market for appropriate products
- Technology
- Low inflation and interest rates
- Reinsurance capacity.

We envisage that the short-term insurance industry will be facing other challenges in the future, such as possible legislative changes focusing on a risk-based capital approach.

Financial overview

Premium income

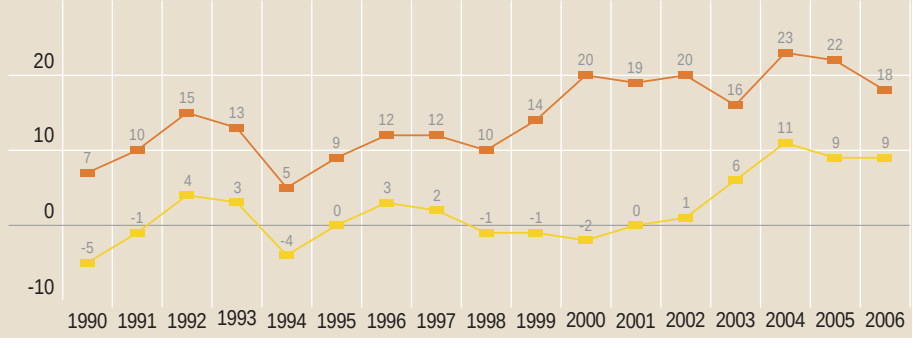
Unaudited figures for short-term insurers at their financial year-ends during the calendar year 2006 indicate an increase of 12% (2005: 17%) in gross premiums written by primary short-term insurers. The following charts on the right show the split between gross premiums written by typical insurers, specialist and captive insurers, excluding that of Sasria Limited (Sasria).

The charts on the right show the unaudited net premiums per class of short-term insurance business for short-term insurers at their financial year-ends during the calendar years 2005 and 2006, excluding that of Sasria.

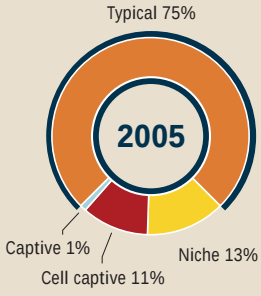
Operating results

The following graph shows how underwriting results of primary short-term insurers, excluding Sasria, have fluctuated over the past 17 years and how the combined underwriting and investment results compare over the same period (figures for 2006 are unaudited).

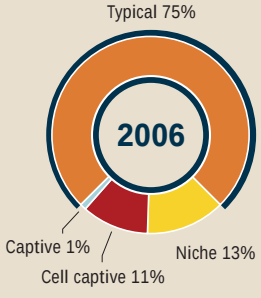
Underwriting results and investment income (As a percentage of net premium)



Gross Premium Written

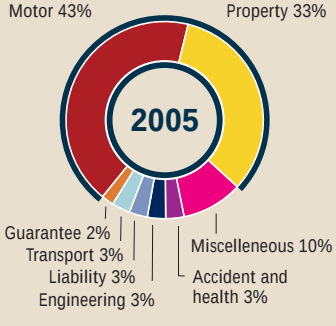


Total: R46,2 billion

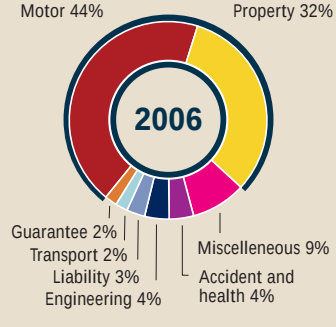


Total: R51,0 billion

Net Premiums Per Class



Total: R32,9 billion



Total: R37,6 billion

Assets

Unaudited figures indicate that the total value of investments of the short-term insurance industry, excluding that of Sasria and reinsurers, in South Africa increased by 8,7% as reported at December 2006 (2005: 17,2%).

The following table shows the investment spread for primary short-term insurers, excluding Sasria. Figures for 2006 are unaudited. Note that the proportional investment in shares decreased by 2%, while debtors increased by 3%.

	2004		2005		2006	
	R million	%	R million	%	R million	%
Shares	16 861	36	20 140	37	20 884	35
Debtors and debentures	8 519	18	9 161	17	11 663	20
Stocks	5 103	11	5 521	10	5 459	9
Cash and deposits	15 592	34	19 236	35	20 725	35
Fixed assets	471	1	505	1	583	1
Total	**46 546**	**100**	**54 563**	**100**	**59 314**	**100**
% Increase		**14,6**		**17,2**		**8,7**

Surplus asset ratio

Short-term insurers, excluding Sasria, who submitted unaudited quarterly reports by December 2006, disclosed significant surplus asset ratios, with the median surplus asset ratio at 86% (2005: 71%). The table below gives an indication of the financial strength of the short-term insurance market at December 2004, 2005 and 2006, expressing net surplus assets as a percentage of net premiums written by the institution.

Surplus assets ratio	Number of insurers		
	2004	2005	2006
Below 15%	1	1	0
Between 15% and 20%	1	1	1
Between 20% and 25%	1	2	3
Between 25% and 30%	6	3	4
Between 30% and 40%	11	7	8
Between 40% and 50%	7	5	8
Between 50% and 100%	12	22	15
Above 100%	33	30	33

Curatorship

South Union Reinsurance Company Limited was placed under final curatorship on 5 October 2004. The reason was to protect policyholder interests following the company's inability to submit annual statutory returns, their need for additional capital to continue business, high loss ratios resulting from bad underwriting practices, rapid business growth, questionable corporate governance principles, unreliable financial data and doubtful inter-group loans made by the company. The curator submitted his fifth report to Court on 26 October 2006. The curatorship was extended to 30 June 2007. The reasons for extending the curatorship were mainly:

- The company has still not recovered all amounts due to it by related and/or associated companies
- The company must still dispose of its property assets
- The liabilities of the company still exceed its assets
- The total amount due by the company pursuant to its participation under the various reinsurance treaties is not yet known
- The company has paid no significant amounts to its insurance claimants.

The shareholders of Sure have approached the FSB with a request for the lifting of the curatorship. In August 2005 the FSB advised the shareholders of the conditions which would have to be fulfilled prior to the lifting of the curatorship order. Amongst these conditions is the recapitalisation of Sure in order to place it in a financially sound condition. The shareholders of Sure have submitted documents in support of the request. The request for lifting of the curatorship has also been discussed with the curator and a decision will be made subsequent to a meeting with the curator at the end of June 2007.

Transfers

The transfer of all the short-term insurance business from Pick 'n Pay Insurance Company Limited to Guardrisk Insurance Company Limited was approved on 9 June 2006.

Regulatory developments

Deregulation of commission

The decapping of commissions was not reconsidered during the year. We will continue to discuss with stakeholders whether or not to proceed with the proposed decapping of commissions.

The outcome of the commission debate in the long-term insurance industry might also inform decisions on the future commission structures within the short-term insurance industry.

Micro-insurance

The regulation of micro-insurance reported under regulatory developments in the long-term insurance industry will include short-term insurance business.

Advisory Committee

The Advisory Committee on Short-term Insurance is a statutory committee appointed by the Minister of Finance to investigate and advise on matters relating to the short-term insurance industry. The committee held one meeting during the period under review.

Supervisory developments

Directives

No new directives were issued during the period.

Information letters

The Insurance division issued the following information letters:

Subject	Number	Issue date
Cross-border operations of insurance companies	1/2006(LT&ST)	10 April 2006
Service level commitments by the Registrars of Long-term and Short-term Insurance	2/2006(LT&ST)	20 December 2006
Cross-border operations of insurance companies	1/2007(LT&ST)	05 February 2007

Road Accident Fund

The total liabilities of the fund as at 31 March 2006 exceeded its assets by R18 370 million, which places the fund in a technically insolvent position. The table below reflects the financial position of the Road Accident Fund (RAF) over the past five years:

	31 March 2002 11 months R million	31 March 2003 R million	31 March 2004 R million	31 March 2005 R million	31 March 2006 R million
Total assets	1 632	1 250	768	1 708	4 357
Total liabilities	12 757	16 680	19 325	21 559	22 728
Surplus assets	(11 125)	(15 430)	(18 557)	(19 852)	(18 370)

The Board of Directors and management of the RAF developed a strategic plan in September 2005 which incorporates a detailed rescue plan for the RAF which was approved by the Minister of Transport on 10 January 2006. The RAF is in the process of implementing elements of the rescue plan. According to the Chief Executive Officer's Report in the Annual Report of the RAF for the financial year-end 31 March 2006 the results of the rescue plan will only be realised during the period from 2008 to 2010.

Lloyd's Business

The Act permits Lloyd's to carry on short-term insurance business in South Africa through Lloyd's correspondents. The authorisation of the correspondents is the responsibility of the Lloyd's Representative Office in South Africa.

Lloyd's correspondents do not submit individual returns to the FSB. The reporting function has been consolidated and the Lloyd's Representative Office in South Africa submits one return. Lloyd's conducted business in all eight classes of business and the unaudited total gross premium income during 2006 amounted to R1 438 million (2005: R1 401 million).

General

Risk-based Supervision

During the period under review the Insurance division implemented its risk-based supervision framework. Initial risk assessments were done on all registered insurance companies. Staff were trained in 2006 and will undergo further training during the course of the year to ensure continuous improvement in the supervision process.

On-site visits

The Insurance division continues to conduct on-site visits. The visits focus on the various risk areas of insurers and include the following:

- Solvency and liquidity
- General balance sheet risk management
- Regulatory compliance
- Underwriting
- Systems and operations
- Financial reporting
- Corporate governance
- External audit
- Strategic management
- Market risks.

During on-site visits, the ability of management to properly implement risk management procedures is considered. The on-site visits disclosed different risk management procedures and highlighted an increased awareness of the need for proper risk management.

The following are areas of concern identified during the on-site visits:

- Lack of corporate governance in small insurers
- Outsourcing arrangements
- Undue reliance on individuals within companies, i.e. key man risk
- IT systems
- Impact of the National Credit Act.

Insurance Group Supervision

The FSB continues to perform reviews on insurance groups with the cooperation of the insurers' management. The reviews are performed annually, except in the case of the five larger groups where reviews are done quarterly.

The FSB is continuing with research into the introduction of a formal approach to insurance group supervision. International developments are closely monitored.

Consumer Complaints (short-term and long-term insurance)

The Insurance division received 100 complaints during the period under review and resolved 84% of these complaints.

Inspections

The FSB requested two inspections on entities that were alleged to have been conducting unregistered insurance business. The one inspection was finalised (see prosecutions below), and the other is still in progress.

Prosecutions

The FSB has requested the prosecution of one entity which was found to have conducted unregistered insurance business. The matter is with the State Prosecutor.

The FSB instituted legal proceedings against an individual who was found during an inspection to have breached a court order. The FSB is seeking an interim order to stop this person from conducting any kind of short-term insurance business.

Inducements

The Insurance division became aware of and had identified certain practices as inducements. This prompted the Insurance division to conduct an industry-wide investigation to determine the prevalence of such practices. The Insurance division will analyse the results and decide on the way forward.

One specific practice involves a long-term policy. The FSB held discussions with the company and made it clear that aspects of the benefits constitute an inducement. The company did not share the FSB's view and it was agreed that the company could seek a declaratory order from the courts. At the time of writing the report the outcome was not known.

International Cooperation

International Association of Insurance Supervisors

Established in 1994, the International Association of Insurance Supervisors (IAIS) represents insurance regulators and supervisors of about 180 jurisdictions from around the world. Its objectives include cooperation to improve supervision, to maintain efficient, fair, safe and stable insurance markets; and to contribute to global financial stability.

The IAIS Annual Conference took place in Beijing, China from 18 to 21 October 2006.

Deputy Executive Officer Mashudu Munyai, in his capacity as member of the Executive Committee of the IAIS, also attends the subcommittee meetings that are held three times a year and in addition he chairs the Micro-insurance Joint Working Group.

The FSB's staff members are continuously involved in the ongoing work of the IAIS, including the hosting of an annual training seminar for African Insurance Supervisors. A training session on capital adequacy and risk assessment was hosted from 27 to 30 November 2006. The FSB hosted the programme and the IAIS funded the training. Twenty-seven delegates from fifteen African countries attended the training seminar.

Association of African Insurance Supervisory Authorities

The Association of African Insurance Supervisory Authorities (AAISA) is an independent forum for the insurance supervisory authorities in African countries to exchange views on common issues and to promote cooperation among supervisory authorities.

The FSB is a member of the executive committee and acts as secretary-general and treasurer of the AAISA.

The FSB insurance representatives attended the general assembly and executive committee meetings of the AAISA that were held in Cape Town, South Africa in May 2006.

African Insurance Organisation

The FSB is a member of the African Insurance Organisation (AIO), an organisation that promotes the development of strong institutional leadership in Africa, and insurance representatives attended its annual conference in Cape Town, South Africa in May 2006. The AIO's and AAISA's meetings are held back to back. This state of affairs does concern a number of regulators/supervisors. AAISA needs to be independent and thus should operate without the assistance of insurers.

Retirement Funds and Friendly Societies

Left to right:

Fikile Mosoma
Head: Licensing and Registration

Corlia Buitendag
Head: Enforcement and Surveillance

Wilma Mokupo
Head: Prudential Supervision

Jurgen Boyd
Deputy Executive Officer: Retirement Funds and Friendly Societies

Introduction

The Retirement Funds and Friendly Societies division of the FSB is mandated by the Pension Funds Act and the Friendly Societies Act with the supervision of such retirement funds and friendly societies.

The division comprises four departments, with the following responsibilities:

Department	Responsibilities
Licensing and Registration	Registration of funds and friendly societies Approval of pension fund administrators
Prudential Supervision	Analysis of annual financial statements
Surveillance and Enforcement	Conduct of compliance visits and management of risk-based supervision
Research and Policy	Conduct of research and establishment of policy

The division has 63 staff members comprising 1 Deputy Executive Officer, 3 Heads of Department, 1 senior specialist, 5 managers, 16 specialist analysts, 2 senior analysts, 9 analysts, 15 junior analysts, 8 support staff, 2 secretaries and 1 contractor.

The following were the main issues the pension fund industry faced during the review period:

- Compliance by pension funds with the requirements of surplus apportionment legislation
- Matters emanating from the secret profits practices of pension fund administrators
- The effects of the Pension Funds Adjudicator determinations regarding retirement annuity funds.

Industry Overview

At 31 March 2007, the FSB supervised 13 020 registered retirement funds. The 2006 financial statements for these funds need only be submitted by 31 August 2007 as a result of extensions granted by the Registrar as the industry was experiencing difficulty adapting to the requirements for electronic submissions thereof. The latest available pension fund statistics are those for the year ended 31 December 2005. (The statistics are in respect of FSB registered funds, the State, Transnet and Telkom funds and those bargaining council funds not registered with FSB):

Financial Overview

Retirement Funds: Financial year ending 31 December						
	2003	Change %	2004	Change %	2005	Change %
Number of funds	13 752	(3,4)	13 618	(1.0)	13 390	(1,7)
Membership ('000)	8 957	(8,4)	9 858	10.1	9 264	(6,0)
Contributions (Rm)	64 851	7,1	72 826	12.3	75 131	3,2
Benefits paid (Rm)	73 318	1,1	86 195	17.6	85 937	(0,3)
Assets (Rm)	909 099	4,8	1 091 807	20.1	1 283 921	17,6

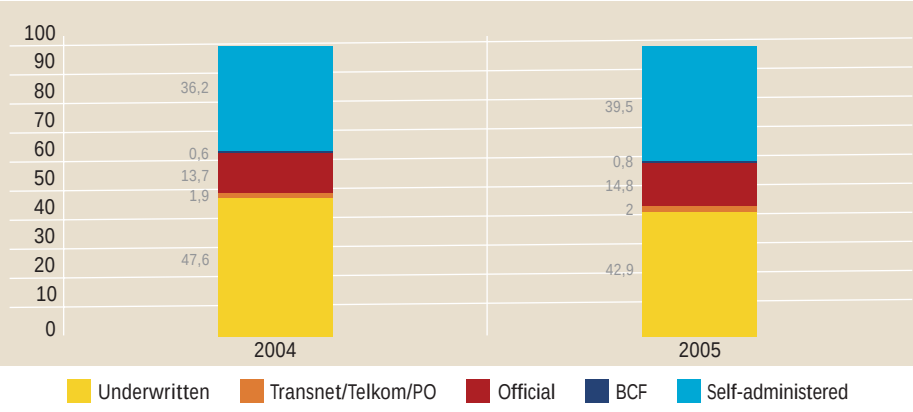
With regard to Friendly Societies, the following statistics pertain to the year ended 31 December 2005. (At the time of this report, the financial information in respect of 2006 was not available due to the poor submission rate by Friendly Societies):

Friendly Societies: Financial year ending 31 December						
	2003	Change %	2004	Change %	2005	Change %
Number of funds	81	(4,7)	87	7,4	98	12,6
Membership ('000)	458	(7,1)	466	1,7	558	19,7
Contributions (Rm)	42 223	5,2	38 803	(8,1)	47 514	22,4
Benefits paid (Rm)	31 055	(15,7)	29 332	(5,5)	36 217	23,5
Assets (Rm)	311 182	0,1	330 983	6,4	353 769	6,9

Note: In addition, 104 (2004: 103) friendly societies were exempt from submitting returns in 2005.

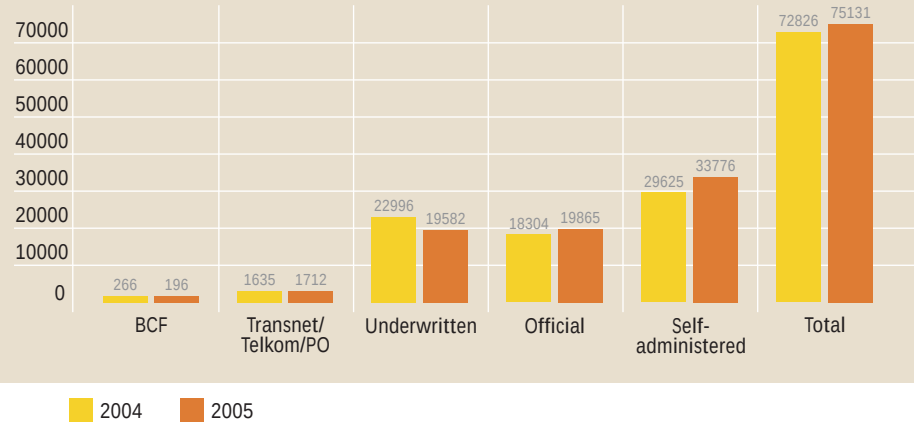
Membership

The total membership of all retirement funds at the end of 2005 was 9 264 148, of which 8 119 860 were active members and 1 144 288 pensioners, deferred pensioners and dependants. The figures do not reflect the total number of individual members of funds because some are members of more than one fund.



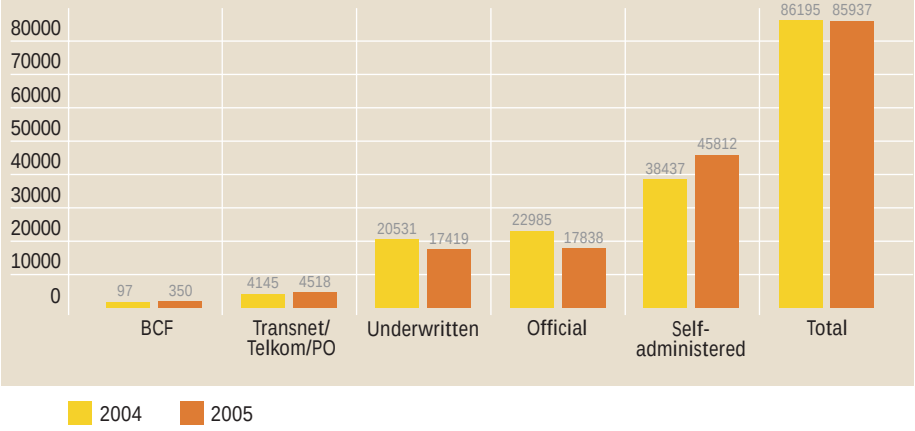
Contributions

The total contributions received increased by 3,2% from R72 826 million in 2004 to R75 131 million in 2005. Total contributions to Official, Transnet, Telkom and Post Office funds increased by 8,2%, while total contributions to self-administered, underwritten and bargaining council funds in the private sector increased by 1,3%.



Benefits

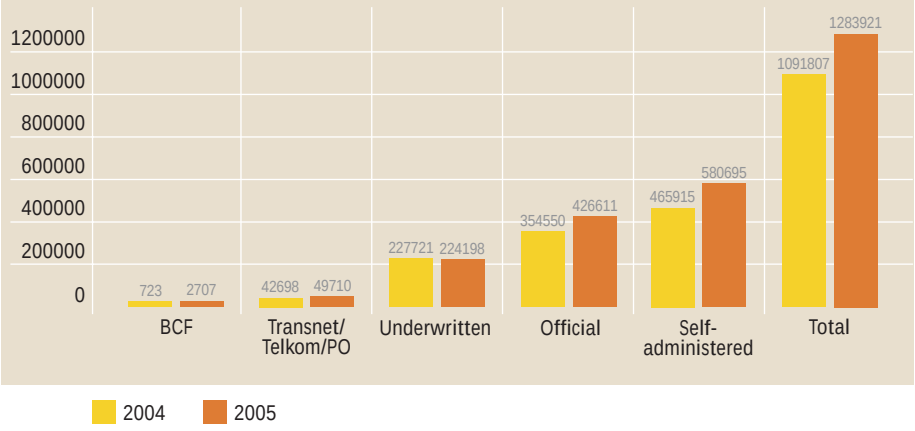
The benefits paid decreased by 0,3%, from R86,195 million in 2004 to R85,937 million in 2005. Amounts paid out in respect of pensions, lump sums on retirement or death, and resignations are included.



Assets

Total assets of the retirement fund industry in South Africa increased by 17,6%, from R1,092 billion in 2004 to R1,284 billion in 2005.

The net assets of self-administered funds increased by 24,7%, from R466 billion in 2004 to R581 billion in 2005.



Supervision

The following supervisory activities took place during the year:

Activity	Number
New registrations of funds	122
Umbrella schemes: registration of participating employers	4 305
On-site visits	169
Consolidated or amended rules registered	2 334
Transfers between registered funds approved	5 048
Liquidations and terminations of funds	178

Note:
The table does not include pending cases worked on, but not yet approved.
The financial period covered in the table is 1 April 2006 to 31 March 2007.

Regulatory Issues

Inspections

Four inspections were conducted during the period under review. The following were the main issues emanating from the inspections:

- The payment of death benefits owing to beneficiaries on death of a member into a registered trust company and the subsequent mismanagement of these assets by the appointed asset manager, leading to significant losses
- The failure of funds to have properly constituted boards of trustees.

Ongoing inspections into 12 funds and one administrator are in progress.

On-site Visits

Twelve administrators were visited due to their failure to comply with the requirement to submit annual reports within six months of their financial year-ends.

Sixty self-administered funds were visited to assess general compliance with the Act.

Seven visits to funds followed after the Registrar had received complaints regarding the funds.

Two funds were visited due to reported irregularities. All the problems were identified and, with the assistance of the Registrar's Office, the boards of trustees are is rectifying the problems. The funds are being monitored monthly.

Thirty-one funds were visited as they had failed to submit audited financial statements to the Registrar.

One hundred and eight umbrella funds were visited to assess general compliance with the Act.

Three employers are being monitored for not paying contributions over to funds within the legally prescribed seven-day period. One of the funds was placed under curatorship because the board of trustees disregarded its fiduciary duties and did not act in the best interests of members.

Appeals to the FSB Appeal Board

During the review period, 22 new appeals were lodged against decisions by the Registrar of Pension Funds. These appeals included the rejection of section 15F applications for the transfer of the credit balance in an existing employer reserve account (as defined in the rules) to the employer surplus account; the rejection of actuarial valuations; the rejection of rule amendments; the approval of surplus schemes; the provisional registration of a new fund; the suspension of the approval of two pension fund administrators; and the confirmation of a liquidation and distribution account. A number of appeals did not proceed to hearing stage. Three appeals and one interim application were heard by the FSB's Appeal Board. In one appeal, the Appeal Board upheld the Registrar's approval of a section 14 transfer. In another, the Registrar's refusal to approve a section 15F application was set aside. The determination in the third matter is still being awaited. In one instance, the Appeal Board suspended the implementation of the Registrar's decision until after the hearing, which has yet to take place.

For the first time, a decision by the Appeal Board was taken on review to the High Court, only to be rejected, thereby upholding the Registrar's decision. The applicants in this matter are now applying for leave to appeal to the Supreme Court of Appeal. Two other decisions by the Appeal Board have since been taken on review.

Other Regulatory Matters

- An employer body in a bargaining council approached the court for an order that the provisions of the Pension Funds Act should not apply to a specific pension and provident fund and that its registrations as pension fund organisations are of no force and effect. It would therefore not be obliged to lodge any surplus apportionment scheme with the Registrar. The application was granted on 2 December 2005. The Registrar appealed the judgement at the Supreme Court of Appeal in Bloemfontein, which dismissed the appeal and upheld the judgement

- The chairperson of a retirement fund challenged the Registrar's view that all pension funds have to investigate possible improper use of surplus by an employer prior to 7 December 2001, when the Pension Funds Second Amendment Act became operational. The fund contended that section 15B (6) does not have retrospective effect. The judge upheld the fund's view. The Registrar has been granted leave to appeal the outcome to the Supreme Court of Appeal in Bloemfontein

- Secret profits made by administrators at the expense of pension funds have been the focus of much media attention. Steps are being taken to address the matter and the Registrar met those pension fund administrators who reported practices that resulted in secret profits accruing to the administrator, such as the bulking of client funds, scrip lending fees and commission sharing arrangements. Most administrators indicated their willingness to refund their clients in full in respect of all secret profits that were made, together with interest. The Registrar is monitoring the repayment of all such profits. Some administrators chose to approach their clients with a request that they agree retrospectively to the past practices. The Registrar issued a circular (PF 129) addressing this approach by administrators and drew attention to the duties of trustees when considering such proposals.

Criminal Prosecution

Following an inspection into the affairs of the Lifecare Pension Fund, a criminal investigation was initiated by the prosecuting authorities. The unlawful scheme involved the laundering of the surplus assets of a number of pension funds through the Lifecare Pension Fund, and the payment of the dividends to a number of people and institutions. The criminal investigation led to the initial arrest of Messrs Ghavalas and Bailey, both of whom had emigrated to Australia but were arrested during a visit to South Africa. The criminal matter has escalated to include a number of further assets and, at the time of the last court appearance during February 2007, there was a total of 22 accused, including one of the largest administrators, Alexander Forbes. The prosecution of this criminal case is being funded jointly by the FSB and Business Against Crime and is being conducted by Advocate J de Olivera and Advocate J Henning. The matter has been remanded to 4 July 2007, on which date it will be postponed for hearing in the High Court from October 2007. The main counts the accused are facing are fraud and theft.

Legislation

Pension Funds Amendment Bill, 2007

As a result of some shortcomings in the Pension Funds Act, as well as legal challenges attempting to circumvent the spirit of the Act, an amendment to the Act has been proposed to broadly address the following:

- Clarifying surplus utilised improperly in terms of section 15B of the Act ,as well as other general provisions regarding the process of surplus apportionment to align with the original intention of the legislature
- Including funds established through bargaining council arrangements under the regulatory auspices of the Registrar. All funds will be required to register on or before 1 January 2008
- Increasing the powers of the Registrar to enhance regulatory effectiveness
- Providing for specific duties of the Pension Funds Adjudicator, as well as for the appointment of a Deputy Adjudicator. The Act is further aligned with the provisions of the Prescription Act
- Providing clarity on the treatment of divorce orders and maintenance claims in respect of pension benefits
- Updating the provisions in the Act which are no longer aligned to recently promulgated legislation.

The amendment is currently being dealt with in the parliamentary process.

Outlook

The Social Security and Retirement Reform Second Discussion Paper (Second Paper) remains one of the main focuses for the pension funds division.

National Treasury issued the Second Paper on 23 February 2007. It is anticipated that the proposals in the Second Paper, which will necessitate extensive consultation with various stakeholders, will be finalised in mid-2008, after which drafting of a new Pension Funds Act will commence.

The FSB has designed and implemented a sophisticated system for retirement funds to submit financial statements in line with our risk-based approach to supervision. The new system requires that financial returns for all funds be submitted electronically. The system classifies funds in terms of risk, enabling the department to prioritise supervision according to the risk rating of each fund.

The system not only validates the correctness of imported information and ensures that a scanned version of the financial statements is attached, it also performs certain analytical tests to identify risk areas.

While the new system will greatly improve and speed up the FSB's supervisory responsibilities, its implementation requires patience and extensive guidance. Submission deadlines for 2005 and 2006 financial statements had to be extended to allow fund administrators to become familiar with the new system, but business will be back to normal by the time the 2007 statements are due.

Some larger administrators have already created software for the electronic transfer of data to the new FSB ASCII format. The information is migrated on their systems in the format the FSB requires, saving time and improving accuracy. Within 24 hours of a submission, administrators are now able to receive an e-mail confirmation from the FSB stating whether or not the financial statements were imported successfully.

Investment Institutions

Left to right:

Jacob Mahlangu
Head: Collective Investment Schemes

Norman Müller
Head: Capital Markets

Gerhard van Deventer
Head: Market Abuse

Dube Tshidi
Deputy Executive Officer: Investment Institutions

Introduction

The Capital Markets department of the FSB is responsible for the supervision of South African licensed exchanges, central securities depositories and clearing houses in terms of the Securities Services Act (SSA). In fulfilling this function, the department strives to ensure sound, efficient and fair capital markets and related services for the trading of securities, including appropriate mechanisms for investor protection.

Industry review

JSE Limited

The JSE is the only licensed exchange in South Africa that trades in equities. In August 2001, it took over the business operations of the South African Futures Exchange, which became the Equity Derivatives Division and the Agricultural Products Division of the JSE.

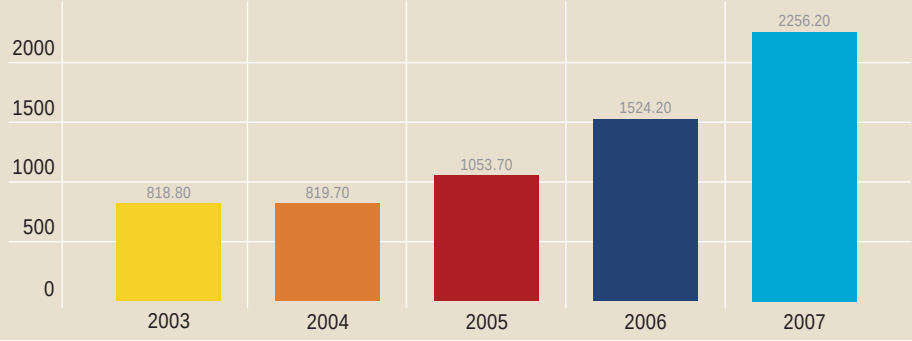
Performance Indicators

At 31 March 2007, 513 individuals were members of the South African Institute of Stockbrokers (2006: 513), of which 301 are practising members in 55 equity member firms (2006: 50). The number of companies with shares listed on the JSE totalled 405 (2006: 386). Turnover of shares, including off-order book trades, for the year ended 31 March 2007 amounted to R2 256,2 billion (2006: R1 524,2 billion), representing approximately 8,4 million trades (2006: 5,8 million trades). The average number of trades per day was 33 818 (2006: 23 231). New equity capital raised on the JSE amounted to R93,3 billion, 27,5% more than the R73,2 billion raised in the previous year. Liquidity, measured on the basis of equity turnover as a percentage of market capitalisation, amounted to 46,3% for the year compared to 38,4% in the previous year. Market capitalisation of all securities listed on the JSE amounted to R5 780,4 billion at 31 March 2007, ranking the JSE as the 20th largest stock exchange in the world in terms of market capitalisation.

Warrants

Warrants are long-dated put or call options issued by a third party on individual or baskets of securities of listed companies. At 31 March 2007, there were 344 listed warrants (2006: 335). Five warrant issuers are active in the South African market. The total value of trades in warrants for the year ended 31 March 2007 amounted to R5,7 billion (2006: R5,8 billion).

JSE Value traded for the years ended 31 March (R billion)



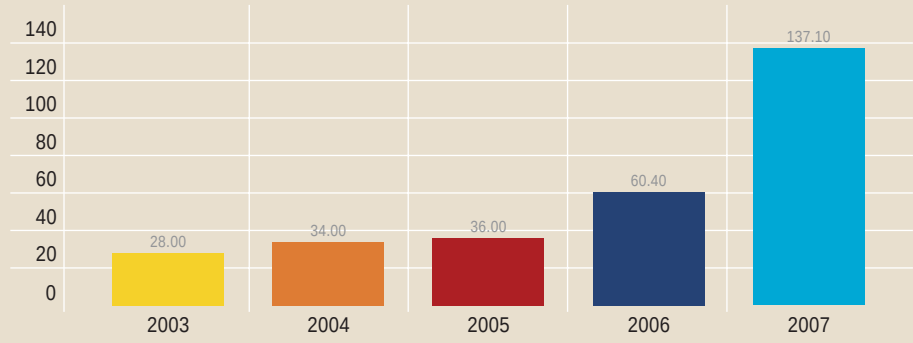
Equity Derivatives Division

The Equity Derivatives Division (EDD), which covers the equity indices and interest rate futures and options, as well as individual equity futures and options, has been in operation since 1990. The EDD traded R137,1 million in contracts for the year ending March 2007, representing a 127% increase over the R60,4 million in contracts traded for the year ended March 2006. The turnover value of R3 310,8 billion represents an increase of 73,0% compared to the previous year (R1 914,2 billion).

Overall performance for the year under review was as follows:

	Deals	Contracts	Rand value (R billion)
Financial futures	765 493	117 834 071	3 219,1
Financial options	16 723	19 276 674	91,7
Total	**782 216**	**137 110 745**	**3 310,8**

EDD Annual volumes (Financial Products), for the years ended 31 March (million)

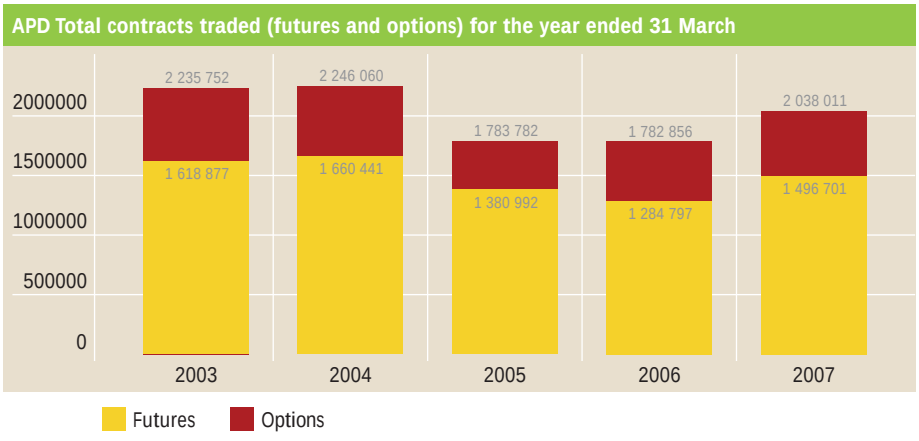


Agricultural Products Division

The Agricultural Products Division (APD) – formed in 1995 and covering commodities futures and options on white and yellow maize, sunflower seed, wheat and soybeans – has established itself as an effective price risk management facility and price discovery mechanism for grains in South and Southern Africa. The majority of the trades on the APD are in white maize derivatives. However, this percentage is shrinking, with wheat futures now representing almost 20% of trades.

The volume of contracts traded on the agricultural market in 2006 was higher than in the previous year, with lower grain supplies and variable weather increasing volatility in the market, which had a direct effect on the volumes of the exchange. Lesser products such as soya beans and sunflower seed experienced good growth in the number of contracts traded.

The partnership with a software company to facilitate the delivery of electronic silo receipts on completion of futures contracts has progressed and the trend is towards an increasing number of deliveries taking place using electronic receipts. Although limited actual tonnages have been delivered, it is believed that moving from a paper-based environment to an electronic one has improved the security and efficiency of the delivery process on the exchange and in the cash market.



Volumes traded through the APD totaled 2 038 011 contracts for the year ended March 2007, an increase of about 14,3% compared to 1 782 856 contracts in 2006. The turnover value increased to R192 billion as a result of the increased volume of trade and a higher average maize price.

Interest Rate Market (Yield^{x})

The total number of contracts traded on Yield^{x} is up 15,2% for the period 1 April 2006 to 31 March 2007. The value of the contracts traded increased by 82,5% for the comparative period.

Launched on 28 February 2005, the JSE's interest rate market has been in operation for just over two years. Futures are the most liquid contracts traded, with the bond index futures accounting for the majority of the trading activity. Other bond index futures offered include the Credit Bond Index (CRD1), the Inflation Linked Index (ILBI), the Total Return Index (TRT1), the All Other Bond Index (OTHI) and the All Bond Index (ALBI).

Market information for the period 1 April 2006 to 31 March 2007 for all Yield^{x} instruments is indicated in the following table:

	Year ended 31 March 2006		Year ended 31 March 2007	
Instrument	Number of contracts	Contract value R000	Number of contracts	Contract value R000
Spot bonds	34	46,7	50	71,0
FRAs	6 000	6 000,0	327	560,1
Options	6 091	66,3	2 450	28,2
Futures	4 282	5 581,8	11 333	13 878,6
Govi futures and other indices' futures	3 302	7 649,8	8 540	20 758,2
Total	**19 709**	**19 344,6**	**22 700**	**35 296,1**

Bond Exchange of South Africa

The Bond Exchange of South Africa (BESA) provides a platform for the listing of rand-denominated debt securities issued by central and local government, public enterprises and other corporate entities.

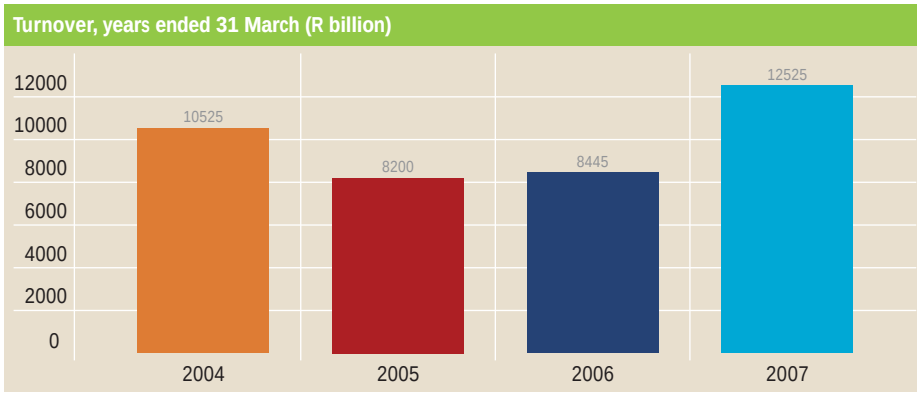
Performance Indicators

Trading volumes on BESA showed an increase of 47,5% during the year under review, compared to an increase of 3% in the previous year. The velocity of the turnover reported on BESA was 15,4 during the year under review.

The performance for the year under review was as follows:

	Year ended 31 March 2006	Year ended 31 March 2007	Change
Nominal turnover	R8 445 billion	R12 458 billion	47,5%
Transactions	289 386	329 796	14,0%

The growth in turnover reported on BESA is evident from the graph below:

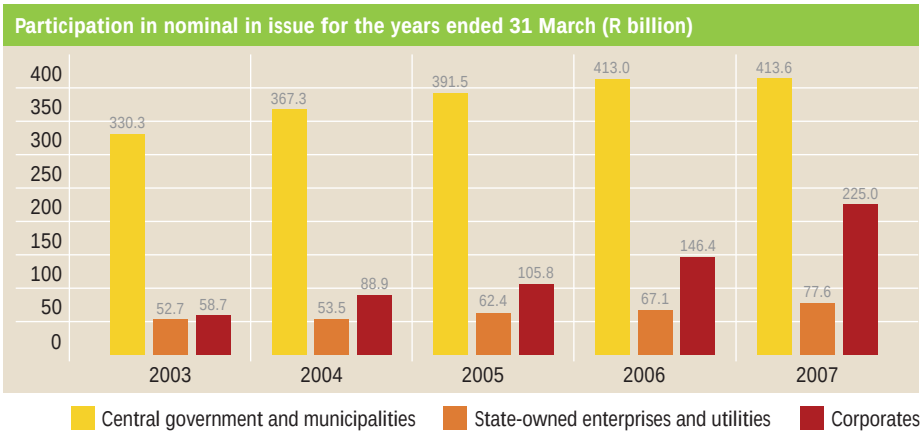


At 31 March 2007, 775 bonds issued by 97 issuers had been listed by BESA, with a total nominal value of R716,2 billion (2006: R626,5 billion), representing an increase of 14,3%. While central government issues presently account for approximately 57% of listed debt, the situation is gradually changing in line with Government's fiscal policy and its declining need for debt financing.

The debt securities (nominal value) profile listed by BESA is reflected in the table below:

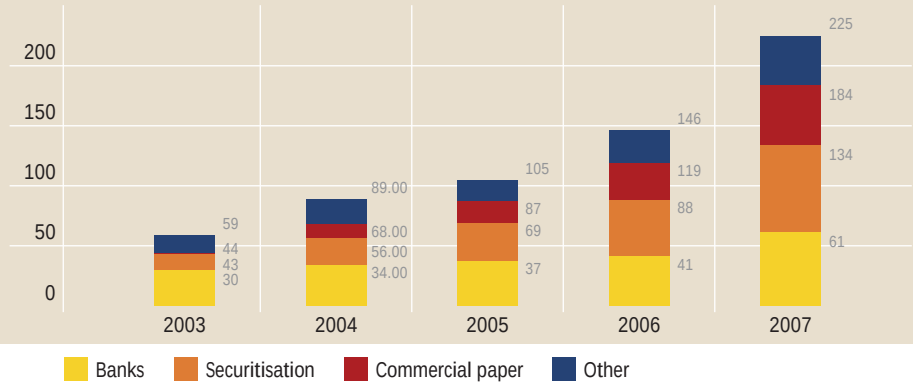
Issuer	31 March 2006 (R billion)	%	31 March 2007 (R billion)	%
Central government	410,3	65,5	409,7	57,2
Municipal	2,7	0,4	3,9	0,6
Public enterprises & utilities	67,1	10,7	77,6	10,8
Corporate	146,4	23,4	225,0	31,4
Total	**626,5**	**100**	**716,2**	**100**

The following graph indicates how the decline in government issuance has been offset somewhat by the increase in corporate listings over the past year:



Corporate issues listed on BESA remain dominated by bank issues and securitisation.

Growth in corporate listings for the years ended 31 March (R billions)



Central Securities Depository

Strate Limited

The FSB licensed Strate as a central securities depository in terms of the SSA for equities and bonds.

The nominal value of bond holdings under management at Strate amounted to R672 billion at 31 March 2007. The figure represents 92,9% of fixed income instruments listed by BESA for electronic settlement.

The total value of dematerialised equities listed on the JSE amounted to R4,1 billion at 31 March 2007.

Industry Developments

JSE rules

The JSE continues to progress with the consolidation of its Equities Derivatives, Yield^{x} Derivatives and Agricultural Product Derivatives Rules. This exercise is aimed at amending the Rules in line with recent developments at the JSE and to make them as simple and user-friendly as possible. This exercise is scheduled to be completed during 2007/2008.

JSE Alternative Exchange (Alt^{x})

The JSE launched Alt^{X}, its alternative exchange, on 27 October 2003. Alt^{X} is a joint initiative of the Department of Trade and Industry and the JSE to list small and medium-sized companies. At 31 March 2007, 40 companies with a market capitalisation of about R13,1 billion were listed. On average 18,6 million shares trade daily on this exchange.

Granting of a Clearing House Licence: SAFCOM

The licence application of SAFEX Clearing Company (Pty) Limited (SAFCOM) as a clearing house for derivative instruments in terms of the SSA, was submitted to the FSB's Licensing Committee on 5 December 2006 and subsequently granted by the Registrar of Securities Services. SAFCOM clears transactions in derivatives traded on the JSE.

Listing of the JSE

The JSE was successfully listed on itself on 5 June 2006. To mitigate against any conflicts of interest, the JSE's compliance with the ongoing obligations under the JSE Listings Requirements, and the trading in JSE shares, are regulated and supervised by the FSB.

The conditions with which an exchange must comply when it includes securities issued by it in its own list (the Conditions) were published in terms of Board Notice 11 of 2006 in *Government Gazette* 28572 on 2 March 2006. The Registrar's Advisory Committee, appointed by the Registrar, assists the FSB in the application of the Listings Requirements to the JSE. The listing of the JSE has not otherwise affected the regulatory powers of the JSE.

The Conditions further require the JSE Controlling Body to implement procedures to deal with any conflicts of interest that may arise as a result of the listing and to report complaints regarding such conflicts to the FSB. Furthermore, the JSE must report on its compliance with these Conditions in its annual report.

Upgrading of JSE Information Technology Systems

The JSE is upgrading its information technology to reduce operational costs and provide more flexible, reliable and stable next-generation technologies. The JSE's equities trading system, JSETS, was replaced with JSE TradElect on 2 April 2007.

Reduction of the JSE Investor Protection Levy

As a result of the high level of activity in the equities market, a material surplus has accumulated in the investor protection levy fund. Accordingly, the rate of this levy was reduced from 0,0003% to 0,0002% effective from 5 June 2006.

Compliance with the Financial Services Ombud Schemes Act

The JSE's client complaint resolution scheme was considered and recognised by the Financial Services Ombud Council at its meeting on 21 February 2007.

BESA

Introduction of BESA rules for inter-dealer brokers

BESA has identified inter-dealer brokers (IDBs) as a group of unique authorised users requiring specific rules applicable to such persons within the broader set of BESA Rules. Although IDBs fulfil a service provider role, they are required to be registered as authorised users to have access to the trading system of BESA. The Rules were published in the *Government Gazette* on 23 February 2007 and approved by the FSB with effect from 19 March 2007.

Expansion of BESA family of indices

BESA currently maintains the benchmark indices in the fixed income market, known as the BEASSA Total Return Indices – the ALBI, GOVI and OTHI. The ALBI index consists of the top 20 bonds listed on BESA based on market capitalisation and liquidity and is commonly used in the market for activities such as benchmarking performance. The GOVI and OTHI are sub-indices of the ALBI.

In line with international trends to develop index-linked products, BESA has expanded its indices by relaunching a South African Inflation-linked Government Bond Index in cooperation with Barclays, a South African Hedge Fund Index in cooperation with Clade Asset Management and a suite of Credit Indices in cooperation with the Standard Bank of South Africa Limited. By launching its various new indices, BESA hopes to improve current benchmarking in the South African fixed income market and to promote product development that will enhance fixed income liquidity.

Strate

Alternative Settlement Model for Strate

Strate continues to consult the market on the introduction of a Securities Ownership Register (SOR). An extensive legal review identifying two "international holding patterns", namely a transparent and a non-transparent model, has been completed. Strate has established Equities, Bonds and Money Market Advisory Committees comprised of industry experts with a view to advising Strate in its role in the securities environment. One of the main projects currently within the remit of the aforementioned Committees is to provide advice on the viability of an SOR in the capital markets. Strate has developed a Request for Information (RFI) document that has been sent to various central securities depositories and service providers to gather information on international systems.

The information obtained from the previous Alternative Settlement Model project and the above legal review and RFI will be collated and considered with a view to identifying a Securities Settlement Enhancement Model (SSEM) for the South African capital markets. Work on this extensive project will continue through 2007/8.

Settlement of Money Market Instruments

In consultation with the market, Strate is investigating the most appropriate way to convert the settlement of money market instruments from its current paper-based methodology into an electronic settlement format. The market has agreed to a set of business requirement specifications and has already advanced significantly in the development of technical specifications. Strate aims to implement the Money Market Dematerialisation project during 2007.

Supervisory Developments

Self-assessment Return for Exchanges

A self-assessment return has been developed by the department for completion by exchanges. The purpose of the Self-assessment Return for Exchanges (SARE) is to ensure that the exchanges fulfil their supervisory duties in terms of the SSA and to formalise the FSB's supervision of the self-regulatory organisations (SROs). BESA and the JSE have completed the SARE for the period under review. The SARE will serve as a foundation for on-site reviews to be conducted on the exchanges annually.

It is intended to introduce a similar self-assessment return for central securities depositories during 2007.

Shortening the Settlement Cycle for Equities

The Registrar, with the support of the FSB Licensing Committee, has directed the JSE to start making progress towards shortening the cycle for the settlement of equities from a T+5 cycle to at least a T+3 settlement cycle. The JSE is required to present a document detailing the potential barriers to shortening the settlement cycle for equities and the action points required to overcome such barriers to the Licensing Committee as part of its licence renewal application for 2008.

Service Level Commitment

In order to enhance the FSB's service delivery and transparency and to provide cost-effective services, a Service Level Commitment (SLC) has been developed in respect of those services provided by the department in administering the SSA. The primary objective of the SLC is to define the roles and responsibilities of the FSB regarding the services it renders. It also sets out to improve service standards within the organisation to ensure optimum client satisfaction. The SLC will take effect from 1 June 2007 and will be available on the FSB's website.

Financial Markets Advisory Board

The Financial Markets Advisory Board (FMAB) held four meetings during the reporting period. Topical issues discussed included:

- New securities and financial instruments to be launched by the exchanges, which may have policy implications
- An update on the JSE Yield^{X} market, the regulation of hedge funds and the Financial Centre for Africa initiative
- The regulatory implications of the listing of an exchange on itself and the experience in foreign jurisdictions
- Draft conditions applicable to the inclusion by an exchange of securities issued by it in its own list and specific requirements applicable to the JSE's listing
- The regulatory concerns in respect of the securities clearing and settlement systems of South Africa
- The introduction of an SOR by Strate
- The licensing of SAFCOM
- The calculation of black shareholding of South African listed companies
- The European Union Markets in Financial Instruments Directive
- Trading costs compared to other foreign exchanges.

Legislative Developments

Securities Services Act, 2004

The SSA, which consolidates the Stock Exchanges Control Act, 1985, Financial Markets Control Act, 1989, Custody and Administration of Securities Act, 1992 and the Insider Trading Act, 1998, as well as the relevant subordinate legislation, became effective on 1 February 2005.

The Trading of Unlisted Securities of Public Companies

The practice of creating a market in unlisted securities came under the spotlight during the year under review. Two institutions involved in such business were found to be operating in contravention of the SSA by conducting the business of an exchange. These institutions were provided with an opportunity to regularise their business or to desist from conducting the business of an exchange. The institutions have subsequently ensured that they have regularised their respective businesses with effect from 1 December 2006.

Limitation on Control of and Shareholding in Self-regulatory Organisations

In terms of section 57 of the SSA, prior written approval of the Registrar is required for persons and/or associates to hold more than 15% of the total nominal value of all the issued shares in a self-regulatory organisation. In administering this legislative requirement, the FSB, in consultation with the FMAB, developed a policy which does not permit shareholding in a self-regulatory organisation above 15% by a person and/or associates who is/are authorised users or participants (hereafter referred to as conflicted shareholders) of exchanges or the central securities depository respectively. The need for such a policy lies with the operation of an extensive self-regulatory approach applied in our capital markets. The FSB remains of the opinion that allowing an SRO to regulate a conflicted shareholder who has influence in the SRO raises the potential for conflicts of interest to an unacceptable level. Following the introduction of this policy, two participants of Strate were required to reduce their shareholding to no more than 15% of the total nominal value of all the issued shares of Strate. It is important to note that the above policy does not restrict a shareholding above 15% in an SRO if that shareholder is not a conflicted shareholder. An application for any additional shareholding by such non-conflicted persons will be considered on its merits.

Self-assessment in terms of the International Organisation of Securities Commissions' benchmarks

The department is reviewing and updating, where necessary, the self-assessment of the securities regulation in terms of the International Organisation of Securities Commissions (IOSCO's) 30 principles and benchmark methodology.

International Cooperation

Memoranda of Understanding

Apart from being a signatory to the IOSCO and the Southern African Development Community (SADC) multilateral MoUs, the FSB has concluded bilateral MoUs with 45 jurisdictions. The MoUs are aimed at facilitating and improving the exchange of information and cooperation on enforcement among securities regulators. During the reporting period, the FSB signed bilateral MoUs with the Securities and Exchange Commission of Ghana, the Financial Supervisory Commission of Taiwan and the Emirate Securities and Commodities Authority.

FSB Securities Familiarisation Programme

A successful Securities Familiarisation Programme (SFP) was hosted by the department from 3 to 7 July 2006. Delegates from Botswana, Ghana, Namibia, Swaziland, Tanzania and Uganda attended. Delegates from Ghana and Kenya attended the second SFP from 27 November to 1 December 2006.

The department will in future host only one SFP annually. Apart from exchanging views on the regulatory regimes in the respective countries, delegates will also be given the opportunity to meet with representatives of, among others, the JSE, BESA, Strate and the CIS industry.

The next SFP will be held from 3 to 7 September 2007.

Visit by Nigerian delegation

A Nigerian tour group of 15 individuals drawn from the Nigerian National Assembly, the Central Bank of Nigeria and the Debt Management Office met with the department on 14 August 2006 to discuss issues relating to domestic debt management and capital market development.

Committee of Insurance, Securities and Non-banking Financial Authorities

The Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA) met twice during the reporting period and discussed the following topics, among others:

- Market developments within CISNA member countries
- Harmonisation of members' financial regimes
- Assessment of members' regulatory frameworks in terms of the IOSCO methodology, and
- The implementation of a risk-based supervision approach towards the regulation of the capital markets in members' jurisdictions.

At the October meeting, Mrs Nasama Massinda of the Capital Markets and Securities Authority of Tanzania was elected as Chairperson of CISNA and Mr Norman Müller of the FSB as Deputy Chairperson for a period of two years.

IOSCO meetings

IOSCO's objectives include cooperation in promoting high standards of regulation in order to maintain just, efficient and sound markets. Member countries exchange information to promote the development of domestic markets and unite their efforts for the effective surveillance of market transactions and enforcement against offences.

The FSB was re-elected as a member of the Executive Committee during the annual conference of IOSCO, which was held in Hong Kong from 5 to 8 June 2006. The FSB attends all Exco and President's Committee meetings of IOSCO and attends the IOSCO Technical Committee annual conference.

Being a member of the IOSCO Emerging Markets Committee and Africa Middle/East Regional Committee, FSB representatives attended and actively participated in these meetings.

The FSB also participates in specialist committees, namely:

IOSCO Implementation Task Force

One of the IOSCO Implementation Task Force's (ITF) primary tasks will be to help promote the implementation of the IOSCO principles by all its members. The ITF has created a number of small working groups to advance work on, among others, the following projects:

- The promotion of the IOSCO principles through IOSCO's regional committees
- Updating the IOSCO Principles and Methodology
- Holding assessor workshops with the aim of developing a pool of assessors from emerging markets who can assist in assessments of jurisdictions.

IOSCO Standing Committee 4 (SC4) and Screening Group

As a member of IOSCO's Verification Team 4 and Screening Group, the FSB is responsible for leading allotted applications submitted by prospective signatories to the IOSCO Multilateral Memorandum of Understanding. SC4, a working committee of the IOSCO Technical Committee, focuses on the enforcement and exchange of information between securities regulators.

Participation in IOSCO Research Projects

During the reporting period, the FSB participated in research projects and completed questionnaires on the following research topics:

- Two subcommittees of the IOSCO Africa Middle/East Regional Committee (AMERC) have been established, focusing respectively on "Developing bond markets in AMERC countries"and "Strategic keys to attract the right companies to the securities markets." The FSB has provided the Capital Markets Authority of the Sultanate of Oman with comments on the draft questionnaire on the bond market investigation. The FSB has forwarded a completed questionnaire on the attraction of companies to the securities market to the Securities and Exchange Commission of Nigeria

- Factors Influencing Liquidity in Emerging Markets, as part of the mandate of the IOSCO Emerging Markets Committee Working Group on Secondary Market Regulation

- Corporate Governance in Emerging Markets, led by the IOSCO EMC Task Force on Corporate Governance.

International Institute for Unification of Private Law

The FSB attended the third session of the International Institute for Unification of Private Law (UNIDROIT) Committee of governmental experts for the preparation of a draft convention on substantive rules regarding intermediated securities. UNIDROIT is an independent inter-governmental organisation that seeks to identify methods for modernising, harmonising and coordinating private commercial law between states and groups of states. The draft convention seeks to promote

uniformity of substantive laws to ensure legal certainty of book entries in securities accounts. The FSB recognises the effect that the draft convention may have on capital markets and remains abreast of developments.

International Training Programmes

FSB representatives attended the training programme of the United States Securities and Exchange Commission International Institute, an Emerging Markets Programme hosted by the Malaysian Securities Commission, and an IOSCO/Financial Stability Institute workshop on the double-default effect on the trading book and the effect of Basel II. Basel II is an effort by international banking supervisors to update the original international bank capital accord (Basel I), which has been in effect since 1988. The revised accord aims to improve the consistency of capital regulations internationally, make regulatory capital more risk sensitive and promote enhanced risk management practices among large internationally active banking groups. Since many securities firms fall within banking groups, Basel II may have an indirect impact on these firms.

Introduction

The FSB, through the Collective Investment Schemes (CIS) department, supervises collective investment schemes in securities (including fund of funds and feeder fund structures), in property and in participation bonds in terms of the Collective Investment Schemes Control Act (CISCA). Under the Act, the department also approves foreign collective investment schemes (FCIS) to market their products in South Africa.

Increase in number of portfolios/funds for the years ended 31 March

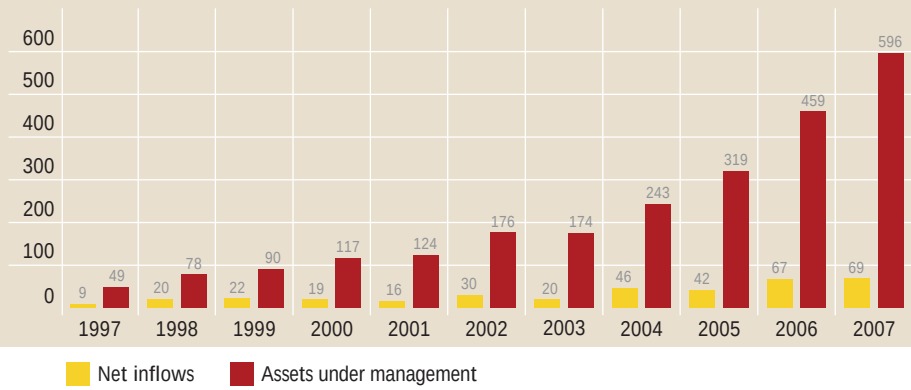
Industry Overview

South African Collective Investment Schemes in Securities

There was a net increase after fund closures of 121 funds during the year, which is slightly lower than the 136 experienced during the previous year. The increase remains attributable to the demand for third party funds. As at 31 March 2007, there were 34 managers with 765 FSB-approved funds available to the public for investment.

For the fourth consecutive year, the industry attracted record inflows. Net inflows in CIS portfolios reached a record R27,6 billion during the quarter ended 31 March 2007, as both retail and institutional unit trust investment inflows soared. At the end of the financial year, total assets under management stood at a record R596 billion (March 2006: R458 billion). In general, the industry produced excellent returns.

Increase in inflows and assets under management for the years ended 31 March



Market capitalisation of participatory interests and participatory interests in issue for the year ended 31 March (R billion)

Foreign Collective Investment Schemes in Securities

A healthy investor appetite for offshore collective investment products saw net inflows of R34,7 billion into FCIS at year-end, with the total assets under management standing at R105 billion at 31 March 2007. This represents a notable 49% increase compared to the 33% increase recorded during the previous year. It also represents a doubling of the size of assets under management over a period of three years.

There has not been any significant change in movement in respect of foreign operators in the South African markets, as evidenced by the net decrease of two schemes and one portfolio during the year. At year-end, 71 schemes were licensed to market 382 portfolios in South Africa.

Collective Investment Schemes in Property

This sector continues to deliver positive returns, but not as spectacular as those recorded in the previous period. However, on a relative basis, the total return for the previous period was abnormal as a result of a rerating of the sector. This involved a reduction in yields during that period as a result of the decline in interest rates in the capital market. The reduction in yields in turn resulted in capital values appreciating.

The total return for the 12-month period to March 2007 was 11,2%, constituted by an income return of 6,9% and capital growth of 4,3%. This was achieved despite a significant downward correction in markets in general during the middle and second half of 2006, which resulted in a decline in stock market prices. Since then, CIS in the property market have substantially regained much of their losses.

It should be noted that the returns for 2006/7 were realistic when compared to long-term trends. Total participatory interests in issue at year-end stood at R2,7 billion, with a market capitalisation of R19,4 billion.

Collective Investment Schemes in Participation Bonds

The aggregate amount owing to 29 540 (2006: 35 542) participants at 31 March 2007 was R3,3 billion (March 2006: R3,4 billion). There were seven schemes in operation and 1 611 (2006: 1 671) registered participation bonds. It is evident that there is a steady decline of investment in this industry.

Regulatory Developments

Hedge Funds

There is still no clarity on the income tax treatment of hedge funds and industry participants are discussing this issue with the revenue authorities. The plan remains to make regulated hedge funds available in South Africa, although the focus has now shifted from the drive to regulate hedge funds under CISCA, to regulating investment managers and intermediaries managing and selling hedge funds respectively under the FAIS Act.

UCITS III

FCIS domiciled in the European Union jurisdiction, which are approved under CISCA to market their products in South Africa, have been affected by the advent of the EU Council Directive on Undertakings for Collective Investment in Transferable Securities (UCITS). This came about when the UCITS Directive contemplated in EU Council Directive 85/611/EEC became effective in February 2007. In terms of the provisions of EU Council Directives 2001/107/EC and 2001/108/EC (UCITS III Directives), schemes which are UCITS III compliant (in other words, schemes that are passportable within the EU jurisdiction) may adopt extended powers that not only create an uneven playing field between those schemes and domestic schemes, but also contravene certain provisions of CISCA and its subordinate legislation. This has necessitated a review of the local regulatory framework. In a bid to maintain order and a measure of certainty in the South African CIS market, the FSB has issued a temporary exemption to all licensed foreign schemes from complying with certain provisions of local regulations while a permanent dispensation is being sought. The FSB is accordingly consulting with both the local and foreign CIS industry, as well as fellow regulators in and outside the EU jurisdiction, in its bid to formulate an appropriate regulatory framework for the industry.

Supervisory Developments

Reviews

The FSB has introduced a process whereby newly licensed managers are subjected to an on-site visit six months after licensing. The purpose of this visit is to review such managers' CIS management capabilities and compliance with CISCA and the deed, as well as with any condition of approval. This process was initiated in response to a tendency among newly licensed managers, whose capabilities had not been tested, to seek either to increase the number of portfolios in their schemes or to enter into white label arrangements. The step has been welcomed by established players in the industry.

Risk-based Supervision

As part of the process of implementing risk-based supervision, the FSB performed reviews on all the registered CIS. The reviews, designed to assess the risks to which managers of CIS schemes are exposed, as well as key control areas, have assisted the FSB in beginning to rate managers on their risk management capabilities. Once rolled out, this approach to supervision will have a great impact on the management of resources within the FSB as more effort and emphasis will be placed on schemes or managers with a low rating on their risk management processes.

Fedbond Participation Mortgage Bond Scheme

Following the successful application by the FSB for leave to appeal against the High Court's decision refusing to place Fedbond under curatorship, papers have been filed with the Supreme Court of Appeal and a hearing date is awaited. In the interim, the FSB continues to deal with individual queries from investors redeeming their investments with the scheme following a directive by the FSB to Fedbond prohibiting the latter from taking new investments, as well as an arrangement in terms of which Fedbond is required to pay investors whose investments have matured. In addition, the FSB is revising the Participation Bond Rules with a view to rooting out all identified weaknesses in the current rules.

Introduction

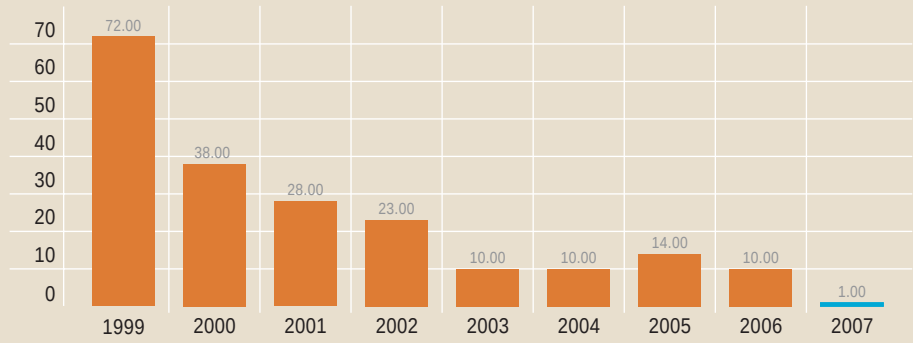
In February 2005, the Directorate of Market Abuse (DMA) replaced the Insider Trading Directorate as the body responsible for combating insider trading. Since then, the DMA has also been responsible for combating prohibited trading practices (market manipulation) and the publication of false or misleading statements relating to listed companies.

The DMA is composed of representatives from the FSB, the financial markets, the legal and accounting professions, the insurance industry, the banking industry, the Ministry of Finance, the South African Reserve Bank, the fund management industry and the Shareholders' Association of South Africa.

Activities of the DMA

At the beginning of the year under review, the DMA and its predecessor had registered a total of 194 market abuse cases which consisted mainly of insider trading allegations. During the period, a further 12 matters were registered for investigation, bringing the total number of cases at the end of the review period to 206. Eleven of the new matters are investigations into possible insider trading, and three are investigations into alleged false reporting.

The graphs below set out the reported incidents of alleged market abuse since inception of the DMA and its predecessor. Up to 2005, these incidents related only to insider trading.



The DMA had three meetings during the period and considered 22 completed investigations. It closed 16 of these investigations because there was no or insufficient evidence that the SSA had been contravened. One matter was referred to the Enforcement Committee, established in terms of the SSA. Three investigations were handed over to the prosecuting authorities for further investigation and possible criminal prosecution. These were investigations into share transactions in Omega Alpha International Information Technology Holdings Limited, Sempres International Technology Holdings Limited and Randgold and Exploration Company Limited. These cases were referred to the criminal authorities because, apart from the possible insider trading or false reporting issues, much more significant fraudulent activities were alleged.

Enforcement Action

During 2000, two directors of Skills Accel Limited, a Mr van der Merwe and a Mr Ingledew, purchased Skills Accel Limited shares, as a result of which they were investigated for insider trading. The predecessor of the DMA decided to proceed with civil legal action against the two directors on the basis of insider trading. This statutory civil claim is utilised by the FSB to strip alleged offenders of the profits they made (or losses they avoided) and impose penalties of a multiple of such amount. The case was placed on the High Court role for November 2006, but the parties made a settlement offer to the FSB of R800 000, plus legal costs. The FSB accepted the offer.

The DMA investigated a case of insider trading against the financial director of Scharrig Mining Limited and the managing partner of PKF Incorporated, relating to dealing in Scharrig Mining shares. In addition, we investigated a case of false reporting by the company. The two insider trading cases were finalised by a settlement from the financial director and the auditor of the profits made/losses avoided, plus penalties.

The false reporting matter was referred to the Enforcement Committee which imposed a fine of R750 000 on the company and its financial director.

Some time ago, the predecessor of the DMA investigated charges of price manipulation and insider trading against the late Mr Brett Kebble, Mr Roger Kebble and a co-director of Western Areas Limited, Mr Hennie Buitendag. The Director of Public Prosecutions commenced a prosecution of these individuals, *inter alia*, for fraud and insider trading. After the death of Mr Brett Kebble, Mr Roger Kebble and Mr Hennie Buitendag pleaded guilty to price manipulation and insider trading and were sentenced to a fine of R1,5 million and four years' imprisonment, suspended for four years.

The DMA has one civil prosecution outstanding that relates to share transactions in ITI Technology Holdings Limited. This matter will be heard in the High Court towards the end of 2007.

Consumer Education

In 2004, the JSE published a booklet dealing with the legislation and listings requirements applicable to insider trading and price-sensitive information.

Since then, the Insider Trading Act has been replaced by the SSA, with substantial changes made to the offences and defences. The listings requirements relating to market abuse, the protection of price-sensitive information, directors' dealings and disclosure were also upgraded.

In a joint effort by the JSE and the FSB, the booklet was rewritten and the JSE launched it on 2 November 2006. The booklet has been widely distributed and well received by the industry.

Distribution of Funds to Claimants

The DMA previously took legal action based on alleged insider trading against three individuals in the Cadbury Schweppes (SA) Limited case. As a result, R4 068 805 was recovered from the defendants. Approximately 86 claimants benefited from the distribution of the funds.

Outlook

The DMA has established itself as a regulator with significant impact. Our investigation team has grown comfortably into its new mandate of investigating all forms of market abuse. Our close partnership with the JSE surveillance team remains a critical success factor for combating market abuse.

Recently, the number of new cases has increased as market activity on the JSE has increased. Consequently, the DMA will employ more investigators to deal with the increased workload.

There has been an increasing need for the DMA to obtain evidence and information from outside the borders of South Africa. It is expected that this trend will continue in future as more overseas investors are attracted to the South African financial markets. The DMA investigation team has dealt with this challenge by utilising the IOSCO Multilateral MoU and Bilateral MoU to enlist the assistance of foreign regulators.

The FSB is a juristic person established in terms of the FSB Act.

The FSB Board regards corporate governance as vital to the organisation's wellbeing as a regulator and, as such, takes full responsibility for its application within the FSB.

Committed to the highest level of corporate governance, the FSB is satisfied that it has complied with the key provisions of King II for the period under review.

In keeping with that commitment, compliance with relevant statutory and governance provisions of the FSB's governance policies continued in the year under review as a priority to safeguard the interests of all stakeholders.

FSB Board Structure

The Board of the FSB (the Board) governs the FSB in accordance with the provisions of the FSB Act, the Public Finance Management Act (PFMA) and good corporate governance principles, and is ultimately accountable and responsible for the performance and affairs of the FSB.

Members of the Board are appointed by the Minister of Finance with due regard to the interests of users and providers of financial services, including financial intermediaries, and the public. Board members are initially appointed for a period not exceeding three years, after which the Minister may extend the tenure for a further three years at his own discretion, unless the member is not available for reappointment. During the reporting period, the Board comprised eight members of sufficient calibre and skills to guide the FSB in exercising its statutory mandate. Board members are independent and non-executive.

The primary responsibility of the Board is to set strategy, overall policies and performance criteria for the FSB. The Board exercises leadership, integrity and judgement in directing the FSB, based on transparency, accountability and responsibility. The Board is also the focal point of the FSB's corporate governance system, with full and effective control over the FSB. Authority for the day-to-day management of FSB activities is delegated to the Executive Officer and management team.

FSB Board members' tenure of appointment

Board member	Tenure of appointment	Capacity	Appointment date
Dr Cyrus Rustomjee	1 January 2007 to 31 December 2009	Chairperson	1 July 2003
Mr Abel Sithole	1 January 2005 to 31 December 2007	Deputy Chairperson	1 January 2002
Ms Jabu Mogadime	1 January 2007 to 31 December 2009	Board Member	1 March 2004
Mr Brian Hawksworth	1 January 2006 to 31 December 2007	Board Member	1 March 2004
Ms Tshidi Mokgabudi	1 January 2006 to 31 December 2008	Board Member	1 January 2006
Prof Philip Sutherland	1 January 2006 to 31 December 2008	Board Member	1 April 2002
Ms Hilary Wilton	1 January 2006 to 31 December 2008	Board Member	1 January 2002
Ms Louisa Mojela	1 January 2005 to 31 December 2007	Board Member	1 January 2002

For effective control, the information needs of the Board are continually assessed. Management reporting is constantly modified to keep pace with changing legislative and Board requirements. The Board has unrestricted access to all organisational information, records, documents and property that it may require.

Management performance is monitored through effective and regular reporting against Board-agreed strategies and budgets. An induction programme is also in place to orientate new Board members.

Board members are entitled to obtain independent legal advice on FSB-related matters at the FSB's expense.

The Board meets at least five times a year. A record of attendance by each member during the period under review is reflected in Table A below.

Table A – FSB Board and Meeting Attendance

Board member	29/05/2006	23/06/2006	29/09/2006	08/12/2006	30/03/2007
CDR Rustomjee (Chairperson)	√	√	√	√	√
A Sithole	√	A	√	√	√
BM Hawksworth	√	√	√	√	√
J Mogadime	√	√	√	√	√
AMM Mokgabudi	–	√	A	√	A
LM Mojela	√	√	√	√	√
PJ Sutherland	√	√	√	√	√
H Wilton	A	A	√	√	A

√ Denotes attendance A Denotes apologies – Denotes not yet appointed

Chairperson and Executive Officer

The roles and responsibilities of the Chairperson of the Board and the Executive Officer remain separate and distinct. The Chairperson, Dr Cyrus Rustomjee, is an independent non-executive Board member entrusted with the leadership of the FSB Board.

The Executive Officer, Mr Rob Barrow, performs the functions entrusted to this office in terms of the FSB Act and other applicable legislation. Exco assists the Executive Officer to guide and control the overall day-to-day management and direction of the business of the FSB and acts as a medium of communication and coordination between the business units and the Board. In terms of the provisions of the FSB Act, between Board meetings, Exco performs the functions of the Board in accordance with its policy and instruction.

Exco comprises the Executive Officer, four Deputy Executive Officers, the Chief Actuary and the Chief Financial Officer.

In terms of the provisions of the FSB Act, the Executive Officer is not a member of the Board.

Board Secretariat

The Board Secretariat is responsible for ensuring that the FSB complies with relevant statutory and governance provisions, proper administration of Board proceedings, providing guidance to Board members on their fiduciary responsibilities and for the provision of administrative, secretarial and corporate governance services.

The Board Secretariat attends and records proceedings at meetings of the Board, its committees and Exco.

Board Committees

The Board retains effective control over FSB operations through a well-developed governance structure comprising various committees to which certain functions have been delegated. Each committee has its own terms of reference and role as approved by the Board. The committees regularly report to the Board in terms of their mandates and terms of reference. The terms of reference of all Board committees are subject to annual review in line with corporate governance best practice. The function and structure of the committees for the year under review are described below.

Audit and Risk Management Committee

The objective of the Audit and Risk Management Committee is to assist the Board with its responsibility of safeguarding assets, operating adequate systems and controls, assessing the going concern status of the FSB, reviewing financial information and preparing the annual financial statements.

The committee is also responsible for risk management. With the assistance of management, it identifies significant risks affecting the FSB and advises the Board accordingly. The committee ensures that identified risks are monitored and that appropriate measures are devised and implemented to manage such risks.

Mr Brian Hawksworth is the Chairperson of the committee. The committee meets at least four times a year with executive management, internal auditors and the external auditors. The members of the committee and a record of their meeting attendance during the year are reflected in Table B below.

Table B – Audit and Risk Management Committee meeting attendance

Committee member	17/05/2006	14/06/2006	15/09/2006	24/11/2006	19/03/2007
BM Hawksworth (Chairperson)	√	√	√	√	√
J Mogadime	√	√	√	√	√
AMM Mokgabudi	–	–	A	√	√
PJ Sutherland	√	√	√	√	√
H Wilton	A	A	√	√	√

√ Denotes attendance A Denotes apologies – Denotes not yet appointed

Human Resources Committee

This committee is constituted to assist the Board in formulating and implementing the FSB human resources strategy and policies. Its role is to review the implementation of the human resources strategy and policy imperatives.

Mr Abel Sithole is the Chairperson of the committee. Members of Exco and the Head: Human Resources attend committee meetings as invitees. The members of the committee and a record of their meeting attendance during the year are reflected in Table C below.

Table C – Human Resources Committee meeting attendance

Committee member	14/06/2006	15/09/2006	24/11/2006	16/03/2007
A Sithole (Chairperson)	√	√	√	√
J Mogadime	√	√	√	√
H Wilton	√	√	√	√

√ Denotes attendance

Remuneration Committee

This committee assists the Board in formulating and implementing the FSB remuneration strategy and policies. Its role is to ensure that FSB staff members are appropriately rewarded in a manner that will ensure the recruitment, retention and motivation of people with the skills that the organisation requires.

Mr Abel Sithole is the Chairperson of the committee. The Executive Officer and the Head: Human Resources are invitees to committee meetings. The list of members and a record of their meeting attendance during the year are reflected in Table D below.

Table D – Remuneration Committee meeting attendance

Committee member	14/06/2006	15/09/2006	24/11/2006	19/03/2007
A Sithole (Chairperson)	√	√	√	√
J Mogadime	√	√	√	√
H Wilton	√	√	√	√

√ Denotes attendance

Licensing Committee

The objective of this committee is to supervise the Executive Officer acting as Registrar under legislation administered by the FSB. The role of the committee is to make recommendations to the Registrar for the approval or rejection of license applications, as well as withdrawals thereof.

Ms Louisa Mojela is the Chairperson of the committee. The members of the committee are independent industry experts from diverse backgrounds with the specific skills required by the committee. Members of executive management attend committee meetings to present licensing applications and make recommendations.

The committee has eight members, of whom at least two are Board members. The list of members and a record of their meeting attendance during the year are reflected in Table E below.

Table E – Licensing Committee meeting attendance

Committee member	11/04/2006	09/05/2006	13/06/2006	11/07/2006	08/08/2006	26/09/2006	10/10/2006	07/11/2006	05/12/2006	27/02/2007	13/03/2007
L Mojela (Chairperson)	√	√	√	A	A	√	√	A	√	√	√
BM Hawksworth	√	√	A	√	√	A	√	√	√	√	√
M Vermaas	A	√	√	√	A	A	√	A	√	√	√
ME Johnston	√	√	√	√	√	√	√	√	√	√	A
S Moraba	A	A	√	A	√	A	√	√	√	√	A
VF Mahlati	A	A	A	√	A	A	A	A	√	√	A
N Tshombe	√	√	A	√	√	√	√	√	√	√	A
ET Thipa	√	√	√	√	√	√	√	√	√	√	√

√ Denotes attendance A Denotes apologies

Litigation Committee

The function of this committee is to oversee the initiation, opposition, settling or withdrawal of legal action by and/or against the FSB.

Prof Philip Sutherland is the Chairperson of this committee. The members of the committee are non-executive and independent and include industry experts from diverse backgrounds with the specific skills required by the committee. The list of members and a record of their meeting attendance during the year are reflected in Table F below.

Table F – Litigation Committee meeting attendance

Committee member	12/06/2006	15/09/2006	22/11/2006
PJ Sutherland (Chairperson)	√	√	√
L Mojela	√	√	√
A Loubser	√	A	A
AMJ Pinnock	√	√	√
M Mofomme	A	A	A
T Wixley	√	A	A
PT Tshabalala Kingston	A	√	√

√ Denotes attendance A Denotes apologies

Legislative Committee

The function of this committee is to scrutinise proposed new legislation or amendments to existing legislation relating to the supervisory functions of the FSB. The committee also issues comments on draft legislation. The list of members and a record of their meeting attendance during the year is reflected in Table G below.

Ms Hilary Wilton is the Chairperson of the committee. The members of the committee listed below are industry experts with diverse backgrounds and the specific skills required by the committee.

Table G – Legislative Committee meeting attendance

Committee member	08/06/2006
H Wilton (Chairperson)	√
PJ Sutherland	√
HB Falkena	√
J Ferreira	√
M Katz	A

√ Denotes attendance A Denotes apologies

Pension Funds Adjudicator Committee

The role of this committee is to assist the FSB in the management of the affairs of the Office of the Pension Funds Adjudicator.

Mr Abel Sithole is the Chairperson of the committee. The members of the committee listed below are experts in the pension fund administration industry. Meeting attendance was as indicated in Table H below.

Table H – Pension Funds Adjudicator Committee meeting attendance			
Committee member	24/07/2006	15/12//2006	16/03/2007
A Sithole (Chairperson)	√	√	√
K Biggs	√	√	√
M Codron#	A	√	n/a
PJ Sutherland	A	√	√
AMM Mokgabudi	A	A	A
J Boyd	√	√	√
DP Tshidi	√	√	√

√ Denotes attendance A Denotes apologies # Resigned during the year

FAIS Ombud Committee

The function of this committee is to assist the FSB with the management of the affairs of the Office of the FAIS Ombud and other functions in terms of part 1 of chapter VI of the FAIS Act, 2002.

Mr Brian Hawksworth is the Chairperson of the committee. The members of the committee listed below are industry experts with diverse backgrounds and specific skills required by the committee. Meeting attendance is indicated in Table I below.

Table I – FAIS Ombud Committee meeting attendance				
Committee member	09/06/2006	15/09/2006	24/11/2006	19/03/2007
B Hawksworth (Chairperson)	√	√	√	√
P Matlala	√	√	√	√
B Naidoo	√	√	√	√
D Napo	√	A	A	√
T Matshazi	√	A	A	√
AMM Mokgabudi	–	A	A	√
GE Anderson	√	√	√	√
CWN Molope	√	√	√	√

√ Denotes attendance A Denotes apologies – Denotes not yet appointed

Review of Corporate Governance Systems

Consistent with prevailing governance trends, the annual review of the terms of reference for the FSB Board committees was undertaken to establish their continued relevance and effectiveness. The revised terms of reference clearly spell out the specific mandates, procedures and functions of the committees.

A register of the declaration of interests of FSB Board members, as required in terms of the provisions of the PFMA and good governance, is circulated at each Board meeting for perusal and signature. In the event of a perceived conflict of interests, it is procedure to note the interest identified and to recuse the member concerned during discussion of the matter.

Code of Ethics and Organisational Integrity

The FSB has a code of ethics. The FSB Board believes that the ethical standards and criteria for compliance with these standards, as contained in King II, are being met in line with principles of corporate citizenship.

The FSB Board acknowledges that all FSB decisions are based on the foundation of integrity.

Compliance Management

A Compliance Committee is in place to implement the compliance policy of the FSB and to encourage and promote a culture of compliance according to applicable legislation and governance codes of best practice.

Future

The FSB corporate governance strategy is to continually add to and refine its governance structures and systems. The FSB continually makes appropriate investments to strengthen and protect its corporate governance reputation.

The FSB is aware of the requirements of the Global Reporting Initiative (GRI), sustainability reporting guidelines and the King II Report on Corporate Governance for institutions to report on their triple bottom line.

Safety, Health and the Environment

The FSB has an effective health and safety programme in accordance with the Occupational Health and Safety Act. The Health and Safety Committee meets regularly and an external company inspects the FSB premises on a regular basis to ensure all shortcomings are addressed. First aid assistants were trained during the year and we are committed to ensuring that employees work in a safe, healthy and clean environment. The FSB's activities do not have an adverse effect on the environment.

Social Responsibility

The FSB channels its social responsibility efforts through its Consumer Education Programme and Contact Centre. Both functions are designed to educate uninformed members of the public about their rights and responsibilities as consumers of financial services and products. The CED in particular has launched several projects in cooperation with industry bodies to enlighten and empower targeted communities. Some projects are being funded from discretionary funds, comprised of fines and penalties levied by the FSB on non-compliant regulated entities.

Business Continuity

The FSB has a business continuity plan that includes a disaster recovery plan. Data recovery is the foundation of the business continuity plan and all procedures are revisited and improved continuously. Data recovery tests are conducted regularly.

Supply Chain Management

The FSB has developed and implemented an effective and efficient supply chain management system for the acquisition of goods and services that enables us to adhere to good corporate governance principles. The procurement process supports the services of historically disadvantaged individuals.

Resources

Human capital is the FSB's greatest resource. Every effort is made to ensure that we apply appropriate and fair principles in recruiting staff, for whom we also create proper training and career advancement prospects. Staff policies are revised and updated on an annual basis in consultation with members of staff to ensure that our rules and guidelines are in line with their values and aspirations. Staff turnover at the FSB remains well below industry levels.

Due to the rapid growth in FSB numbers during the past two years, some departments have had to be accommodated in another office park. Negotiations are under way to find suitable office accommodation that will house all staff under one roof.

Going Concern

The financial statements of the FSB have been prepared on the going concern basis and the FSB Board is satisfied that the FSB is financially sound, with adequate resources to continue operating in future.

Audit and Risk Management

Left to right:

Nosipho Molope
Chief Financial Officer (ex officio)

Rob Barrow
Executive Officer (ex officio)

Other members of committee not in photograph:

Philip Sutherland
Member of Audit and Risk Management Committee

Tshidi Mokgabudi
Member of the Audit and Risk Management Committee

Brian Hawksworth
Chairperson of Audit and Risk Management Committee

Jabu Mogadime
Member of the Audit and Risk Management Committee

Hilary Wilton
Member of the Audit and Risk Management Committee

The Audit and Risk Management Committee is a subcommittee of the FSB Board and consists only of non-executive Board members. The committee's overall objective is to assist the FSB Board to ensure that adequate systems and controls are in place and that the assets are safeguarded, to assess the going concern status, review the financial information and prepare the annual financial statements.

The committee also assists the FSB Board in fulfilling its responsibility of risk management by ensuring that management identifies significant risks associated with the environment within which the FSB operates and develops a framework for managing these risks. The Risk Management Strategy, incorporating a Fraud Prevention Plan that covers strategic, operational and financial risks, has been developed accordingly.

The committee meets at least three times a year and the members of the FSB Executive Committee, the Risk Officer, the internal auditors and the external auditors attend these meetings by invitation. The committee is an advisory committee – not an executive committee – and as such it does not perform any management functions or assume any management responsibilities. Its role is that of an independent and objective adviser and it operates as an overseer, making recommendations to the Board for final approval.

Internal Control Systems

The members of the Audit and Risk Management Committee are satisfied that the system of internal controls is adequately designed to cover organisational, financial and operating risks. The control system provides reasonable, but not absolute, assurance that the entity's assets are safeguarded, that transactions are authorised and recorded properly, and that material errors and irregularities are either prevented or detected in time. These controls are monitored throughout the organisation by management and employees with the necessary delegation of authority and segregation of duties.

Based on the review of effectiveness and detailed reports provided by the internal auditors, the members of the Audit and Risk Management Committee are not aware of any significant weakness or deficiency in the organisation's system of internal controls.

Risk Management

A risk management strategy, incorporating a fraud prevention plan, is in place. The effectiveness and relevance of this strategy and plan are assessed regularly, given the dynamic environment within which the FSB operates. Risks identified as significant to the FSB are regularly evaluated and the risk management strategy is reviewed accordingly. A business continuity plan, which includes a disaster recovery plan, has been implemented and is tested regularly.

Internal Audit

The Audit and Risk Management Committee is also responsible for overseeing the internal audit function. The role of internal auditors is to provide support to management and the Audit and Risk Management Committee in discharging their responsibilities. The internal audit function provides independent and objective evaluation of the organisation's system of internal control and any significant business risks and exposures are brought to the attention of management and the committee. The internal audit function is outsourced to an independent firm on contract, renewable annually for three years.

Financial Statements

The members of the Audit and Risk Management Committee have reviewed and evaluated the financial statements of the FSB for the year ended 31 March 2007 and are satisfied that they comply with the requirements of the PFMA of 1999, as amended, and the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP), including any interpretations of such statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent SA Statements of GAAP. The going concern principle was adopted in preparing the financial statements.

The committee, at its meeting on 18 May 2007, recommended the financial statements to the FSB Board for approval.

B Hawksworth
Chairperson: Audit and Risk Management Committee

RJG Barrow
Executive Officer

Financial Report

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Left to right:

Nosipho Molope
Chief Financial Officer

Marlene du Plooy
Head: Finance

Report of the Auditor-General to Parliament on the Financial Statements and performance information of the Financial Services Board

for the year ended 31 March 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Financial Services Board which comprise the balance sheet as at 31 March 2007, income statement, statement of changes in funds and reserves, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 84 to 111.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent Statements of GAAP and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Financial Services Board Act, 1990 (Act No. 97 of 1990). This responsibility includes:
   - Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
   - Selecting and applying appropriate accounting policies
   - Making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 17(4) of the Financial Services Board Act, 1990 (Act No. 97 of 1990), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 647 of 2007,* issued in *Government Gazette No. 29919 of 25 May 2007.* Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Report of the Auditor-General to Parliament on the Financial Statements and performance information of the Financial Services Board

for the year ended 31 March 2007

6. An audit also includes evaluating the:
   - Appropriateness of accounting policies used
   - Reasonableness of accounting estimates made by management
   - Overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1.1 to the financial statements.

Opinion

9. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Services Board as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as set out in note 1.1 to the financial statements and in the manner required by the PFMA.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

10. Unaudited supplementary schedules
    I draw attention to the fact that the other information set out on pages 116 to 122 do not form part of the annual financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

11. I have audited the performance information as set out on pages 112 to 115.

Responsibilities of the accounting authority

12. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Responsibility of the Auditor-General

13. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007,* issued in *Government Gazette No. 29919 of 25 May 2007.*

14. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

15. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

Audit findings

16. No significant audit findings.

APPRECIATION

17. The assistance rendered by the staff of the Financial Services Board during the audit is sincerely appreciated.

GO Randall for Auditor-General

Pretoria

27 July 2007

AUDITOR-GENERAL

Report by the Members of the Board on the Financial Statements

for the year ended 31 March 2007

The report is presented in terms of Treasury Regulation 28.1.1 of the PFMA No. 1 of 1999, as amended, and is focused on the financial results and financial position of the FSB. Information pertaining to the FSB's state of affairs, its business operations and performance against predetermined objectives is disclosed elsewhere in the annual report. The prescribed disclosure of emoluments is reflected in notes 13 and 14 of the financial statements.

The Board acknowledges its responsibility for the preparation and integrity of the financial statements and related information included in the annual report. In order for the Board to discharge these responsibilities, as well as those bestowed on it in terms of the PFMA and other applicable legislation, it has developed and maintains a system of internal controls.

Internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practice, as well as policies and procedures established by the Board and independently overseen by the Audit and Risk Management Committee.

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the effective standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board believes that the FSB will be a going concern in the year ahead and has, for this reason, adopted the going concern basis in preparing the financial statements.

The financial statements for the year ended 31 March 2007, as set out on pages 85 to 113, were approved by the Board on 28 May 2007 and are signed on its behalf by:

Dr Cyrus Rustomjee
Chairperson

RJG Barrow
Executive Officer

Balance Sheet

as at 31 March 2007

	Notes	2007 R	2006 R
Assets			
Non-current assets		**52 074 949**	40 041 287
Property, plant and equipment	2	**7 188 337**	6 060 244
Intangible assets	3	**2 105 062**	843 312
Long-term investments	5	**32 061 550**	25 325 731
Pension fund asset	4.1	**10 720 000**	7 812 000
Current assets		**139 185 667**	84 695 176
Cash and cash equivalents	6	**122 329 286**	64 410 663
Accounts receivable	7	**15 548 429**	19 405 454
Prepayments		**682 557**	455 481
Inventories	8	**625 395**	423 578
Total assets		**191 260 616**	124 736 463
Reserves and liabilities			
Funds and reserves		**151 948 065**	86 696 797
Accumulated funds		**103 865 752**	46 580 458
Reserves	9	**48 082 313**	40 116 339
Non-current liabilities			
Post-retirement medical aid fund liability	4.2	**15 465 658**	15 928 377
Current liabilities		**23 846 893**	22 111 289
Accounts payable	10	**13 092 185**	13 870 033
Levies and fees received in advance		**10 754 708**	8 241 256
Total reserves and liabilities		**191 260 616**	124 736 463

Income Statement

for the year ended 31 March 2007

	Notes	2007 R	2006 R
Revenue		**245 087 636**	210 730 919
Levies	11	**224 381 349**	187 322 844
Fees and service charges		**20 146 981**	18 813 426
Inspection cost recoveries		**559 306**	4 594 649
Other income	12	**6 986 109**	6 517 522
		252 073 745	217 248 441
Operating expenses		**203 404 982**	196 631 040
Advisory and other committee fees		**2 550 554**	1 987 848
Amortisation charge	3	**123 369**	201 002
Contribution towards expenses of the Office of the FAIS Ombud		**10 846 365**	9 131 322
Contribution towards expenses of the Office of the Pension Funds Adjudicator		**14 834 727**	13 300 149
Depreciation	2	**2 657 281**	2 447 356
Executive management remuneration	13	**11 502 712**	9 243 008
External audit fees		**1 377 776**	739 064
– Current year – interim fee		**429 802**	161 908
– Prior year fees		**947 974**	577 156
Internal audit fees		**648 400**	326 882
Legal fees		**4 246 383**	4 499 860
Loss on disposal of property, plant and equipment		**266 079**	34 399
Non-executive Board members' fees	14	**622 671**	465 432
Operating lease rentals – buildings		**10 577 183**	9 425 955
Other operating expenses		**27 816 370**	34 660 013
Professional and consulting fees		**1 876 728**	2 490 502
Net provision for impairment of debtors	15	**1 619 169**	5 012 504
Salaries, staff benefits, training and other staff costs		**111 839 215**	102 665 744
Net operating surplus		**48 668 763**	20 617 401
Finance costs	16	**(914)**	(5 484)
Income from investments	17	**12 752 242**	10 933 254
Net surplus for the year		**61 420 091**	31 545 171

Statement of Changes in Funds and Reserves

for the year ended 31 March 2007

	Notes	Reserves				Accumulated funds R
		Fair value reserve R	Contingency reserve R	Discretionary reserve R	Total reserves R	
Restated balance at 31 March 2005		5 498 567	13 796 258	9 213 228	28 508 053	21 765 806
Movements for the year		4 877 767	6 817 369	(86 850)	11 608 286	24 814 652
Net surplus for the year						31 545 171
Transfer from discretionary reserve to accumulated funds	9	–	–	(86 850)	(86 850)	86 850
Transfer from accumulated funds to contingency reserve	9	–	6 817 369	–	6 817 369	(6 817 369)
Transfer to fair value reserve	9	4 877 767	–	–	4 877 767	
Balance at 31 March 2006		10 376 334	20 613 627	9 126 378	40 116 339	46 580 458
Movements for the year		**3 831 177**	**3 839 206**	**295 591**	**7 965 974**	**57 285 294**
Net surplus for the year						**61 420 091**
Transfer from accumulated funds to discretionary reserve	9	**–**	**–**	**295 591**	**295 591**	**(295 591)**
Transfer from accumulated funds to contingency reserve	9	**–**	**3 839 206**	**–**	**3 839 206**	**(3 839 206)**
Transfer to fair value reserve	9	**3 831 177**	**–**	**–**	**3 831 177**	
Balance at 31 March 2007		**14 207 511**	**24 452 833**	**9 421 969**	**48 082 313**	**103 865 752**

Cash Flow Statement

for the year ended 31 March 2007

	Notes	2007 R	2006 R
Net cash inflows from operating activities		**67 325 459**	28 024 069
Amounts received from customers		**255 483 509**	211 297 046
Amounts paid to suppliers and employees		**(198 831 070)**	(190 038 058)
Cash generated by operations	18	**56 652 439**	21 258 988
Finance costs	16	**(914)**	(5 484)
Interest received	17	**10 015 998**	5 940 871
Dividends received	17	**657 936**	829 694
Net cash outflows from investing activities		**(9 406 837)**	(6 062 437)
Acquisition of property, plant and equipment	2	**(3 923 515)**	(4 731 716)
Acquisition of intangible assets	3	**(1 523 032)**	(593 598)
Proceeds on disposal of property, plant and equipment	2	**28 342**	34 311
Acquisition of long-term investments	5	**(8 423 840)**	(7 043 281)
Proceeds on realisation of long-term investments	5	**7 805 928**	10 774 422
Increase in pension fund asset	4.1	**(2 908 000)**	(7 654 000)
(Decrease)/Increase in post-retirement medical aid fund liability	4.2	**(462 719)**	3 151 425
Net increase in cash and cash equivalents		**57 918 623**	21 961 632
Cash and cash equivalents at beginning of the year		**64 410 663**	42 449 031
Cash and cash equivalents at the end of the year		**122 329 286**	64 410 663

Notes to the Financial Statements

for the year ended 31 March 2007

1 Summary of significant accounting policies

The financial statements have been prepared on a historical basis, except for the long-term investments which are stated at fair value, and incorporate the following principal accounting policies that have been consistently applied.

1.1 Basis of preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent Statements of GAAP as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP 1: Presentation of financial statements	AC 101: Presentation of financial statements
GRAP 2: Cash flow statements	AC 118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC 103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following changes in the presentation of the financial statements:

(a) Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

(b) The cash flow statement can be prepared only in accordance with the direct method.

(c) Specific information has been presented separately in the statement of financial position such as:
- receivables from non-exchange transactions, including taxes and transfers;
- taxes and transfers payable; and
- trade and other payables from non-exchange transactions.

(d) Amount and nature of any restrictions on cash balances are required.

Paragraphs 11 – 15 of GRAP 1 have not been implemented due to the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

1.2 Property, plant and equipment

Property, plant and equipment, comprising leasehold improvements, computer equipment, furniture, fittings and equipment as well as motor vehicles, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Leasehold improvements are written off over the expected period of the relevant lease agreements. Paintings and sculptures are included in furniture, fittings and equipment at cost. All other items of property, plant and equipment are depreciated on a straight-line basis at rates that will reduce their book values to estimated residual values over their estimated useful lives.

The following depreciation rates per annum have been applied:

Computer equipment	33,33%
Furniture, fittings and equipment	10% to 20%
Motor vehicles	20%

Maintenance and repairs, which neither materially add to the value of assets nor appreciably prolong their useful lives, are charged against income. Minor asset items (those where the cost price is less than R5 000) are expensed directly against income.

1.3 Intangible assets

Computer software licences and costs associated with the development or maintenance of computer software programmes are recognised as an expense incurred. Costs associated with the acquisition of computer software are recognised as assets and are amortised over their estimated useful lives (not exceeding three years).

1.4 Significant accounting judgements and estimates

The preparation of financial statements in conformity with GAAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Board's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed below.

Critical accounting estimates and assumptions

Depreciation

During each financial year, management reviews the assets within property, plant and equipment to assess whether the useful lives and residual values applicable to each asset are appropriate.

Impairment of debtors

The Board tests annually whether debtors have suffered any impairment, in accordance with the accounting policy stated in note 1.5.

Post-employment benefits

The cost of certain guaranteed minimum benefits in terms of defined contribution plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rate and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.5 Impairment

The carrying amounts of material assets of the Board are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any indication exists, the recoverable amount is estimated as the higher of net realisable value and value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to its present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of the cash-generating unit exceeds the recoverable amount.

For an asset that does not generate cash inflows and is largely independent of those of other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount; however, not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment been recognised in prior years.

1.6 Inventories

Inventories comprise stationery and consumables and are carried at cost. The cost of the inventories comprises the cost of purchase and is determined on the weighted average method. Obsolete, redundant and slow moving inventories are identified on a regular basis and are written down to their net realisable values.

1.7 Foreign currency transactions

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

1.8 Financial assets

Financial assets are classified in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired and is determined at initial recognition.

Loans and receivables

Loans and receivables are non-derivatives with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, in which case they are classified as non-current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that comprise long-term investments. These are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred or when substantially all risks and rewards of ownership have been transferred. They are subsequently carried at fair value, and loans and receivables are carried at amortised cost using the effective interest method.

When investments are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses. Interest on investments calculated using the effective interest method is recognised in the income statement as income from investments. Dividends received from long-term investments are recognised in the income statement as part of income from investments when the right to receive payments is established. The fair values of quoted investments are based on current market prices.

At each balance sheet date an assessment is done on whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of long-term investments, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator that the investment is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

1.9 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that not all amounts due will be collected according to original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment loss which is recognised in the income statement. When the trade receivable is uncollectable, it is written off and subsequent recoveries of amounts previously written off are credited in the income statement.

1.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are recognised at cost that equates to their fair value.

1.11 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.12 Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

Retirement benefits

The Board contributes to a pension fund and to an unfunded defined benefit post-retirement medical aid plan. The pension fund is a defined contribution plan with a defined benefit guarantee for employees who were members of the fund at 31 March 2000. Only pensioners and employees who were in service at 1 January 1998 are eligible for benefits under the post-retirement medical aid plan.

The projected unit credit method is used to determine the present value of the defined benefit obligations and the related current service cost and, where applicable, the past service cost. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that they are already vested, past service costs are recognised immediately.

Pension fund

Actuarial gains or losses in respect of the pension fund are recognised as an income or an expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:
– 10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
– 10% of the fair value of any plan assets at that date.

The amount recognised is the excess determined above, divided by the expected average remaining working lives of the employees participating in that plan.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of refunds and reductions in future contributions to the plan. Contributions in terms of defined contribution plans are charged against income as incurred.

Post-retirement medical aid plan

Actuarial gains and losses in respect of the defined benefit post-retirement medical aid plan are recognised in full.

1.13 Revenue recognition

Revenue comprises levies raised, fees and service charges and inspection cost recoveries. Revenue is recognised when the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the Board and specific criteria have been met as described below.

Levies

All registered entities are required to pay annual levies to maintain their licences in terms of the FSB Act, 1990. Levies are raised in terms of the regulations published in the *Government Gazette* and are accounted for on an accrual basis.

Fees and service charges

Fees and service charges are raised in terms of the regulations published in the *Government Gazette* and are recognised according to the percentage of completion method.

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

Inspection cost recoveries

Time spent and disbursements incurred on inspections, investigations and litigation are recovered on an accrual basis.

1.14 Income from investments

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividends

Dividends are recognised when the right to receive payment is established, which is normally on the last day to register.

Surplus/loss on realisation of investments

The net surplus/loss on realisation of investments constitutes the difference between the consideration received and the carrying value of the investments at the date of realisation. In determining the carrying value of investments realised, the first-in-first-out method is applied.

1.15 Fines and penalties

Fines and penalties raised for late submission of returns are recognised on an accrual basis less impairment. The income from fines and penalties is credited to the income statement but as this income is not considered to form part of the normal operating activities of the Board, it is transferred to the discretionary reserve (refer to note 9).

1.16 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease (refer to note 21).

1.17 Related parties

All transactions and balances with national departments of Government and state-controlled entities are regarded as related party transactions and are disclosed separately in the notes to the financial statements (refer to note 25).

	Leaseholds improvements R	Computer equipment R	Furniture, fittings and equipment R	Motor vehicles R	Total R
2 Property, plant and equipment					
Year ended 31 March 2007					
Cost	**2 651 821**	**9 086 506**	**4 201 824**	**301 352**	**16 241 503**
Accumulated depreciation	**(1 481 839)**	**(5 088 743)**	**(2 344 830)**	**(137 754)**	**(9 053 166)**
Net carrying amount	**1 169 982**	**3 997 763**	**1 856 994**	**163 598**	**7 188 337**
Movement for the year					
Opening balance	**1 473 940**	**2 543 276**	**1 826 348**	**216 680**	**6 060 244**
Additions	**347 096**	**3 107 775**	**468 644**	**–**	**3 923 515**
Depreciation	**(1 137 620)**	**(2 397 117)**	**(596 899)**	**(28 689)**	**(4 160 325)**
Useful life adjustment	**487 838**	**839 842**	**199 757**	**(24 393)**	**1 503 044**
Disposals	**(1 272)**	**(96 013)**	**(40 856)**	**–**	**(138 141)**
Closing balance	**1 169 982**	**3 997 763**	**1 856 994**	**163 598**	**7 188 337**
Year ended 31 March 2006					
Cost	2 311 630	7 049 430	4 075 624	301 351	13 738 035
Accumulated depreciation	(837 690)	(4 506 154)	(2 249 276)	(84 671)	(7 677 791)
Net carrying amount	1 473 940	2 543 276	1 826 348	216 680	6 060 244
Movement for the year					
Opening balance	453 724	2 086 255	2 806 870	168 849	5 515 698
Additions	1 623 530	1 797 834	1 310 352	–	4 731 716
Depreciation	(603 257)	(1 655 319)	(774 572)	(53 556)	(3 086 704)
Useful life adjustment	–	408 466	129 495	101 387	639 348
Assets expensed	(57)	(92 686)	(1 628 079)	–	(1 720 822)
Disposals	–	(1 274)	(17 718)	–	(18 992)
Closing balance	1 473 940	2 543 276	1 826 348	216 680	6 060 244

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

		2007 R	2006 R
3	**Intangible assets**		
	Computer software		
	Cost	**3 534 379**	2 546 952
	Accumulated depreciation	**(1 429 317)**	(1 703 640)
	Net carrying amount	**2 105 062**	843 312
	Movement for the year		
	Opening balance	**843 312**	473 069
	Additions	**1 523 032**	593 598
	Amortisation charge	**(550 752)**	(628 151)
	Useful life adjustment	**427 383**	427 149
	Disposals	**(137 913)**	(22 353)
	Closing balance	**2 105 062**	843 312
4	**Employee benefits**		
4.1	**Pension fund**		

The pension fund for permanent employees of the Board is registered in terms of the Pensions Fund Act, 1956. Prior to April 2000, the fund was a defined benefit plan for the benefit of all permanent employees. New employees that joined the fund on or after 1 April 2000 are entitled to receive retirement and resignation benefits from the accumulation of defined contributions. Employees who were in the employ of the Board at 31 March 2000 are entitled to the higher of either a defined contribution accumulation to date of exit or the defined benefit applicable on exit in terms of the rules in force as at 31 March 2000. There are currently a total of 75 members entitled to this benefit. The accrued liability under the defined benefit as at 1 April 2000 was credited as the initial defined contribution value. A preliminary actuarial valuation of the benefit obligation was performed on 1 January 2007.

	Amounts recognised in the balance sheet are determined as follows:		
	Present value of funded obligations	**22 589 000**	19 971 000
	Fair value of plan assets	**(53 660 000)**	(38 439 000)
	Funded status	**(31 071 000)**	(18 468 000)
	Unrecognised actuarial gain	**19 809 000**	10 421 000
	Restriction on asset	**542 000**	235 000
	Excess fair value of plan assets	**(10 720 000)**	(7 812 000)

		2007 R	2006 R
4.1	**Pension fund (continued)**		
	The movement in the present value of funded obligations over the year is as follows:		
	Opening balance	**19 971 000**	17 379 000
	Current service cost	**610 000**	564 000
	Interest cost	**1 626 000**	1 363 000
	Employer contributions	**–**	251 000
	Actuarial (gain)/loss	**(1 165 000)**	1 863 000
	Benefits paid	**(1 512 000)**	(1 449 000)
	Entitlement by new retirees	**3 059 000**	–
	Closing balance	**22 589 000**	19 971 000
	The movement in the fair value of plan assets over the year is as follows:		
	Opening balance	**38 439 000**	21 742 000
	Expected return on plan assets	**3 037 000**	1 785 000
	Actuarial gains	**8 397 000**	8 204 000
	Entitlement of new retirees	**3 059 000**	–
	Employer contributions	**2 240 000**	8 157 000
	Benefits paid	**(1 512 000)**	(1 449 000)
	Closing balance	**53 660 000**	38 439 000
	The amounts recognised in the income statement are as follows:		
	Current service cost	**610 000**	564 000
	Interest cost	**1 626 000**	1 363 000
	Expected return on plan assets	**(3 037 000)**	(1 785 000)
	Net actuarial gain recognised during the year	**(409 000)**	(125 000)
	Restriction on asset	**542 000**	235 000
	Total included in employee remuneration costs	**(668 000)**	252 000
	Actual return on plan assets	**11 434 000**	9 989 000
	The principal actuarial assumptions used were as follows:		
	Discount rate	**8,20%**	7,90%
	Expected return on plan assets	**8,20%**	7,90%
	Future salary increases	**5,75%**	5,50%
	Future pension increases	**3,55%**	3,35%

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

		2007 R	2006 R
4.1	**Pension fund (continued)**		
	Assumptions regarding future mortality experience are set based on advice, published statistics and experience.		
	The average life expectancy in years of a pensioner retiring at the age 63 at the balance sheet date, is as follows:		
	Male	**16 years 7 months**	15 years 11 months
	Female	**20 years 10 months**	20 years 0 months

4.2 Post-retirement medical aid plan

The Board recognises a liability in respect of post retirement medical aid benefits for pensioners as at 1 January 1998 and eligible employees who were then in service, assumimg that the cost of the benefit is recognised in full for existing pensioners and is spread equally over each employee's service period within the Board prior to retirement for employees currently in service. The Board is not liable for post-retirement medical aid benefits in respect of any employee employed after 1 January 1998. The actuary evaluates the liability on an annual basis, allowing for expected future medical cost inflation, investment returns, staff turnover and mortality. The Board contributes 100% of the medical contribution for its retired employees as well as 100% of the future medical aid contributions for their spouses and dependants. The last actuarial valuation of this liability was performed on 31 December 2006. It is the policy of the Board to match this liability with appropriate long-term investments and short-term notice deposits. Accordingly, the funds have been placed with an asset management company for investment in accordance with long-term prudential principles.

For disclosure purposes, an amount of R483 072 (2006: R269 807) representing cash on call, has been included with cash and cash equivalents (refer to notes 5 and 6). A certain portion of the post-retirement medical aid is payable within twelve months, however, the value thereof is not readily determinable and thus the full liability has been shown as long term.

The main actuarial assumption is a long-term increase in health costs of 7% a year (2006: 6%).

		2007 R	2006 R
4.2	**Post-retirement medical aid plan (continued)**		
	Amounts recognised in the balance sheet were determined as follows:		
	Present value of unfunded obligations	**15 465 658**	15 928 377
	Liability in the balance sheet	**15 465 658**	15 928 377
	The movement in the present value of the unfunded obligation is as follows:		
	Beginning of the year	**15 928 377**	12 776 952
	Current service cost	**497 707**	499 865
	Interest cost	**1 275 363**	1 022 156
	Actuarial (gains)/losses	**(1 594 943)**	2 112 344
	Benefits paid	**(640 846)**	(482 940)
	End of year	**15 465 658**	15 928 377
	The amounts recognised in the income statement are as follows:		
	Current service cost	**497 707**	499 865
	Interest cost	**1 275 363**	1 022 156
	Benefits paid	**(640 846)**	(482 940)
	Net actuarial (gains)/losses recognised during the year	**(1 594 943)**	2 112 344
	Total included in employee remuneration costs	**(462 719)**	3 151 425
	The effects of a 1% movement in the assumed medical cost trend rate were as follows:	Increase	Decrease
	Effect on the current service cost	615 592	406 142
	Effect on the interest cost	1 275 363	1 275 363
	Effect on the defined benefit obligation	18 060 447	13 375 064

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

	Shares R	Gilts and bonds R	Offshore collective investment schemes R	Total R
5 Long-term investments				
Year ended 31 March 2007				
Listed investments	**26 104 798**	**2 502 371**	**3 454 381**	**32 061 550**
Movement for the year				
Opening balance	**20 624 427**	**2 163 700**	**2 537 604**	**25 325 731**
Acquisitions	**5 788 216**	**2 635 624**	**–**	**8 423 840**
Disposals	**(5 673 536)**	**(2 132 392)**	**–**	**(7 805 928)**
Fair value adjustment	**4 867 488**	**(133 253)**	**916 777**	**5 651 012**
Net gains/losses transferred to equity	**498 203**	**(31 308)**	**–**	**466 895**
Closing balance	**26 104 798**	**2 502 371**	**3 454 381**	**32 061 550**
Year ended 31 March 2006				
Listed investments	20 624 427	2 163 700	2 537 604	25 325 731
Movement for the year				
Opening balance	15 122 545	2 624 607	2 269 264	20 016 416
Acquisitions	6 190 970	852 311	–	7 043 281
Disposals	(9 398 268)	(1 376 154)	–	(10 774 422)
Fair value adjustment	6 311 538	51 578	–	6 363 116
Net gains/losses transferred to equity	2 397 642	11 358	268 340	2 677 340
Closing balance	20 624 427	2 163 700	2 537 604	25 325 731

The above investments have been set aside to fund the post-retirement medical aid plan (refer to note 4.2).

		2007 R	2006 R
6	**Cash and cash equivalents**		
	Call and notice deposits maturing within three months of date of acquisition	**114 690 026**	54 755 080
	Cash at bank and on hand	**7 639 260**	9 655 583
		122 329 286	64 410 663
	Management of funds in excess of immediate requirements is outsourced to an investment manager. Included in cash on call above is an amount of R483 072 (2006: R269 807) which has been earmarked to fund the post-retirement medical aid plan (refer to note 4.2).		
7	**Accounts receivable**		
	Levy and penalty debtors	**14 093 848**	16 803 356
	Less: Provision for impairment	**(6 205 325)**	(5 631 498)
	Net levy and penalty debtors	**7 888 523**	11 171 858
	Staff loans	**916 741**	938 100
	Recoverable legal fees	**1 971 377**	1 219 554
	Interest receivable	**1 618 643**	417 883
	Other accounts receivable	**3 153 145**	5 658 058
		15 548 429	19 405 454
	All accounts receivable are due within twelve months from the balance sheet date.		
	Movement on the provision for impairment of debtors		
	Opening balance	**5 631 499**	853 199
	Utilised	**(1 045 343)**	(234 205)
	Reversal of prior year provision	**(4 586 156)**	(618 994)
	Charged to the income statement	**6 205 325**	5 631 498
	Closing balance	**6 205 325**	5 631 498
8	**Inventories**		
	Stationery and consumables	**625 395**	423 578
	The cost of inventories recognised as an expense is included under other operating expenses.		

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

		2007 R	2006 R
9	**Reserves**		
9.1	**Fair value reserve**		
	Cumulative changes in fair value of long-term investments are recognised in the fair value reserve until such time that the investment is derecognised or impaired in which case the cumulative gains or losses will be transferred to profit or loss.	**14 207 511**	10 376 334
	The transfer made to the fair value reserve as reflected in the statement of changes in funds and reserves comprises		
	Fair value adjustment for the year:	**5 651 012**	6 363 116
	Transferred to income statement on realisation of investments	**(1 849 380)**	(1 753 691)
	Capital reduction on investment portfolio	**29 547**	268 342
	Transferred to fair value reserve	**3 831 179**	4 877 767
9.2	**Contingency reserve**		
	The contingency reserve is maintained to fund the Board's long-term capital requirements and to protect the Board's operating capacity against the effects of inflation and unforeseen events. The reserve is maintained at a maximum of 10% of the annual levy and fee income. An amount of R3 839 206 (2006: R6 817 369) was transferred from accumulated funds.	**24 452 833**	20 613 627
9.3	**Discretionary reserve**		
	Fines and penalties recognised as income in the income statement is transferred to a discretionary reserve. In addition, any unclaimed monies from the Directorate of Market Abuse Trust account are also transferred to the discretionary reserve after prescription.The discretionary reserve is used primarily to fund consumer education related expenses including the operation of the call centre.	**9 421 969**	9 126 378

		2007 R	2006 R
9.3	**Discretionary reserve (continued)**		
	The transfer from accumulated funds for the year, as reflected in the statement of changes in funds and reserves is calculated as follows:		
	Fines and penalties per income statement	1 932 105	4 158 515
	Unclaimed monies form the Directorate of Market Abuse Trust account	–	23 039
	Impairment charges to the income statement	(45 900)	231 775
	Prior year reversals	12 300	336 775
	Current year charge	(58 200)	(105 000)
	Interest allocated to this reserve	714 012	476 316
	Expenses in respect of consumer education and call centre operations	(1 984 924)	(3 976 495)
	Contribution to FAIS Ombud consumer education expenses	(319 702)	–
	Contribution to the Financial Services Consumer Education Foundation	–	(1 000 000)
	Net transfer to/(from) discretionary reserve	295 591	(86 850)
10	**Accounts payable**		
	Trade creditors	3 441 681	3 108 820
	Leave accrual	5 830 589	4 953 086
	Unidentified bank deposits	1 276 904	1 655 584
	Other payables	2 543 011	4 152 543
		13 092 185	13 870 033
	All accounts payable are due within twelve months after the balance sheet date.		
11	**Levies**		
	FSB levies	191 430 444	166 685 713
	Pension Fund Adjudicator levies	21 783 344	11 821 052
	FAIS Ombud levies	11 167 561	8 816 079
		224 381 349	187 322 844
12	**Other income**		
	Fines and penalties	1 932 105	4 158 515
	Profit on disposal of assets	18 368	27 366
	Legal and other cost recoveries	2 955 476	1 375 064
	Sundry income	2 080 160	956 577
		6 986 109	6 517 522

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

	Salary R	Incentive bonus R	Long service awards R	Total R
13 Executive management remuneration				
Year ended 31 March 2007				
RJG Barrow, EO	**1 985 429**	**338 734**	**8 500**	**2 332 663**
GE Anderson, DEO: Market Conduct and Consumer Education	**1 457 377**	**142 000**	**10 500**	**1 609 877**
J Boyd, DEO: Retirement Funds from 1 May 2006	**1 331 463**	**61 000**	**–**	**1 392 463**
MJ Codron, Chief Actuary until February 2007	**1 321 511**	**110 000**	**–**	**1 431 511**
CWN Molope, CFO	**1 270 730**	**174 000**	**–**	**1 444 730**
M Munyai, DEO: Insurance	**1 459 651**	**158 000**	**–**	**1 617 651**
DP Tshidi, DEO: Investment Institutions from 1 May 2006	**1 452 817**	**221 000**	**–**	**1 673 817**
	10 278 978	**1 204 734**	**19 000**	**11 502 712**
Year ended 31 March 2006				
J van Rooyen, EO until 30 September 2005	808 133	80 818	3 300	892 251
RJG Barrow, EO from 1 July 2005	1 652 011	172 533	–	1 824 544
GE Anderson, DEO: Market Conduct and Consumer Education	1 298 000	118 000	–	1 416 000
MJ Codron, Chief Actuary	1 326 730	114 000	–	1 440 730
CWN Molope, CFO, appointed 1 August 2005	810 348	52 000	–	862 348
M Munyai, DEO: Insurance	1 296 454	84 000	–	1 380 454
DP Tshidi, DEO: Retirement Funds	1 295 681	131 000	–	1 426 681
	8 487 357	752 351	3 300	9 243 008

14 Non-executive board members' fees

Year ended 31 March 2007

Name of member	Term of appointment	Board	Audit and risk manage-ment	HR and remuner-ation Committee	Litigation Committee	Licencing Committee	Legislative Committee	FAIS Ombud Committee	Pension Fund Adjudicator Committee	Total
		R	R	R	R	R	R	R	R	R
C Rustomjee	01/07/03 – 31/12/09	40 200	–	–	–	–	–	–	–	40 200
AM Sithole	01/01/02 – 31/12/07	37 700	–	17 041	–	–	–	–	7 518	62 259
HS Wilton	01/01/02 – 31/12/08	37 700	18 798	14 029	–	–	3 012	–	–	73 539
LM Mojela	01/01/02 – 31/12/07	37 700	–	–	11 310	34 214	–	–	–	83 224
PJ Sutherland	01/04/02 – 31/12/08	37 700	25 831	–	18 810	–	3 012	–	6 012	91 365
J Mogadime	01/03/04 – 31/12/09	37 700	25 831	17 041	–	–	–	–	–	80 572
B Hawksworth	01/03/04 – 31/12/07	37 700	25 831	–	–	42 284	–	27 717	–	133 532
T Mogabudi	01/01/06 – 31/12/08	37 700	14 280	–	–	–	–	6 000	–	57 980
		304 100	110 571	48 111	30 120	76 498	6 024	33 717	13 530	622 671

Year ended 31 March 2006

Name of member	Term of appointment	Board	Audit and risk manage-ment	HR and remuner-ation Committee	Litigation Committee	Licencing Committee	Legislative Committee	FAIS Ombud Committee	Pension Fund adjudicator Committee	Total
		R	R	R	R	R	R	R	R	R
C Rustomjee	01/07/03 – 31/12/06	40 762	–	–	–	–	–	–	–	40 762
AM Sithole	01/01/02 – 31/12/07	40 762	–	9 637	–	–	–	-	7 530	57 929
HS Wilton	01/01/02 – 31/12/08	37 374	9 036	5 119	–	–	–	–	–	51 529
LM Mojela	01/01/02 – 31/12/07	37 374	–	–	3 012	18 254	–	–	–	58 640
PJ Sutherland	01/04/02 – 31/12/08	40 762	11 295	–	9 609	–	–	–	7 530	69 196
CWN Molope	01/03/04 – 31/07/05	12 751	4 518	–	–	–	–	–	–	17 269
J Mogadime	01/03/04 – 31/12/06	40 762	20 331	9 619	–	–	–	-	–	70 712
B Hawksworth	01/03/04 – 31/12/07	40 762	15 813	–	–	26 201	–	7 386	–	90 162
T Mogabudi	01/01/06 – 31/12/08	9 234	–	–	–	–	–	–	–	9 234
		300 543	60 993	24 374	12 621	44 455	–	7 386	15 060	465 432

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

		2007 R	2006 R
15	**Net provision for impairment of debtors**		
	Current year provison	**6 205 325**	5 631 498
	Reversal of prior year provision	**(4 586 156)**	(618 994)
		1 619 169	5 012 504
16	**Finance costs**		
	Interest	**(914)**	(5 484)
17	**Income from investments**		
	Interest	**10 015 998**	5 940 871
	Income from listed investments		
	– Dividends	**657 936**	829 694
	– Fair value released on realisation of investments	**1 849 380**	1 753 691
	– Other income	**228 928**	2 409 001
		12 752 242	10 933 257

	2007 R	2006 R
18 Reconciliation of net surplus before interest and cash generated by operations		
Net surplus before interest and income from investments	48 668 763	20 617 401
Adjustments	2 819 940	4 376 214
Depreciation of property, plant and equipment	2 657 281	2 447 356
Amortisation charges	123 369	201 002
Assets expensed	–	1 720 823
Loss on disposal of property, plant and equipment	266 079	34 399
Profit on disposal of property, plant and equipment	(18 368)	(27 366)
Post-retirement medical expenses not included in operating expenses	(208 421)	–
Cash inflow before changes in working capital	51 488 703	24 993 615
Changes in working capital	5 163 736	(3 734 627)
Decrease/(Increase) in accounts receivable	3 857 025	(6 760 221)
(Increase)/Decrease in prepayments	(227 076)	216 427
(Increase)/Decrease in inventories	(201 817)	770
(Decrease)/Increase in accounts and other payables	(777 848)	3 082 427
Increase/(Decrease) in levies and fees received in advance	2 513 452	(274 031)
	56 652 439	21 258 988

19 Change in accounting policy

The Board changed its accounting policy in respect of computer software which was previously classified as property, plant and equipment. AC 129 (IAS 38) requires that computer software be treated as intangible assets when the software is not an integral part of the related hardware.

Decrease in depreciation charge	(550 752)	(628 151)
Increase in amortisation charge	550 752	628 151
Effect on surplus for the year	–	–
Adjustment against accumulated funds at the beginning of year	–	–

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

	2007 R	2006 R
20 Taxation		
The Board is exempt from income tax in terms of Section 10 (CA)(i)(bb) of the Income Tax Act, 1962.		
21 Commitments		
21.1 Capital commitments		
Capital expenditure contracted but not yet incurred at the balance sheet date is as follows:		
Property, plant and equipment	192 634	–
21.2 Operating lease commitments		
The Board leases its office accommodation in terms of operating leases. The Board is required to give six months' notice for the renewal of these agreements. The operating lease rentals include a charge for rental, parking, operational costs, electricity, rates and taxes. Escalations of between 8% and 10% (2006: between 10% and 12%) have been included in the lease agreements.		
The total future minimum lease payments under these leases are as follows:		
Due within one year	12 421 445	9 501 486
Due between one nd five years	9 003 887	3 387 565
	21 425 332	12 889 051

22 Financial instruments

22.1 Credit risk

Financial assets which potentially subject the Board to concentrations of credit risk consist primarily of cash and cash equivalents as well as accounts receivable. Cash and cash equivalents in excess of the Board's immediate requirements are outsourced to a fund manager for investment in registered financial institutions, which investment mix is controlled by the Board. Credit risk with regard to accounts receivable is limited as the Board is a regulatory body and levies and other fees are charged in terms of legislation.

22.2 Interest rate risk

The Board is not locked into long-term interest rates and manage exposure in line with movements in money market rates. During the year under review, the Board earned an average rate of approximately 6,36% to 8,4% (2006: 6,2% to 7,1%) on its call deposits.

22 Financial instruments (continued)

22.3 Currency risk

The Board incurs currency risk as a result of investments made in off-shore collective investment schemes. This risk is monitored by an investment manager in terms of a mandate by the Board.

22.4 Maturity profile of financial instruments

The maturity profiles of financial assets and liabilities at year-end are:

	0 – 12 months R	1 – 2 years R	3 – 5 years R	> 5 years R	Total R
Year ended 31 March 2007					
Assets					
Long-term investments	–	–	–	32 061 550	32 061 550
Pension fund asset	–	–	–	10 720 000	10 720 000
Accounts receivable and prepayments	16 230 986	–	–	–	16 230 986
Cash and cash equivalents	122 329 286	–	–	–	122 329 286
	138 560 272	–	–	42 781 550	181 341 822
Liabilities					
Post-retirement medical aid plan liability	–	–	–	15 465 658	15 465 658
Accounts payable and levies and fees received in advance	23 846 893	–	–	–	23 846 893
	23 846 893	–	–	15 465 658	39 312 551
Year ended 31 March 2006					
Assets					
Long-term investments	–	–	–	25 325 731	25 325 731
Pension fund asset	–	–	–	7 812 000	7 812 000
Accounts receivable and prepayments	19 860 935	–	–	–	19 860 935
Cash and cash equivalents	64 410 663	–	–	–	64 410 663
	84 271 598	–	–	33 137 731	117 409 329
Liabilities					
Post-retirement medical aid plan liability	–	–	–	15 928 377	15 928 377
Accounts payable and levies and fees received in advance	22 111 288	–	–	–	22 111 288
	22 111 288	–	–	15 928 377	38 039 665

Notes to the Financial Statements (continued)

for the year ended 31 March 2007

		2007 R	2006 R
23	**Contingent liabilities**		
	The Board has no contingent liabilities.		
24	**Assets administered on behalf of third parties**		
	In terms of Section 77(7) of the Security Services Act, 2004, amounts recovered by the Board from civil action activities are transferred to a special trust account designated for this purpose, as such recoveries do not form part of the normal operating activities of the Board. The balance of the trust account at the end of the year was R3 716 821 (2006: R7 092 895).		
25	**Related parties**		
	All National Departments of Government and State-controlled entities are regarded as related parties in accordance with Circular 4 of 2005: Guidance on the term "state-controlled entities" in the context of IAS 24 (AC 126) – Related Parties, issued by the South African Institute of Chartered Accountants. The following transactions and balances were recorded relating to transactions with related parties as defined.		
	Services provided to related parties		
	Fasset	513 408	285 412
	Armscor	96 800	57 024
	City of Johannesburg	7 449	–
		617 657	342 436
	Services provided by related parties		
	Receiver of Revenue	(29 379 642)	(25 372 304)
	Workmen's Compensation	(62 880)	(63 229)
	Telkom	(1 568 101)	(1 188 999)
	South African Bureau of Standards (SABS)	(15 462)	(14 583)
	South African Broadcasting Corporation (SABC)	(225)	(225)
	Government Printing	(232 017)	(76 495)
		(31 258 327)	(26 715 835)

	2007 R	2006 R
25 Related parties (continued)		
Year-end balances arising from services provided to/(by) related parties		
Armscor	3 800	–
Receiver of Revenue	–	(7 186)
Workmen's Compensation	(71 338)	(68 585)
Telkom	(113 596)	(91 936)
South African Bureau of Standards (SABS)	–	(1 245)
Government Printing	(10 886)	(171)
	(192 020)	(169 123)
Funds provided to the Office of the Pension Funds Adjudicator in terms of section 3OR (1) (a) of the Pension Funds Act.		
Contribution towards operational expenditure of the office	14 834 727	13 300 149
Funds provided to the Office of the Ombud for Financial Services Providers in terms of section 22 (1) (a) of the FAIS Act.		
Contribution towards operational expenditure of the office	10 846 365	9 131 322
Contribution from discretionary funds towards consumer education expenditure (refer note 9.3)	319 702	–
	11 166 067	9 131 322

Annexure A – Performance against Measurable Objectives

for the year ended 31 March 2007

No	Output	Output performance measure/service delivery indicators	Actual performance against target
1	FSB to have sustainable source of revenue to fund growth.	Adequate accumulated reserves.	Total accumulated funds and reserves increased to R152 million at 31 March 2007. All divisions self-funded through levy and fee collections. FAIS start-up costs totalling R16 million were recovered during the current year.
2	To have the financial laws in place, serving our regulatory and supervisory needs.	Updates of legislation as required.	The Principles of Retirement Fund Reform second draft discussion document was prepared together with National Treasury. The current Pension Fund Amendment Bill is in parliamentary process. Amendments to the Financial Institutions Protection of Funds Act, to introduce Board-wide administrative sanction process, were submitted to National Treasury.
3	To contribute significantly to the establishment of an effective regulatory framework for the South African financial services industry.	Legislation compliant with international standards.	No Financial Stability Assessment Programme (FSAP) assessment has been done on SA since 2001. Self assessments are done against regulatory standards set by international regulatory bodies: • Investment institutions cover exchanges, intermediaries and collective investment schemes. The deviations are minor • Insurance showed only minor deviations • Retirement funds – the international regulatory body, IOPS has issued certain regulatory guidelines. The South African regulatory structure is in line with these guidelines to the extent applicable.
4	To have developed a risk-based approach to supervision at strategic and operational level.	Implementation of intensified supervision strategy.	Risk-based supervision has been implemented for all industries. The application and improvement of the process will continue.
5	To comply with the principles and practices of good corporate governance.	High degree of compliance with accepted principles and practices (King 2 and PFMA) as determined by independent evaluation.	The FSB fully complied with the principles and practices of good corporate governance. Independent evaluation will be conducted in 2007.
6	To have facilitated the implementation of a highly effective enforcement process.	To create a coherent and effective enforcement strategy.	The Enforcement Committee administrative sanction process as set out in the Securities Services Act was established during the year. One false reporting case was dealt with through this process. The Financial Institutions Protection of Funds Bill has been expanded to introduce an administrative enforcement process covering all legislation supervised by the FSB. The Bill has been submitted to National Treasury for its approval.

No	Output	Output performance measure/service delivery indicators	Actual performance against target
7	To meet the reasonable needs for timeous information through the creation of a current, enabling information technology architecture.	Develop and procure cost-effective business support applications on time and in budget. Maintain existing IT-supported business systems.	The FSB's operational technology architecture continued to be enhanced. A NetApp application was implemented to strengthen the security of data. The workflow system has been successfully implemented for the Insurance and CIS Departments. A Board-wide document management system has been introduced and is in the implementation stage.
8	To achieve the requirements of the Financial Sector Charter and support Black Economic Empowerment.	Employment equity targets met.	The Employment Equity (EE) targets in terms of the FSB's EE policy have been met. In some instances they have been exceeded, but targets at senior executive levels have not yet been reached.
9	To be highly respected by all our regulated stakeholders.	Development of Service Level Agreements.	An Industry Opinion Survey was conducted among the industries regulated by the FSB. The results of the survey generally indicated a positive response, particularly with regard to professionalism. Certain negative responses have been reacted to through revisions in the Board strategic and business plans. Service level commitment standards were set for most departments. These service level commitments will be linked to performance measurement standards of staff at all levels in the current year.
10	To develop an effective system to analyse and respond to stakeholder/ consumer complaints, queries and problems.	All queries/complaints handled effectively and efficiently (48-hour informed response).	All queries and complaints received through the Contact Centre are logged into the system and the majority of them are dealt with within 24 hours. However, certain peak periods have been encountered following media exposure on specific issues such as pension fund surpluses. In these circumstances, queries have been cleared as soon as practicable and, except for minor exceptions, within the 48-hour requirement.
11	To ensure that consumer representation is considered meaningfully in the regulatory role of the FSB.	To set up advisory committees for six industry segments – consisting of industry representatives, academics and consumers.	The Long-term and Short-term Insurance and the Pension Funds Advisory Committees were appointed during the year. Seven different advisory committees held meetings during 2006/7. All committees have operated effectively.
12	To develop informed and aware stakeholders through the effective, ongoing communication of information.	Communication strategy to be developed, approved and implemented.	A communication strategy plan was finalised at the beginning of 2005. This strategy is being reviewed in the light of certain recent media coverage.

Annexure A – Performance against Measurable Objectives (continued)

for the year ended 31 March 2007

No	Output	Output performance measure/service delivery indicators	Actual performance against target
13	To develop informed and aware stakeholders with an understanding of financial markets, products and services.	Evaluation of successful implementation of consumer education strategy.	The consumer education strategy plan is being reviewed. The Consumer Education Foundation Trust has been formed and is soliciting donations which will be applied to financing consumer education projects. Consumer education booklets are being reviewed.
14	To establish a professional financial services intermediary sector.	To license all compliant intermediaries and establish a database of intermediaries, licensed to sell specific products.	FAIS legislation was brought into effect on 1 September 2004. A total of 14 074 licences have been approved and 1 100 declined. Only a small number of applications is still in process. The supervisory risk-based supervision process has been put in place and should be effective in the next year.
15	To ensure that all registered financial institutions under the supervision of the FSB are compliant with sound corporate governance practices.	Fit and proper testing relative to FAIS defined and carried out. Evaluation criteria for boards of supervised entities measured against King II.	FAIS fit and proper evaluations were performed during licensing process (see 14 above). Corporate governance standards were built into on-site visit programmes. Guidelines are being issued for retirement fund industry.
16	To have developed and implemented a strategy that will enable the FSB to play a meaningful role in implementing South Africa's broader macro-economic policies.	To develop and implement a strategy to contribute to the success of NEPAD; strengthen regulatory capacity in the SADC region through our role in CISNA.	The strategy of CISNA was revised and approved. The FSB in its role as the CISNA Secretariat has made an important contribution to the implementation of the strategy. With the FSB's assistance, First Initiative was contacted and agreed to fund a comprehensive multi-year training programme for the regulators of non-banking financial institutions in SADC.
17	To have developed an organisational culture that values diversity.	To implement a follow-up culture audit with specific reference to diversity.	An independent staff survey was conducted during 2006. The results generally indicated a high level of staff satisfaction but, despite continuing diversity interventions, there remain concerns among staff with regard to diversity. Continued efforts will be made to resolve these issues.
18	To have developed an innovative organisational design that best enables the execution of the FSB's strategy.	Organisational restructuring.	The Board-wide organisational structure of operating within industry sectors is considered to be the most effective overall structure. Continued emphasis is placed on professionalism and in most cases, departments operate as effective teams. Each department is responsible for establishing its own operating procedures, which are fully documented and subject to audit in terms of the ISO 9001:2000 quality standards.

No	Output	Output performance measure/service delivery indicators	Actual performance against target
19	To develop a talented management strategy to attract, develop and retain the best possible people within the FSB.	To have developed and implemented a comprehensive talent management strategy to attract, develop and retain the most competent people.	A Human Resource Action Plan was developed to address key concerns around the employment brand. The following initiatives were rolled out: • Diversity management workshops • Sexual harassment workshops • Leadership audit The FSB's talent management is an ongoing priority managed through our recruitment processes and performance management system.

Annexure B – Industry Accumulated Surplus/(Deficit)

for the year ended 31 March 2007

Industry	Accumulated surplus/ (deficit) R 31/03/06	Income R	Expenditure R	Net suplus for the year R	Tranferred to discretionary reserve R	Tranferred to contingency reserve R	Accumulated surplus/ (deficit) R 31/03/07
Short-term Insurance	4 071 159	20 019 554	(16 036 145)	3 983 409	(385)	(366 420)	**7 687 764**
Long-term Insurance	11 755 163	32 722 747	(26 195 248)	6 527 499	(1 389)	(600 386)	**17 680 887**
Total Insurances	15 826 322	52 742 301	(42 231 393)	10 510 908	(1 774)	(966 806)	**25 368 651**
Retirement Funds and Friendly Societies	33 878 475	81 655 314	(62 856 822)	18 798 492	(173 216)	(1 282 190)	**51 221 561**
Capital Markets	4 446 669	7 747 826	(6 061 485)	1 686 341	–	(181 612)	**5 951 398**
Collective Investment Schemes	9 409 634	14 015 356	(11 331 647)	2 683 709	(5 912)	(227 193)	**11 860 238**
Market Abuse	7 096 642	12 368 916	(8 455 062)	3 913 854	(114 689)	(165 718)	**10 730 089**
FAIS	(25 802 710)	63 345 367	(46 788 395)	16 556 972	–	(1 015 687)	**(10 261 425)**
Pension Funds Adjudicator	9 800 082	21 783 344	(14 834 727)	6 948 617	–	–	**16 748 699**
FAIS Ombud	(8 074 656)	11 167 561	(10 846 365)	321 196	–	–	**(7 753 460)**
	46 580 458	264 825 987	(203 405 896)	61 420 091	(295 591)	(3 839 206)	**103 865 752**

Annexure C – List of Long-term Investments

for the year ended 31 March 2007

	Number of shares/ units held	Fair value 2007 R	Number of shares/ units held	Fair value 2006 R
Shares				
Absa Group Limited	5 200	725 452	5 000	580 000
African Bank Investments Limited	36 000	1 090 800	31 000	933 720
Anglo American plc	2 800	1 072 400	4 500	1 065 600
Aspen Pharmacare Holdings Limited	28 000	1 036 000	28 000	1 209 600
BHP Billiton plc	10 000	1 624 500	10 500	1 181 145
City Lodge Hotels Limited	–	–	11 500	621 000
Edgars Consolidated Stores Limited	30 000	1 361 700	30 000	1 154 700
Famous Brands Limited	62 000	988 900	–	–
FirstRand Limited	53 000	1 303 800	60 000	1 200 000
Foschini Limited	19 000	1 312 900	19 000	1 106 940
Gold Fields Limited	–	–	4 800	645 072
Impala Platinum Holdings Limited	4 640	1 057 966	800	932 000
JD Group Limited	8 500	756 925	10 000	934 000
Kumba Resources Limited	–	–	6 000	669 060
Lonmin plc	1 700	800 360	–	–
Metorex Limited	54 000	1 246 320	–	–
Mr Price Limited	30 000	894 000	–	–
MTN Group Limited	18 000	1 773 000	16 500	1 014 750
Naspers Limited	7 800	1 368 900	9 800	1 229 900
Pick ‘n Pay Stores Limited	–	–	16 000	483 200
Pretoria Portland Cement Company Limited	1 500	708 000	1 500	628 500
Reunert Limited	13 000	1 049 100	11 000	749 100
Richemont Securities AG	28 000	1 128 400	28 000	818 720
SABMiller plc	–	–	3 800	459 800
Sasol Limited	5 000	1 210 250	5 000	1 165 000
South Ocean Holdings Limited	81 800	588 960	–	-
Standard Bank Group Limited	12 000	1 281 600	14 400	1 221 120
Steinhoff International Holdings Limited	32 500	758 875	–	–
Wilson Bayly Holmes-Ovcon Limited	11 000	965 690	11 000	621 500
		26 104 798		20 624 427
Gilts and bonds		2 502 371		2 163 700

Annexure C – List of Long-term Investments (continued)

for the year ended 31 March 2007

	Number of shares/ units held	Fair value 2007 R	Number of shares/ units held	Fair value 2006 R
Off-shore unit trust schemes				
IIA Global Bond (G)	**497**	**254 409**	497	205 713
Orbis Global Equity Fund	**1 973**	**1 688 827**	1 973	1 201 542
Orbis Optimal Euro Fund	**3 547**	**785 175**	3 547	581 824
SEI Ex Japan Equity	**90**	**28 117**	90	18 184
SEI Emerging Market Equity	**365**	**57 430**	365	41 238
SEI Global Development Market Equity	**995**	**90 507**	995	67 277
SEI Japan Equity Fund	**357**	**45 186**	357	39 634
SEI US Large Companies	**750**	**135 837**	750	106 064
SEI Global Opportunistic Fixed Inc	**758**	**76 724**	758	60 731
SEI Pan European Fund	**811**	**162 246**	811	112 363
SEI US Small Companies	**59**	**17 325**	59	13 979
SEI Global Fixed Income Fund	**759**	**74 310**	759	59 416
SEI High Yield	**257**	**38 288**	**257**	**29 639**
		3 454 381		2 537 604
Total investments		**32 061 550**		25 325 731

The investment of funds is outsourced to an investment manager in terms of a mandate which gives the manager full discretion.

Annexure D – Foreign Travel

for the year ended 31 March 2007

Destination	Date of travel	No of days	Actual cost	Delegates
International Organisation of Securities Commissions (IOSCO)				
Rabat, Morocco	April 2006	3	48 816	N Müller, T Mphanama
London,United Kingdom	May 2006	2	10 727	N Acres
Hong Kong, China	June 2006	3	125 956	R Barrow, D Tshidi, N Muller
Madrid, Spain	July 2006	2	48 514	N Müller
Shanghai, China	September 2006	5	58 862	N Müller
Quebec, Canada	September 2006	3	21 567	N Acres
London, United Kingdom	November 2006	3	155 283	R Barrow, D Tshidi, N Muller
Madrid, Spain	February 2007	2	81 318	R Barrow, D Tshidi
Rome, Italy	February 2007	2	42 302	N Müller
Potsdam, Germany	March 2007	3	28 134	N Acres
International Association of Insurance Supervisors (IAIS)				
Ottawa, Canada	June 2006	5	150 383	M Munyai, P Ward
Beijing, China	October 2006	10	272 891	M Munyai, S Vogelsang, J Huma, M Cordon, H van Heerden
Dubai	February 2007	5	61 953	S Vogelsang, M Munyai
International Association of Actuaries (IAA)				
Paris, France	June 2006	5	104 130	M Codron, C Ahlers
London, United Kingdom	November 2006	5	50 654	M Codron
International Organisation of Pension Supervisors (IOPS)				
Geneva, Swirtzerland	July 2006	3	50 261	J Boyd
Warsaw, Poland	September 2006	3	134 857	J Boyd, A Marais, C Buitendag, F Mosoma
Instanbul,Turkey	October 2006	3	50 703	J Boyd
Paris, France	December 2006	3	38 418	J Boyd
International Bar Association				
London, United Kingdom	June 2006	7	29 640	F Van Zyl
Amex Conference on Market Abuse				
Dubai	November 2006	3	39 253	G van Deventer, S Rossouw

Annexure D – Foreign Travel (continued)

for the year ended 31 March 2007

Destination	Date of travel	No of days	Actual cost	Delegates
CGAP Working Group on Micro Insurance				
Mumbai, India	September 2006	5	22 298	P Ward
Financial Action Task Force - FATF				
Vancouver, Canada	September 2006	5	37 853	E Phiyega
Strausbourg, France	February 2007	5	85 112	E Phiyega
East & South African Anti Money Laundering Group (ESAAMLAG)				
Victoria Falls, Zimbabwe	August 2006	5	24 986	E Phiyega
Enlarged Contact Group (ECG)				
Oslo, Norway	September 2006	5	42 266	J Mahlangu
Inspection				
Sydney, Australia	February 2007	5	23 165	C Potgieter
Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA)				
Elephant Hills, Zimbabwe	April 2006	2	78 950	E Phiyega, O Davids, P Mphanama, J Boyd N Müller, M Munyai, P Ward, W Hattingh L van der Merwe, W Mokupo, F Mosoma, M van Zyl
Lugogo, Swaziland	October 2006	3	15 041	J Mahlangu, N Müller, E Phiyega, O Davids, F Mosoma, M van Zyl, P Mashilo, J Boyd, P Mphanama, M Malimabe
Exchange Commission International Institute for Securities Market Development and World Bank Workshop on the Development of Capital Markets				
Washington DC, USA	April 2006	10	84 591	N Acres, M Fakey, L van Deventer
IOSCO/FSI Seminar and Unidroit – Committee of Governmental Experts for the Preparation of a Draft Convention of Substantive Rules Regarding Intermediated Securities				
Madrid, Spain,	November 2006	2		
Rome, Italy		7	26 461	N Acres
			2 073 872	

Institutions and Individuals Supervised

for the years ended 31 March 2006 and 31 March 2007

	31 March 2007	31 March 2006
Capital Markets (JSE, BESA)	**2**	2
Authorised users of the JSE		
Equities members	**55**	50
Agricultural products members	**80**	79
Equity derivatives members	**113**	107
Yield^{X} members (launched in 2005)	**31**	29
Authorised users of BESA	**57**	55
Dealers		
JSE equity derivatives dealers	**761**	704
JSE agricultural product dealers	**725**	698
BESA bond dealers	**182**	203
Central Securities Depositories (STRATE Limited)	**1**	1
Central Securities Depository Participants	**7**	7
Total	**2 014**	**1 935**
FAIS		
Financial services providers (FSPs)(Category I)	**13 845**	12 263
Discretionary FSPs (Category II)	**2 511**	322
Administration FSPs (Category III)	**23**	16
Total	**16 379**	**12 601**
Insurers		
Primary insurers		
– Short-term	**97**	94
– Long-term	**75**	74
Re-insurers		
– Short-term (only)	**5**	5
– Long-term (only)	**3**	3
– Short- and long-term	**4**	4
Total	**184**	180

Institutions and Individuals Supervised (continued)

for the years ended 31 March 2006 and 31 March 2007

	31 March 2007	31 March 2006
Retirement funds		
– Privately administered	**3 487**	3 448
– Underwritten	**9 436**	9 832
Friendly societies	**97**	195
Total	**13 020**	13 475
Local collective investment schemes		
Schemes in securities		
– Managers	**34**	33
– Portfolios	**765**	718
Schemes in property shares		
– Managers	**6**	6
– Portfolios	**6**	6
Foreign collective investment schemes		
– Schemes	**71**	73
– Portfolios	**382**	381
Participation bond schemes	**7**	7
Total	**1 271**	1 224

NOTES

Jurisdiction

The FSB administers the following Acts of Parliament:

1. Pension Funds Act, 24 of 1956
2. Friendly Societies Act, 25 of 1956
3. Financial Services Board Act, 97 of 1990
4. Financial Supervision of the Road Accident Fund Act, 8 of 1993
5. Supervision of Financial Institutions Rationalisation Act, 32 of 1996
6. Long-term Insurance Act, 52 of 1998
7. Short-term Insurance Act, 53 of 1998
8. Inspection of Financial Institutions Act, 80 of 1998
9. Financial Institutions (Protection of Funds) Act, 28 of 2001
10. Financial Advisory and Intermediary Services Act, 37 of 2002
11. Collective Investment Schemes Control Act, 45 of 2002
12. Securities Services Act, 36 of 2004
13. Financial Services Ombud Schemes Act, 37 of 2004

Publications

The FSB publishes a quarterly bulletin, *the FSB Bulletin*, and distributes it free of charge. Subjects cover developments in the financial services industry, new legislation, survey findings, reports on conferences and personal portfolios.

The FSB also publishes a number of annual reports besides this one:
Annual Report of the Registrar of Long-term Insurance;
Annual Report of the Registrar of Short-term Insurance;
Annual Report of the Registrar of Retirement Funds;
Annual Report of the Registrar of Friendly Societies; and
Annual Report of the Registrar of Collective Investment Schemes.

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