



**FINANCIAL
SERVICES
BOARD**

2016

Annual report

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In this report, the Financial Services Board (FSB) presents a balanced view of its financial and non-financial performance for the year ended 31 March 2016. It follows the annual report for the year to 31 March 2015.

The FSB is a public entity, mandated by the South African government to supervise and enforce compliance with specific laws regulating financial institutions and to promote financial education and awareness about related products, institutions and services. Its broad jurisdiction is detailed on page 4. As a public entity, its financial statements are prepared under South African Statements of Generally Recognised Accounting Practice (SA GRAP) and the Public Finance Management Act 1 1999 (PFMA). Non-financial disclosure is guided by the 2009 King Code of Governance Principles and Report on Governance (King III) and the framework of the International Integrated Reporting Council (IIRC).

While the scope of this report covers all the FSB's current activities, forward-looking disclosures are limited because of regulatory reforms under way in South Africa that will affect our jurisdiction and mandate in future: the so-called twin peaks model aims to introduce a new approach to financial regulation in South Africa to create a more resilient and stable financial system and ensure consumer protection and appropriate market conduct in the financial services sector.

As a public entity, the FSB is stringently monitored. The auditor-general conducts a comprehensive annual audit of our financial and non-financial performance against targets and benchmarks, with the FSB receiving a clean audit report for the 2015/16 financial year and an unqualified audit opinion for the past 24 years.

STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

To the best of our knowledge, we confirm:

- » All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the auditor-general
- » The report is complete, accurate and free from any omissions
- » The report has been prepared in accordance with guidelines on the annual report as issued by National Treasury
- » The annual financial statements (Part E) have been prepared in accordance with the GRAP and PFMA standards applicable to the FSB
- » The accounting authority is responsible for preparing the annual financial statements and for judgements made in this information
- » The accounting authority is responsible for implementing a system of internal control designed to provide reasonable assurance on the integrity and reliability of the performance information, human resources information and annual financial statements
- » The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the annual report fairly reflects the operations, performance information, human resources information and financial affairs of the FSB for the year ended 31 March 2016.



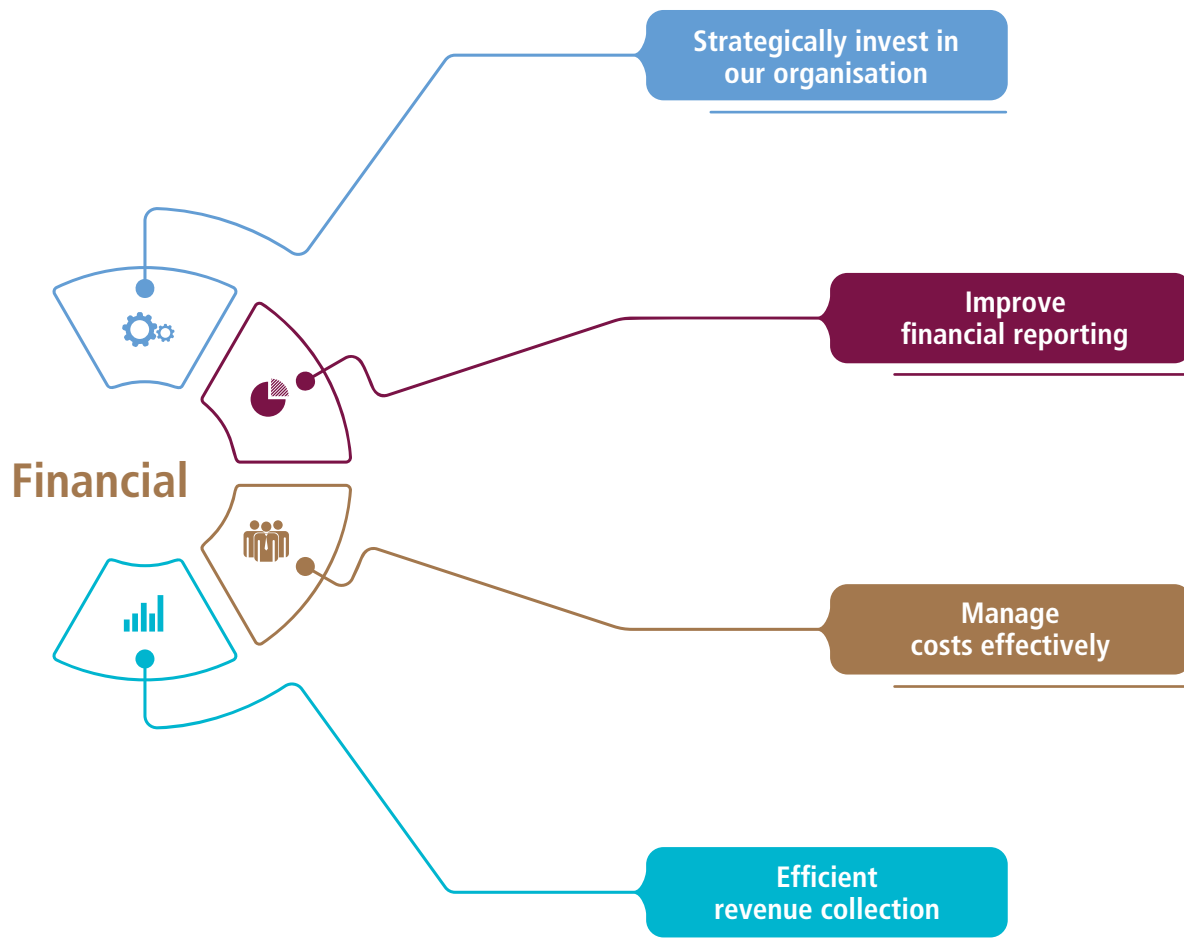
Dube Tshidi
Executive officer



Abel Sithole
Chairperson of the board
12 August 2016

In preparing future reports, feedback from all our stakeholders will be integral to determining the most appropriate content. We welcome your feedback on this annual report – please direct this to:
Tembisa Marele
Communication specialist
Email: tembisa.marele@fsb.co.za
Tel: 012 428 8025
Fax: 012 347 0221
www.fsb.co.za

Creating value for all stakeholders



Long-term financial stability

Learning and growth

- » Promote training and skills development
- » Promote teamwork
- » Live the FSB core values
- » Transformation
- » Develop leadership and management talent

Financial services industry

Regulated entities

- » Be a trusted, respected and competent regulatory agency
- » Provide expert knowledge and guidance
- » Provide prompt services
- » Always act with consistency and fairness

Internal process

Operational effectiveness

- » Promote interdepartmental cooperation
- » Improve efficiency and productivity
- » Ensure effective quality management

Partnership management

- » Implement effective IT systems
- » Build valuable partnerships
- » Educate consumers and service providers
- » Improve communication and feedback

Regulatory confidence

- » Ensure visible enforcement
- » Influence clear and effective legislation and policy
- » Comply with best practice
- » Promote clear and unambiguous guidance

The FSB is an independent institution, established by statute to oversee the South African non-banking financial services industry in the public interest, and is fully funded by fees and levies imposed on this industry.

ROLE AND PURPOSE

The FSB is an independent institution, established by statute to oversee the South African non-banking financial services industry in the public interest, and is fully funded by fees and levies imposed on this industry. Its goal is to ensure consumers of financial services are treated fairly by financial services providers, and that they enjoy a safe investment environment.

The FSB has a broad current mandate: to promote and maintain a sound financial environment. Equally, its broad ambit includes retirement funds, short-term and long-term insurers, friendly societies, collective investment schemes and hedge funds, financial market infrastructure, and financial advisers and brokers. By including consumer protection and education in its mandate, the FSB is fundamental to the financial well-being of the country's financial consumers.

After more than 24 years of regulating the non-banking sector of South Africa's

financial services industry, the FSB is acknowledged as a reputable authority in this field, locally and internationally. Over the years, it has contributed to the stability of this industry while meeting its mandate of protecting consumers of financial products and services.

The FSB has developed and maintained a strong, effective presence in the regulatory field, in South Africa and internationally, while working closely with its counterparts in Africa to establish solid regulatory frameworks.

The FSB team has a sound understanding of regulatory issues and enjoys good support and cooperation from the industries and institutions it supervises. This in turn has created a platform for efficiency, both in the specific context of our supervisory and regulatory role, and in the wider context of the public interest, a stable financial system and promoting investor protection.

25 years

of regulating the non-banking sector of South Africa's financial services history



FSB in perspective continued

MANDATES

Acts administered by the FSB

- » Collective Investment Schemes Control Act 45 2002
- » Credit Rating Services Act 24 2012
- » Financial Advisory and Intermediaries Services Act 37 2002 (FAIS Act)
- » Financial Institutions (Protection of Funds) Act 28 2001
- » Financial Intelligence Centre Act 38 2001
- » Financial Markets Act 19 2012
- » Financial Services Board Act 97 1990
- » Financial Services Ombud Schemes Act 37 2004
- » Financial supervision of the Road Accident Fund Act 8 1993
- » Friendly Societies Act 25 1956
- » Inspection of Financial Institutions Act 80 1998
- » Long-term Insurance Act 52 1998
- » Pension Funds Act 24 1956
- » Securities Services Act 36 2004
- » Short-term Insurance Act 53 1998

KEY MILESTONES

1991

FSB established as an independent body to supervise and regulate the non-banking financial services industry in the public interest.

Mandated to ensure regulated entities comply with legislation and capital adequacy requirements. By promoting the financial soundness of these entities, we protect the broader investing community.

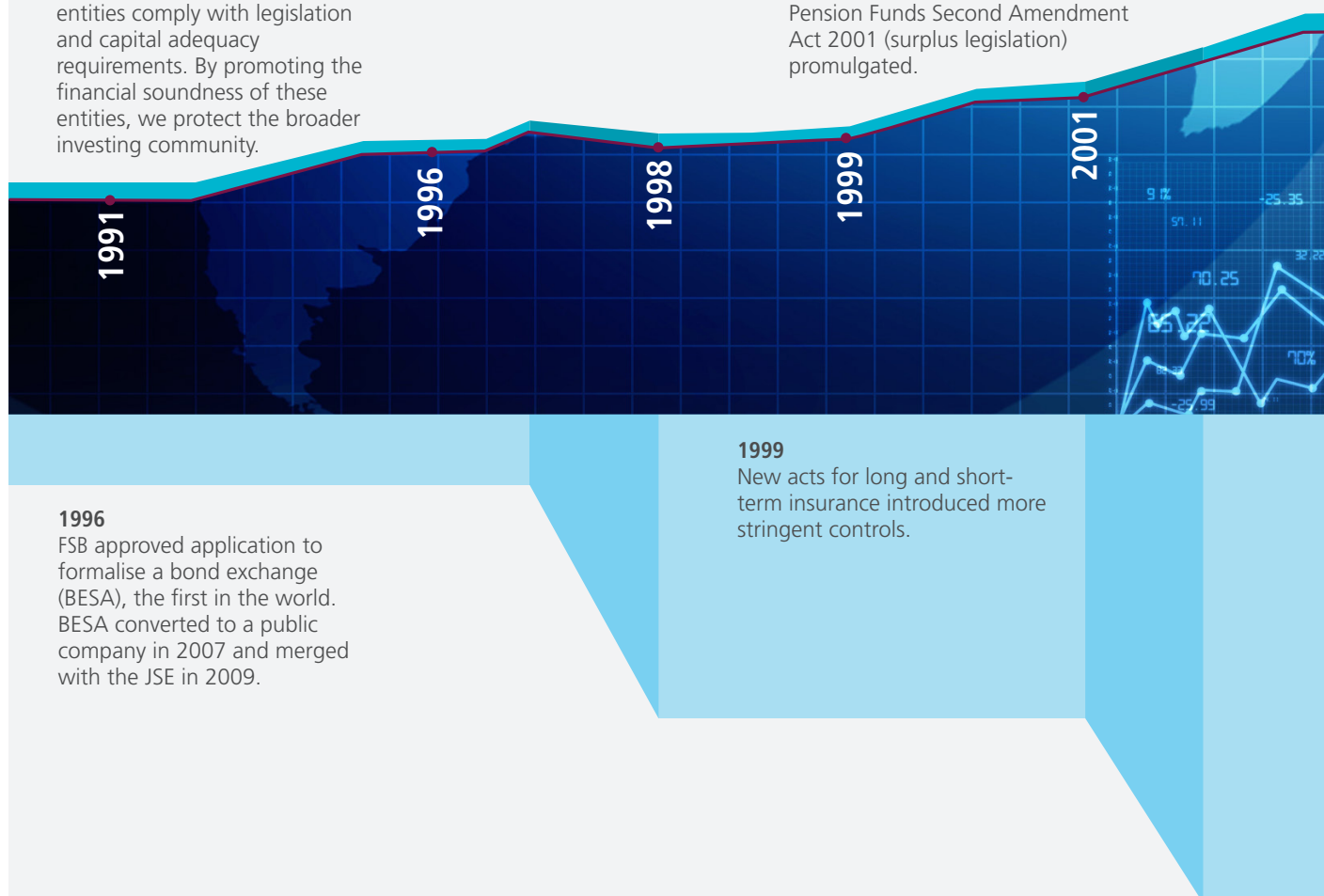
1998

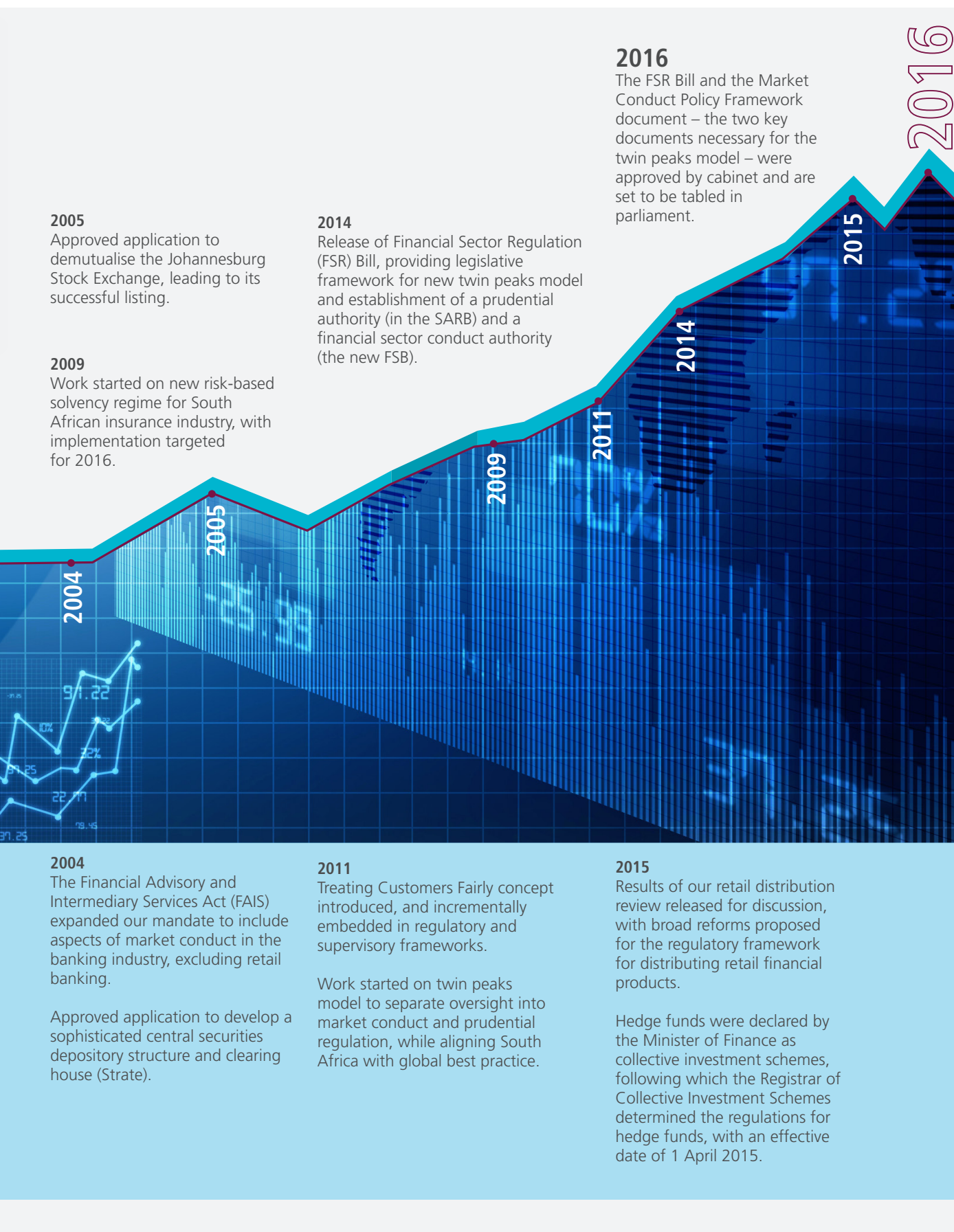
South Africa's two largest insurers demutualised.

2001

The Financial Intelligence Centre Act (FICA) added another dimension to our jurisdiction by incorporating relevant aspects into our regulatory framework.

Pension Funds Second Amendment Act 2001 (surplus legislation) promulgated.





PART A:
General information

PART B:
Performance information

PART C:
Governance

PART D:
Human resource management

PART E:
Financial information

Chairperson's report

The financial services landscape is evolving globally and domestically, and those who operate within it have to adapt accordingly, particularly for those tasked with regulatory and supervisory responsibilities. The reform of the financial services sector towards the twin peaks model of financial regulation in the country is set to ensure that South Africa keeps up with the changes in this environment, and align with what our counterparts are doing in different jurisdictions around the world.

The 2015/2016 financial year has been an important one for the FSB as it enters the final stretch in its transition to the Financial Sector Conduct Authority (FSCA). With the transition, the mandate of the FSB will change from being the regulator of the non-banking financial sector to being the market conduct regulator for the financial services industry as a whole.

The FSB has met its strategic objectives, while continuing to work closely with National Treasury and the South African Reserve Bank (SARB) to develop the frameworks and legislation to support the new regulatory model. The challenges

currently faced by the FSB are the finalisation of the organisational and operating structures for the FSCA, the development of an appropriate regulatory policy together with the timeframes of implementing the new regulatory regime; given the effect this has on setting and achieving its longer-term strategic objectives and fulfilment of its mandate. Significant strides have been made by all the relevant players in moving towards the finalisation of these elements. These changes have a major impact on our people without whom the organisation would not be able to carry out its mandate. For this reason, every effort is being made to ensure that the transition to the FSCA is seamless with minimal disruption.

The FSB is financially sound, ending the year with a surplus and sufficient cash resources to meet its commitments.

Abel Sithole
Chairperson



Although the scope of this report includes all the FSB's activities, materiality and forward-looking disclosures are limited because of the regulatory reforms being implemented in South Africa which, as indicated, will affect its jurisdiction and mandate in the future. However, effort is made to provide a complete view of our financial and non-financial performance within these constraints.

REGULATORY DEVELOPMENTS

The Financial Sector Regulation (FSR) Bill and the Market Conduct Policy Framework document – the two key documents necessary for the implementation of the twin peaks model – were approved by cabinet and are set to be tabled in parliament where the standing committee on finance is expected to prioritise them before the end of the current parliamentary session. Organisationally, the FSB is finalising the review of the structure, human resource systems and processes, mapping of job descriptions and human capital requirements to match the operational needs of the FSCA. Discussions continue with our counterparts at the SARB regarding the transfer of staff once the Bill has been promulgated and the Prudential Authority established.

The FSB continues to hold workshops with relevant industry bodies on the implications of the market conduct policy, and the way in which the new market conduct regulator will operate. There are also a number of initiatives aimed at helping consumers to better understand and navigate the changes in the financial landscape.

South Africa's economic performance influences the performance and activities of the FSB. As the country continues to seek ways to improve its economic performance so too has FSB staff and board worked even harder to enforce the necessary discipline in the management of FSB finances. I am pleased to inform you that our prudent approach has worked well. The FSB is financially sound,

ending the year with a surplus and sufficient cash resources to meet its commitments.

LEGAL MATTERS

The High Court application brought by the deputy registrar of pension funds Ms Rosemary Hunter, against the FSB board, Mr Abel Sithole, the chairperson of the board, the executive officer, Adv Dube Tshidi, Mr Jurgen Boyd, the former deputy registrar of pension funds and Minister of Finance Pravin Gordhan, has been opposed by all parties and has been set down for hearing from 29 November to 2 December 2016. The application relates to a project undertaken by the FSB to cancel dormant funds between 2007 and 2013. Among other things, Ms Hunter alleges that the cancellation process was unlawful.

The board appointed Judge Kate O'Regan to look into the matter and on her recommendation appointed KPMG to investigate the circumstances in which the cancellations occurred. KPMG submitted to the board a draft report on the results of its investigation in July 2015 and its final report on the matter in October 2015. KPMG questioned the basis of the processes which it found led to the possibility of the likelihood of prejudice. The board had reservations over the approach used by KPMG and believed the conclusions reached by KPMG failed to squarely address Judge O'Regan's recommendations about investigating whether there had been a likelihood of material prejudice to anyone with an interest in the cancelled dormant funds.

On Judge O'Regan's recommendation, independent specialist pensions lawyer Jonathan Mort of Jonathan Mort Inc. Attorneys (Mort Inc.) was engaged to conduct a detailed investigation into the cancellation of dormant funds from a sample of cancelled funds which formed the subject matter of KPMG's preceding investigations, in order to determine whether there was a likelihood of material financial prejudice emanating from the

cancellation of the funds. Mr Mort appointed Jeremy Andrew, a specialist consulting actuary familiar with pension fund regulation to assist him.

Mr Mort issued two reports – one assessing KPMG's findings (assessment report) and one based on his own inspection of the funds concerned (inspection report). Mr Mort (with Mr Andrew) did not agree with KPMG's conclusion about the likelihood of material financial prejudice, both for the detailed reasons set out in the report and because the test applied by KPMG was wrong (not the one formulated by Judge O'Regan). In all these investigations, no mala fides, material prejudice or improper conduct (fraud, corruption, conspiracy, collusion, etc) by any official of the FSB have been found.

As a public entity, the FSB is stringently monitored. The auditor-general conducts a comprehensive annual audit of our financial and non-financial performance against targets and benchmarks, with the FSB receiving a clean audit report for the current financial year and unqualified audit opinion for the past 24 years.

The FSB's mandate of promoting and maintaining a sound financial investment environment in the country has always been an all important task.

ACKNOWLEDGEMENTS

Our people continue to demonstrate their ability to adapt to change, which is deeply appreciated. I thank my fellow board members, the FSB's executive and management teams and representatives from the institutions we work so closely with for their contributions. Ultimately, this collective commitment and professionalism benefits the national economy and South Africa's people.



Abel Sithole
Chairperson

Executive officer's report

CHANGING MANDATE

The FSB finds itself on the precipice of a new chapter with the dawn of twin peaks, and as such, it is important that we carefully navigate the journey from the FSB to the Financial Sector Conduct Authority (FSCA) with all our stakeholders. We have stepped up our efforts to communicate the implication of the changes. To this end, we have put in place comprehensive and multifocal communication plan which is aimed at unpacking the structure and functions of the FSCA. This plan has an increased focus on consumer education, as we are very mindful that the Financial Sector Regulation (FSR) Bill sets out financial

education as one of three objectives for the new market conduct authority.

THE YEAR IN REVIEW

A number of developments took place on the regulatory front. One of these was the request by Fitch Southern Africa that its registration as a credit ratings agency under section 6(1)(a) of the Credit Rating Services Act be cancelled. Following various assessments on the agency, the registrar granted Fitch Ratings Limited an exemption from section 3(2) of the Act, permitting it to perform rating services for sovereigns, state-owned companies and special-purpose vehicles of the state for two years, ending

31 December 2017. Further reviews were carried out during the year on all credit rating agencies and conclusions from these examinations highlighted that there are still issues that need to be addressed.

In the last financial year, the collapse of African Bank highlighted the need for more effective regulation, and South African regulators have moved swiftly to deal with the effects of that saga. After announcing the restructuring of the "good bank" by the African Bank curator, the registrar, in consultation with the industry, exempted money market portfolios holding certain African Bank

The FSB remains committed to the highest standards of corporate governance and will always act in the public interest.



Dube Tshidi
Executive officer

Investment Limited (ABIL) debt instruments from the requirement of a maximum of 13 months' maturity duration. This was in order to avoid a fire sale of these instruments when they become tradable as this could prejudice investors.

At the end of the previous financial year, the minister of finance declared the business of hedge funds as a collective investment scheme under section 63 of the Collective Investment Schemes Control Act. Given the complex and technical nature of these products, a separate hedge funds department was established to facilitate oversight of this industry in South Africa in line with the new legislation. The FSB also focused on enhancing regulations to promote growth in the collective investment schemes industry and offer better protection to investors. After the introduction of tax-free savings investments under South African tax regulations, participation bond scheme managers indicated a desire to make tax-free savings products available. The registrar accordingly published a board notice amending capital adequacy requirements for participation bond schemes to enable them to issue tax-free savings products while maintaining sufficient liquidity for these products.

In the review period, the JSE Limited was the only licensed securities exchange in South Africa offering an infrastructure for trading in equities, derivatives and debt securities. However, during the year, the registrar of securities services received a number of applications for exchange licences. Three of these applications were assessed and published for public objections in accordance with the Financial Markets Act while still being assessed and evaluated. Market capitalisation of all securities listed on the JSE totalled R15 259 billion (some US\$1 013 billion) – up from R11 922 billion at the end of

the previous reporting period – and this maintained the JSE as the 17th largest stock exchange in the world by market capitalisation.

Implementation of the solvency assessment and management (SAM) project continues to proceed well. The SAM project entered its implementation phase in July 2014. A comprehensive parallel run (CPR) started in January 2015 and will continue throughout 2016 to ensure that insurers are adequately prepared for full SAM implementation in 2017 following enactment of the Insurance Bill. National Treasury (NT) has indicated that the Insurance Bill will be tabled after the FSR Bill in parliament. This will enable the Insurance Bill to build on the regulatory framework created through the FSR Bill, and means that the Insurance Bill will not become effective before the FSR Bill has been enacted. Prudential regulation of insurers is due to shift to the South African Reserve Bank (SARB) during the latter half of 2016 or the beginning of 2017. Preparations for the smooth transition of the SAM project and other prudential regulatory responsibilities to the SARB are well advanced.

We also developed our language policy before the deadline set out by the minister of arts and culture. The policy was translated into all 11 official languages and is now available on the FSB's website in these languages. The language policy was published in the *Government Gazette* for public knowledge as directed by the Act, thus making the FSB one of very few public entities to have fulfilled this mandate.

The FSB remains committed to the highest standards of corporate governance and will always act in the public interest. We take our mandate to promote and maintain a sound financial investment environment in South Africa seriously and we will take all reasonable

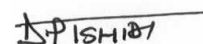
steps to ensure that consumers of financial products are treated fairly by the financial services providers they deal with. It is in this context that I wish to reiterate our commitment to preventing and combating fraud and corruption, not only in the FSB itself but also in the wider financial services sector.

OUTLOOK

Looking forward, much of our efforts will be on ensuring a smooth transition to the FSCA, bedding down our new operational and organisational structures and developing an appropriate regulatory policy and strategy which will enable us to effectively deliver on our new mandate. Addressing the concerns of staff during this period is high on our list of priorities. The twin peaks transition opens a new chapter in the lives of our people and in the regulatory environment of our country. We are enthusiastic about the positive changes the twin peaks model of regulation will bring to our financial markets and are confident that the FSCA will be ready to assume its responsibilities in this regard.

APPRECIATION

A heartfelt thanks to all the FSB staff and the executive team. Your contribution to this organisation is immensely appreciated as we move towards our new mandate. Thank you once again for your hard work and sacrifices that you have made throughout the year. Let us continue to serve the country as we take on the challenging task that awaits us. My gratitude also goes to the chairman of the board and the members he leads for their strategic guidance, effective leadership and wisdom.



Dube Tshidi
Executive officer

Strategic overview

The FSB operates in a dynamic environment, externally and internally. Combined with the changing needs of our stakeholders, it is imperative that our strategy is equally dynamic to remain relevant and effective, and that our strategic objectives and performance measures are appropriate. We regularly review our strategy to:

- » Identify critical strategic focus areas
- » Use these areas to develop detailed business plans
- » Develop measures to support new strategic focus areas.

In line with the evolution of the South African financial regulatory landscape to twin peaks, a particular strategic focus area has been on the seamless transition from the FSB to the FSCA. This included full readiness for the transition with minimum disruption to the FSB ongoing functions, development of a

recommended regulatory strategy for the FSCA and recommended organisational design to support the organisational readiness for the transition.

In designing our strategy, we consider the expectations and needs of our direct external and internal stakeholders to create sustainable value. We also consider factors in the financial services environment and resources available to our organisation. We thoroughly evaluate our business performance against strategic objectives in each five-year planning cycle to ensure we maintain relevant objectives while striving to ensure our regulatory and supervisory frameworks will meet policy objectives and appropriately comply with international standards. At all times, we are guided by our vision and mission, while living up to our values.

VISION

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

MISSION

To promote:

- » **Fair treatment of consumers of financial services and products**
- » **Financial soundness of financial institutions**
- » **Systemic stability of financial services industries**
- » **Integrity of financial markets and institutions**
- » **Consumer financial education.**

STRATEGIC INTENT

Our strategy is anchored on five pillars that address specific objectives. These pillars form the basis for developing performance and operational plans. Our performance against these objectives is detailed from page 23 to 25.

Pillar	Key institutional objectives	Key performance indicator
Empowered consumers	<ul style="list-style-type: none"> » Promote financial education to consumers of financial services and products » Promote transformation in the industries regulated by the FSCA » Promote financial inclusion in the industries regulated by the FSCA 	<ul style="list-style-type: none"> » Interventions to provide and promote financial education » Transformation strategy and plan » Micro-insurance regulatory framework
Proactive stakeholder management	<ul style="list-style-type: none"> » Maintaining an effective communication, brand, reputation and stakeholder management strategy during the transition to FSCA 	<ul style="list-style-type: none"> » Marketing and brand awareness campaigns » Stakeholder outreach plans
Sound financial institutions	<ul style="list-style-type: none"> » Ensure regulatory framework in line with international standards » Effective supervision of financial service providers » Enforce compliance with legislation 	<ul style="list-style-type: none"> » Ongoing review of framework to identify gaps » Implemented risk-based supervisory plans » Effective enforcement of legislative compliance
Improved internal policies and processes	<ul style="list-style-type: none"> » Adequately resourced FSB to deliver on strategic plan » Effective systems and processes 	<ul style="list-style-type: none"> » Align departmental requirements with available financial and human resources » Implementation of approved projects and adherence with ICT service level agreement
Effective transition to market conduct regulator	<ul style="list-style-type: none"> » Full readiness for transition with minimal disruption to FSB's ongoing operations » Recommended regulatory strategy for FSCA developed to support strategic readiness for transition to the FSCA » Recommended organisational design for the FSCA developed to support organisational readiness for transition to FSCA 	<ul style="list-style-type: none"> » Overarching transition programme implemented within stipulated timeframes and conditions » Final recommendations on regulatory strategy » Final recommendations on organisational design

REGULATORY STRATEGY COMMITTEE

As shown above, one of the FSB's key strategic objectives is to ensure an effective transition to its new mandate as a dedicated market conduct regulator in the twin peaks regulatory model. The regulatory strategy committee (RSC), a committee of the FSB executive committee, was established in 2015 with a mandate to support the executive committee in facilitating this transition smoothly. The RSC has three main objectives: To develop recommendations on a proposed market conduct regulatory strategy (embedding Treating Customers Fairly principles) for the future authority; to develop recommendations and transition proposals for the optimal future organisational design and structure of the new authority; and to oversee the progress and implementation of specific current or future market conduct regulatory projects of the FSB that are identified as being of strategic importance to the FSB and the anticipated future work of the new authority.

Primary activities of the RSC during the year have focused on:

- » Developing an overarching project plan for the FSB's transition to the FSCA. As part of the overarching transition plan, a number of sub-projects have been identified. Work has also been undertaken on defining business processes and protocols and functional roles and responsibilities of the future FSCA.
- » Developing a proposed regulatory strategy of the FSCA, in preparation for the future statutory requirement

(under the Financial Sector Regulation Bill) for the new authority to develop and publish such a strategy.

- » Developing a recommended organisational design for the future FSCA that will be fit for purpose in light of the FSCAs intended overarching, activity focused approach to delivering on its future mandate.
- » Ongoing engagement with and detailed input to the National Treasury on the Financial Sector Regulation Bill.
- » Participating in a wide range of stakeholder forums, including industry conferences, engagements with individual regulated entities and media engagements, to create awareness and understanding of the intended market conduct regulatory and supervisory approach of the future FSCA. The market conduct regulatory framework steering committee, a multistakeholder consultation forum established in 2015, operates as an overarching stakeholder engagement forum on conduct of business-related regulatory initiatives.
- » Ongoing oversight of a number of key cross-cutting FSB market conduct regulatory projects. These include the retail distribution review (RDR) and proposals for enhanced TCF aligned customer complaints management requirements. Work has also been undertaken on: Developing an appropriate supervisory framework in relation to the tax free savings product model launched by National Treasury in 2015; new conduct reporting requirements for insurers and financial intermediaries; consumer credit insurance reforms (jointly with the National Treasury and in

consultation with the National Credit Regulator); review of the competency framework for financial intermediaries; Key information documents in respect of various retail financial products; and retirement reform initiatives.

STRATEGIC RISKS

Policy and framework

The FSB has an approved risk management framework, policy and strategy, which includes a fraud and corruption prevention strategy. The framework lays the foundation for integrating effective risk management into the organisation and establishes an organisation-wide approach to risk management oversight, accountability and process execution.

Risk management and reporting is robust. It includes regular reviews and updates of strategic, operational and compliance risks, and corroborating controls that mitigate identified risks. In addition, a programme of creating ongoing awareness of risks, fraud and corruption is undertaken through presentations, surveys and articles distributed to staff via email.

Strategic overview continued

KEY RISKS

The FSB's key risks are directly related to its strategic objectives. The risks summarised below have the greatest inherent risk value and therefore present the greatest threat to our sustainability:

No	Key business objectives	Business risk	Risk consequence	Likelihood	Management response
1	Proactive stakeholder management	Excessive litigation exposure. Litigation arising from regulatory mandate.	<ul style="list-style-type: none"> » Financial exposure » Reputational damage » Loss of regulatory focus » Professional time. 	Almost certain	<ul style="list-style-type: none"> » Availability of appropriate legal skills in the FSB » Strong internal and external legal support » Regular consultation » Reputation management » Strong internal quality control.
2	Improved internal policies, processes and procedures	Cyber-crime – Inappropriate internal/external access to information and ineffective firewalls.	<ul style="list-style-type: none"> » Loss of data » Reputation compromised » Contravention of security acts » Corruption of data » Financial loss » Loss of physical assets » Unauthorised disclosure of information » Unauthorised access to all FSB information. 	Almost certain	<ul style="list-style-type: none"> » Firewalls » Security backups » Shredding documents » Using scanner equipment » Perimeter controls » Logical access/system access controls linked to job level/descriptions across the FSB » Implementation of acceptable use policy, encryption » Secondary network perimeter firewall » Mobile device management » Implementation of revised ICT security strategy – data-in-motion (e-mail encryption) » Database security.
3	Improved internal policies, processes and procedures	Data integrity. Inaccurate/unreliable management information.	<ul style="list-style-type: none"> » Uninformed regulator » Incorrect rulings » Avoidable legal challenges » Loss of reputation » Not meeting FSB legislative mandate. 	Likely	<ul style="list-style-type: none"> » Adopting sound policies and procedures » Regular management meetings » Introduction of ICT steering committee » Sharing information » Sound governance structures » Sound internal accounting controls » Systems validation » Malware protection controls » Backups and disaster-recovery testing.
4	Improved internal policies, processes and procedures	Excessive litigation exposure. Litigation arising from regulatory mandate.	<ul style="list-style-type: none"> » Inability to deliver on mandate » Ineffective regulator » Loss of respect and trust by regulated entities » Compromised reputation » Ineffective implementation of legislative mandate » Lack of skills to keep up with business demands » Lack of skills to implement TCF. 	Likely	<ul style="list-style-type: none"> » Sound HR policies » Training » Seconding staff » Bursaries for scarce skills » Improved recruitment strategies.
5	Improved internal policies, processes and procedures	Knowledge/skills base. Lack of succession planning to ensure sustainability of FSB. Loss of knowledge/skills base.	<ul style="list-style-type: none"> » Loss of institutional knowledge » Loss of continuity of policies and procedures » Loss in the financial regulatory environment » Financial loss » Loss of stakeholder confidence. 	Likely	<ul style="list-style-type: none"> » Effective Exco and management meetings with dissemination to staff » High-potential individuals » Sharing knowledge (knowledge management process) » Documenting existing processes.

The key risk in this area is stakeholders who may not fully understand our mandate and the legislative framework under which the regulator operates. Accordingly, and in light of the transition to the twin peaks model, we have focused on strengthening relationships with all our stakeholders (as detailed in our supplementary report). Work also continued on increasing media interaction and stakeholder communication, as well as better visibility of FSB representatives on public platforms. The FSB's key stakeholders, their importance to our sustainability and key issues raised are summarised in our supplementary report on our website.

KEY ISSUES RAISED BY STAKEHOLDERS IN THE REVIEW PERIOD ARE SUMMARISED BELOW:

Stakeholder	Why?	What we need from them	What they need from us	Risks if needs are not met	How we engage/ frequency	Issues raised/ response
Executive/legislative authority Government National Treasury Parliament	Provides oversight and direction to the FSB	Support Buy-in	Adhering to mandate Brand and reputation management Consumer protection Proposing and implementing relevant policy initiatives Support	Proposed legislation not accepted Instability in financial regulation systems in South Africa Ineffective regulation	Annual report (annually) Report on FSB performance and outlook	Adhering to mandate FSB's performance against strategic objectives
National Prosecuting Authority	Criminal prosecution of financial offences on referral by the FSB	Effective criminal prosecution of cases and collaboration		Ineffective enforcement of regulations	Ad hoc meetings	
Regulated entities Insurers Retirement funds Collective investment schemes Credit rating agencies Financial advisers and intermediaries Financial market infrastructure	Can help the FSB achieve its mandate through buy-in and commitment to regulatory objectives	Comply with FSB regulations Relationship building Support Buy-in	Consultation Guidance Relevant regulations Certainty and clarity on where they stand with FSB Quick turnaround times Consistent application of legislation	Non-compliance Ineffective financial regulations Industry non-cooperation Erosion of credibility	Quarterly FSB bulletin FSB website (updated daily) Media releases Conferences Consultative meetings Consultation on draft regulations Bi-weekly meetings with JSE market surveillance and issuer regulation departments	Accessibility of documents relevant to industry Consistent application of legislation Lack of understanding of industry challenges Statutory returns submissions misplaced at the FSB Continuous regulatory burden
Media Local media International media	Can help the FSB achieve its mandate through consumer awareness and education	Partnerships Relationship building Awareness and understanding of issues within FSB	Transparency Proactive communication on matters in the public interest Accessibility	Inaccurate information being reported Brand reputation challenges	Individual information-sharing sessions Quarterly roundtable discussions Quarterly FSB bulletin Media advisories (as needed) Press releases	Proactive communication on public interest matters Clarity on FSB mandate Timely release of information Website enhanced Spokespeople readily available Effective marketing and media plan implemented

Stakeholder relationships continued

Stakeholder	Why?	What we need from them	What they need from us	Risks if needs are not met	How we engage/ frequency	Issues raised/ response
Local and international regulators*	Can help the FSB achieve its mandate through benchmarking and cooperation	Partnerships Cooperation	Partnerships Cooperation	Not keeping abreast of regulatory developments Weak regulatory reforms Lack of cross-border cooperation and assistance Non-compliance with international standards Reputational risks	Consultative documents such as surveys Conferences Arranging and attending meetings of international standard-setting bodies	No issues raised

* To stay abreast of international regulatory developments and to benchmark its regulatory structures against best-practice standards, the FSB participates in the activities of international and regional bodies, including:

- International Organisation of Securities Commissions – IOSCO
- International Organisation of Pension Supervisors – IOPS
- International Association of Insurance Supervisors – IAIS
- International Financial Consumer Protection Organisation – FinCoNet
- Association of African Insurance Supervisory Authorities – AAISA
- African Insurance Organisation – AIO
- Committee of insurance, securities and non-banking financial authorities – CISNA

Stakeholder	Why?	What we need from them	What they need from us	Risks if needs are not met	How we engage/ frequency	Issues raised/ response
Consumers of financial products	Mobilise and change behaviour for more informed decisions	Active engagement Participation Confidence	Financial education Protection Adhering to mandate	Unprotected and uneducated consumers Lack of trust in FSB and financial sector	Quarterly FSB bulletin FSB website Media, eg cautionary notices Call centre Education initiatives	Consumer protection – our communication and consumer education departments collaborate to ensure consumers know how to ensure they are protected
Staff	Consistent service orientation	Pride in the organisation Active engagement	Ongoing communication and consultation Ability to raise concerns and expectations	No commitment to FSB mandate Lack of productivity	Quarterly FSB bulletin Ad hoc newsletter Intranet Meetings	Managing change Staff meetings and regular publications provide a platform for active communication Communicating on changes in FSB Role clarity in new organisation Improved incentives (bonuses) Market related salaries
Business leaders Financial markets and other sectors	Help the FSB achieve its mandate through buy-in and commitment to regulatory objectives	Clear understanding of what the FSB does	Consultation Information Partnerships	Lack of support Negative image	Individual meetings Quarterly FSB bulletin Media FSB website	Clarity on what the FSB does, how it operates and how this affects stakeholders' businesses

Organisational structure



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Support departments

Please see our supplementary report for detailed performance in the review period.

Actuarial

The actuarial department mainly provides supporting service to the insurance and retirement funds divisions. Specific regulatory functions have been delegated to its pensions section, including:

- » Analysing actuarial valuation reports – during the period, the registrar accepted 659 actuarial valuation reports with 603 pending at the end of the period because of unresolved queries
- » Considering and approving surplus apportionment schemes – to date, the apportionment of actuarial surplus of R48.22 billion has been approved
- » Considering and approving applications in terms of section 14 of the Pension Funds Act to ensure the scheme of transfer fully recognises the rights and reasonable benefit expectations of remaining and transferring members – during the period, 3 200 applications were considered. We remain concerned about the large number of cases we pend for reasons ranging from incorrectly completed applications, outstanding valuations and/or transfer information, and boards of funds not being properly constituted – 633 cases were pending at 31 March 2016 compared to 770 in 2015.

International and local affairs

This unit manages internal and external stakeholder relations by liaising with, and monitoring local and international developments in the financial sector, including developments emanating from the Financial Stability Board (Finstab), World Bank, International Monetary Fund (IMF), Southern African Development Community (SADC), and similar bodies. It also houses the committee of insurance, securities and non-banking financial authorities (CISNA) secretariat.

ICT

Given the FSB's reliance on technology, the board-approved ICT strategy comprises both business demand and the ICT supply portfolio generated by demand. This is supported by an ICT security and risk strategy that addresses related risks. Highlights of the year included:

- » Risk mitigation: Enhanced ICT security controls to secure confidential information
- » Customer service and stakeholder engagement: External stakeholder engagement platforms were enhanced, including the FSB website
- » Service level commitment: Against a business target of 90%, ICT averaged 97%
- » Business enhancements: 98.5% of identified core regulatory applications enhancement projects implemented against a business target of 90%.

Inspectorate and enforcement

Under the Inspection of Financial Institutions Act 1998 (Inspection Act), the registrar may appoint inspectors and instruct inspections into the affairs of financial institutions, associated institutions and unregistered operators. Inspections are also conducted after implementation of any agreement, communiqué or memorandum of understanding by regulated institutions (section 3A of this Act).

The FSB's inspectorate department conducts these inspections on behalf of the registrar and in terms of the investigative powers provided for in the Act.

During the review period, 24 inspections were finalised. Of these, four were requests for assistance (in terms of section 3A). The balance related to contraventions of the FAIS Act, Long-Term Insurance Act and Pension Fund Act.

In November 2008, the FSB enforcement committee was established in terms of an amendment to the Financial Institutions (Protection of Funds) Act 28 2001, replacing the capital markets enforcement committee. The enforcement committee is an administrative tribunal with jurisdiction to impose penalties, compensation orders and cost orders against those who contravene any FSB law. This process is used by the registrar and the DMA to deal with the majority of contraventions and non-compliances with FSB legislation by the industry and members of the public.

In the review period, the committee considered 16 cases against 22 respondents and found a contravention of FSB legislation in each case.

Inspectorate and enforcement (continued)

- » Insurance legislation (short-term and long-term insurance acts) in five cases
- » FAIS Act in four cases
- » Security Services Act in two cases
- » Financial Markets Act in two cases
- » Pension Funds Act in one case
- » Financial Intelligence Centre Act in one case
- » Collective Investments Schemes Control Act in one case.

In total, penalties of R18.8 million were imposed on the 22 respondents. The highest penalty of R10 million was imposed for contravening section 75 of the Securities Services Act 36 2004 (price manipulation).

Market conduct strategy (including Treating Customers Fairly (TCF))

The focus of the market conduct strategy unit is supporting the FSB's regulatory strategy committee and various departments in developing new regulatory and supervisory frameworks for the FSB's dedicated market conduct mandate in the pending twin peaks model of financial sector regulation. As highlighted in National Treasury's December 2014 document, *Treating customers fairly in the financial sector: a draft framework for market conduct policy in South Africa*, the TCF approach will underpin the new market conduct authority's approach to supervision.

Accordingly, the market conduct strategy unit provides ongoing support to FSB operational areas and regulated entities in embedding TCF principles, in addition to supporting the FSB more holistically in developing its future regulatory and supervisory frameworks.

Human resources

The HR department plays a significant role in facilitating the understanding and ongoing practice of the FSB's values and culture. It strives to create an attractive work environment for recruiting, developing, rewarding and retaining high-potential people through a complete HR service offering, and partnering with FSB departments. Part D provides a detailed report on HR activities for the year.

Legal

The legal department provides ongoing support to the entire FSB. Legal services are chiefly available in-house, especially in the areas of legislation, litigation management and general corporate legal advice. Where necessary, the department engages external professionals (attorneys, counsel) to provide the requisite legal services, particularly for litigation. Key objectives include:

- » Minimising the FSB's exposure to external and internal legal risk
- » Facilitating ongoing legislative review to enable line departments to deal with any regulatory gaps in developing an annual legislative programme for submission to National Treasury
- » Legal support on legislation.

The department also provides ongoing secretarial support to the FSB appeal board.

Communications

This department supports our vision and mandate by building a positive reputation for the FSB through strategic relationships with internal and external stakeholders.

Highlights of the period include facilitating the first stakeholder consultation workshop with relevant industry associations on the market conduct paper, Financial Sector Regulation Bill and the way the new market conduct regulator is intended to operate. Other activities included:

- » Four media roundtable discussions (helping the media to better understand various aspects of our work)
- » 54 media releases, with four one-on-one engagements between FSB executives and journalists
- » 271 media-related queries managed
- » Client management system: over 5 866 written queries received. Most were FAIS related (3 352), followed by pension queries (906)
- » Outsourced FSB call centre, which handles all queries received via our own toll-free number (0800 202 087/0800 110 443) and the FAIS ombudsman share-call number, 0860 FAISOM (324 766).

Chief financial officer's review

The FSB's main source of funding is from levies and fees that are charged to the non-banking financial services industry.

OVERVIEW

The FSB's main source of funding is from levies and fees that are charged to the non-banking financial services industry. As a regulator, the FSB targets to financially break even which is often made difficult by the dynamic environment in which we operate. The South African financial services industry is not immune to the hard global economic challenges; notwithstanding, the FSB's levying model

strives to contain annual levy and fee increases.

The FSB remains financially sound with total net assets increasing to R281 million from R234 million and cash and cash equivalents increasing to R303 million from R239 million recorded in the previous financial year. Working capital remains solid with the current ratio maintained at 3:1 for the financial year.

3:1

Current ratio
working capital
remains solid for
this financial year.

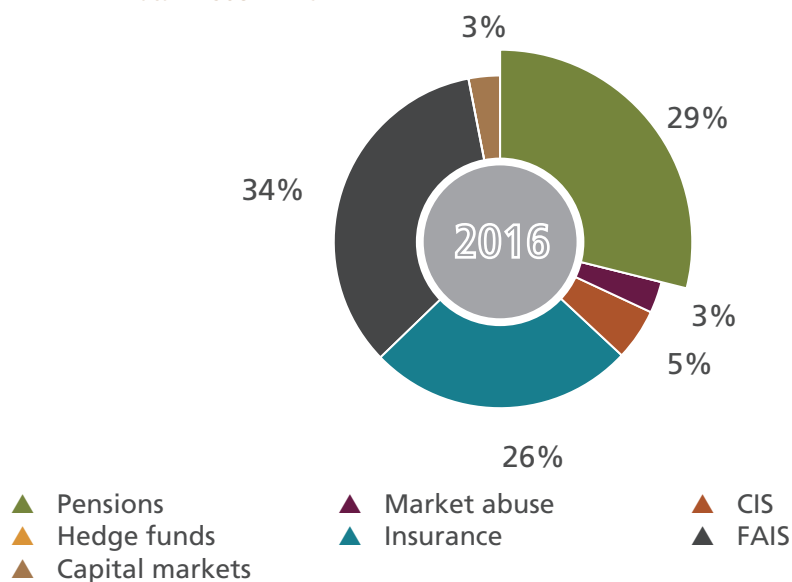


Paul Kekana

Chief financial officer

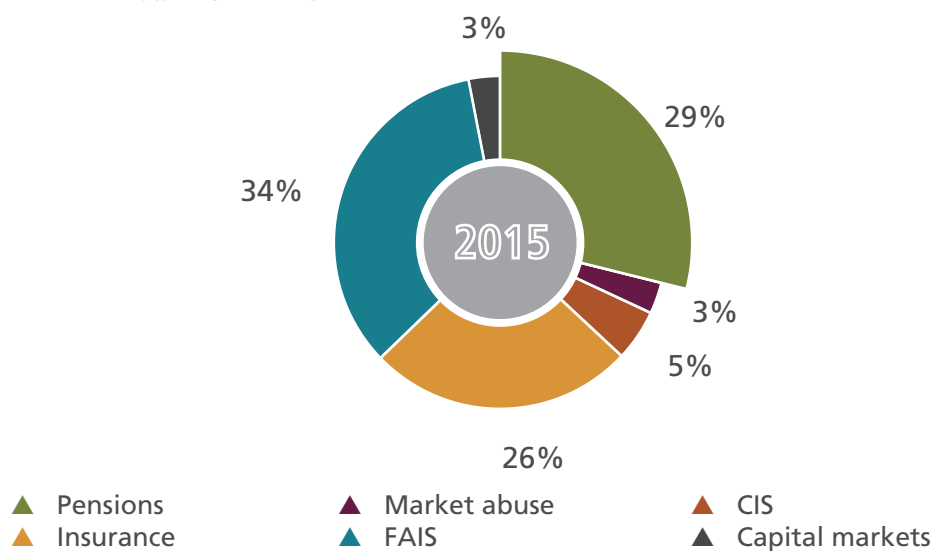
2016 LEVY CONTRIBUTION BY INDUSTRY

Total: R608 million



2015 LEVY CONTRIBUTION BY INDUSTRY

Total: R577 million

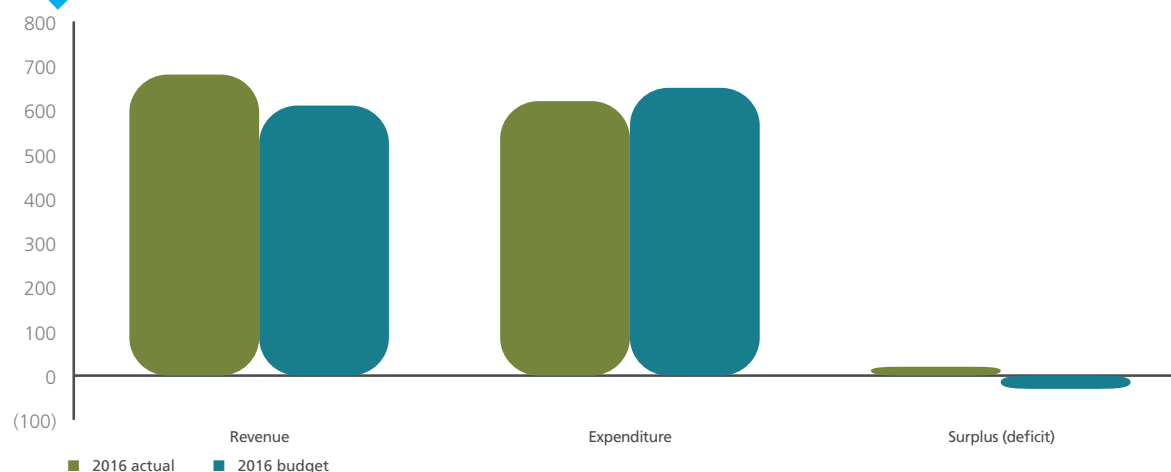


The FAIS, pensions and insurance industries are the major contributors to the levy income, accounting 89% for both the 2016 and 2015 financial years. Hedge funds, a newly established department within the FSB CIS division, is planned to be fully operational and self-funding in the short term.

Chief financial officer's review continued

FINANCIAL PERFORMANCE

OVERVIEW OF THE FINANCIAL PERFORMANCE (Millions)



REVENUE

The FSB recorded revenue of R705 million for the year (2015: R634 million) against a budget of R644 million. The favourable variance is due to penalty income amounting to R18 million which by nature is not budgeted for, fee income of R12 million due to increased volumes, higher investment income of R21 million due to high interest rates with the balance made up of other income and recoveries.

OPERATING COSTS

The FSB recorded R659 million operating costs for the year (2015: R574 million) against a budget of R688 million. The favourable variance is a result of tight cost containment measures and delayed twin peaks expenses.

The FSB contribution to the funding of the offices of the FAIS ombud for FSPs and the Pension Fund Adjudicator amounted to 6.3% and 6.8% respectively of the total operating costs for the financial year.

SURPLUS

The FSB has as a result recorded a surplus of R47 million for the year (2015: R59 million) against a budgeted deficit of

R43 million. Accumulated surplus increased to R192 million (2015: R153 million) and contingency and discretionary reserves to R89 million (2015: R81 million). In terms of section 53(3) of the Public Finance Management Act (PFMA), the FSB will request approval from National Treasury to retain the surplus funds, some of which will be used to fund the cost of implementing the twin peaks regulatory model.

The FSB has approval to maintain two reserve accounts: the contingency and discretionary reserves, currently at R66 million (2015: R59 million) and R23 million (2015: R22 million) respectively. The contingency reserve is maintained at a maximum of 10% of levy and fee income. This reserve is held to protect the FSB against the effects of inflation and unforeseen events. The discretionary reserve is a depository for fines and penalty income and is used to fund consumer education-related expenses.

CAPITAL INVESTMENTS

The FSB's capital investments comprise property, plant and equipment (PPE) and intangible assets. The carrying value on

capital investment increased to R45 million from R34 million recorded in the previous financial year as a result of capital expenditure in computer equipment. These investments are managed through an asset management policy that is applied uniformly throughout the FSB as prescribed by the PFMA and treasury regulations.

WORKING CAPITAL MANAGEMENT

The FSB manages working capital effectively and ensures availability of sufficient cash to meet financial obligations when they fall due. Cash flow is closely managed and surplus funds are invested in the Corporation for Public Deposits with the South African Reserve Bank.

Trade and other payables

The FSB strives to settle trade payables within 30 days of receiving the invoice in line with National Treasury regulations. As at the financial year-end, trade payables amounted to R20 million (2015: R6 million) made up mainly of capital expenditure invoices which will be paid in the new financial year.

Trade receivables

As at financial year-end, the levy debtors amounted to R12 million (2015: R18 million), representing 2% (2015: 3%) of the levy income. Collection for the levy debtors improved for the year as a result of the cooperation with the industry.

The penalty and inspection debtors increased to R40 million (2015: R26 million) as a result of completed enforcement cases and a consequent increase in the provision for penalty and inspection debtors credit losses to R32 million (2015: R18 million). Penalty and inspection debtors collection remains a challenge as these debts by their nature are not planned for and are often appealed, resulting in collection uncertainties and delays.

FINANCIAL OUTLOOK

Each year brings new challenges and the FSB is committed to creating value for its stakeholders by continuously improving on efficiencies. Levies and fees charged to the industry are reviewed annually and are adjusted in line with the prevailing economic conditions.

The smooth transition to and implementation of the twin peaks regulatory model remains a key priority. We envisage that our reserves will be sufficient to finance most of the capital and operating costs of the new market conduct regulator.

We subscribe to the highest ethical business practices and standards and will continue to provide our stakeholders with quality and efficient services.



Paul Kekana
Chief Financial Officer

Situational analysis

PERFORMANCE DELIVERY ENVIRONMENT

In order to re-confirm the performance environment and the influences thereon, an analysis of the strengths, weaknesses, opportunities and threats (SWOT) was completed. The consolidated assessment is reflected below:

Strengths	Weaknesses
<ul style="list-style-type: none"> » Adherence to mandate » Collaborative and consultative regulator » Committed and professional staff » Compliance with regulations applicable to the FSB » Regulatory and supervisory framework in line with international best practice » Sound financial management » Willingness to confront regulatory issues/supervising without fear or favour » Good standing with domestic and international bodies » Caring organisation » Institutional knowledge and understanding of industries » Strong business and ICT alignment through ICT governance » Appetite for change. 	<ul style="list-style-type: none"> » Supervisory methods are too reactive in some divisions » Limited collection of market conduct data to perform data analytics » Some legacy IT systems » Ineffective communication » Weak intelligence gathering with regards to industry financial innovation » Inconsistent visibility as a regulator among consumers » Working in silos » Inability to respond to financial innovation in a timely manner.
Opportunities	Threats
<ul style="list-style-type: none"> » New responsibilities arising from the twin peaks regulatory model » Opportunities presented by changes in the FSB's organisational design to harmonise and improve regulatory and supervisory standards, break down silos that impede effective supervision and promote the FSCA as employer of choice for both highly skilled and experienced professionals and young professionals seeking opportunities for learning and development while serving the country » Opportunity to improve the profile of the FSB due to the broader recognition and buy-in into financial regulations/ stronger political backing/expanded scope of financial regulation » Support National Treasury on financial inclusion through consumer protection and financial education » Expansion and strengthening of stakeholder relationships » Strengthening collaboration with other relevant regulatory bodies » Responding to financial innovation. 	<ul style="list-style-type: none"> » Gaps in the regulatory framework » Inability to respond to financial innovation in a timely manner » Litigation against the FSB » Non-availability and mobility of scarce skills to support regulatory and supervisory functions » Delays in criminal justice system processes undermining the FSB's enforcement activities » Overlaps and gaps in legislative mandates » Compliance to the Protection of Personal Information Act regarding the sharing of information with foreign regulators » Cyber attacks.

ORGANISATIONAL ENVIRONMENT

The FSB continues to develop its technology, processes and resources to ensure that they enable the FSB to effectively fulfil its mandate. This includes ensuring that our regulatory and supervisory approach remains robust and relevant in response to new financial products and processes, new technology and emerging risks.

Progress against strategic goals

PROGRESS AGAINST STRATEGIC GOALS

The table below sets out the strategic objectives, performance indicators and planned targets as specified in the FSB annual performance plan for 2015/16, and actual performance for the year. The FSB comprises five divisions that exercise regulatory oversight over the non-banking financial services industry. Each division comprises separate departments that provide regulatory oversight over components of these industries, for example, the insurance division has separate departments for long-term insurance, short-term insurance, micro-insurance, etc. In addition, the FSB's mandate includes ensuring that the existing various regulatory legislation is up to date, developing new legislation in conjunction with the National Treasury and keeping abreast with international developments in the regulatory environment. The strategic objectives, performance indicators and targets in the annual performance plan are rolled out to all divisions and departments and find expression at departmental level in detailed annual business plans. The achievements for 2015/16, as reported, are a consolidation of the departmental business plans for the financial year.

Strategic objective	Performance indicator	Achievement 2015	Target for 2016	Achievement 2016	Variance	Comment/reason for variance
STRATEGIC OUTCOME 1 – INFORMED AND PROTECTED CONSUMERS						
Goal statement: empowered consumers of financial products and services						
Promote financial education to consumers of financial services and products.	Number of interventions to promote financial education.	<ul style="list-style-type: none"> » 289 workshops » 32 exhibitions » 533 web content uploads/edits » 113 media activities » 4 consumer education resources developed. 	<ul style="list-style-type: none"> » 250 workshops » 16 exhibitions » 200 web content uploads/edits » 33 media activities » 5 consumer education resources developed. 	<ul style="list-style-type: none"> » 218 workshops » 29 exhibitions » 286 web content uploads/edits » 40 media activities » 6 consumer education. 	<ul style="list-style-type: none"> » -32 workshops » 13 exhibitions » 86 web content uploads/edits » 7 media activities » 1 consumer education resources developed. 	All overachieved targets may be ascribed to ad-hoc invitations received through stakeholder engagements to conduct financial education activities. Limited resources were diverted from the holding of workshops to the holding of exhibitions for which there was greater demand.
STRATEGIC OUTCOME 2 – STAKEHOLDER MANAGEMENT						
Goal statement: proactive stakeholder management						
A fully implemented communication, brand, reputation and stakeholder management strategy by end 2017.	Percentage of the stakeholder outreach programme achieved.	Implement identified elements of stakeholder outreach programme in core departments.	Achieve 90% of the targets for stakeholder outreach as set out in the business plan's core departments.	Achieved an average of 91.5%	1.5%	Target exceeded due to additional resources.
	Number of media engagements.	<ul style="list-style-type: none"> » 54 advertorials in print media » Interviews on 13 national radio stations » 4 media roundtable discussions » Produce 6 video recordings » 3 FSB bulletins » 2 regulators rumours » 4 news reports. 	<ul style="list-style-type: none"> » 12 media releases » 4 FSB bulletins » 4 Buzz from the board » 4 media roundtable discussions » 12 media monitoring reports » 1 media list update » Radio and TV interviews as invited. 	<ul style="list-style-type: none"> » 43 media releases » 3 FSB bulletins » 3 Buzz from the board » 4 media roundtable discussions » 12 media monitoring reports » 1 media list update » 44 radio and TV interviews. 	<ul style="list-style-type: none"> » 31 media releases » 1 FSB bulletin » 1 Buzz from the board. 	There were more news items affecting the FSB than anticipated. Resource constraints resulted in one less bulletin and Buzz published.
STRATEGIC OUTCOME 3 – SOUND FINANCIAL INSTITUTIONS						
Goal statement: ensure sound financial institutions						
Regulatory framework principles in line with international standards.	Number of progress reports monitoring the findings and recommendations of the peer review considered by the FSB Exco.	4 reports	4 reports	4 reports		
	Adherence to the legislative review deadline for the year.	Submitted proposed legislation changes to National Treasury by 30 September 2014.	Submit proposed legislation changes to National Treasury by 30 September 2015.	Submitted proposed legislation changes to National Treasury by 30 September 2015.		

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Progress against strategic goals continued

Strategic objective	Performance indicator	Achievement 2015	Target for 2016	Achievement 2016	Variance	Comment/reason for variance
STRATEGIC OUTCOME 3 – SOUND FINANCIAL INSTITUTIONS continued						
Goal statement: ensure sound financial institutions continued						
Risk-based supervision to monitor and improve financial investment environment.	Percentage achievement of targets set out in risk-based supervision plans.	Achieved average of 96%.	Achieve 80% of targets set out in risk-based supervision plans.	» FAIS 97.5% » Investment institutions 100% » Insurance 82.25% » CIS 100% » Pensions 85.23%.	» FAIS 17.5% » Investment institutions 20% » Insurance 2.25% » CIS 20% » Pensions 5.23%.	Targets exceeded due to additional staff and improved processes.
Effective enforcement of compliance with legislation.	Percentage achievement of commitment timelines in service level agreement by the inspectorate and enforcement unit.	Target timelines were met.	80% achievement of commitment timelines.	Achieved 91%	11%	Targets exceeded due to additional staff and improved processes.
	Percentage compliance with timelines set out in each division's service level commitments (SLCs).	» FAIS 100% » Capital markets 100% » Insurance 93.3% » CIS 90% » Pensions 75%.	Achieve the turnaround times set in each of the core division's SLCs with regard to licencing, registrations and other applications or submissions for 90% of the cases received, where all information necessary for the processing have been received.	» FAIS 100% » Investment institutions 100% » Insurance 93% » CIS 99% » Pensions 71.6%.	» FAIS 10% » Capital markets 10% » Insurance 3% » CIS 9% » Pensions – (18.4%).	Target not achieved by pensions department due to the volume of enquiries on unclaimed benefits following related media coverage. Improved systems and additional staff contributed to the other departments exceeding their targets.
STRATEGIC OUTCOME 4 – IMPROVED INTERNAL POLICIES, PROCESSES AND PROCEDURES						
Goal statement: improved internal policies, processes and procedures						
Internal policy framework updated annually.	Annual review and updating of operational policies and requirements.	Policies reviewed and approved during the year.	All policies aligned with operational requirements and updated annually.	Policies reviewed and approved during the year.		
Effective and efficient systems, processes and procedures.	Percentage implementation of approved projects and percentage of ICT SLC met.	» 96% implementation rate » 97% of SLC targets met.	» 90% implementation of all approved projects with business sign-off » 90% of ICT SLC met.	» 96% implementation rate » 96.2% of SLC target met.	» 6% » 62%.	Target exceeded due to additional staff and improved processes.
STRATEGIC OUTCOME 5 – EFFECTIVE TRANSITION TO THE MARKET CONDUCT REGULATOR						
Goal statement: effective transition to the market conduct regulator						
Full readiness for transition to the FSCA with minimum disruption to the FSB's ongoing functions.	Number of Regulatory Strategy Committee (RSC) meetings to monitor all aspects of the transition.	This objective was added in 2016.	10 RSC meetings to monitor all aspects of the transition, including development of an overarching transitional programme and the achievement of targets relative to the transition.	18 RSC meetings	8 meetings	The RSC approved the overarching transitional programme outline and key sub-project activities for transition from the FSB to the FSCA at its meetings of 3 March 2016. Project teams for each sub-project were established during March 2016.

Strategic objective	Performance indicator	Achievement 2015	Target for 2016	Achievement 2016	Variance	Comment/reason for variance
STRATEGIC OUTCOME 5 – EFFECTIVE TRANSITION TO THE MARKET CONDUCT REGULATOR continued						
Goal statement: effective transition to the market conduct regulator continued						
Recommended regulatory strategy for the FSCA developed to support strategic readiness for transition to the FSCA.	Number of RSC meetings to monitor all aspects of the transition.	This objective was added in 2016.	10 RSC meetings where the recommended high level regulatory strategy will be developed.	18 RSC meetings	8 meetings	The RSC established a dedicated working group to develop a high level outline of the recommended strategy in October 2015. A proposed outline developed by the group was tabled at the RSC meeting of 16 February 2016, and more detailed proposals for priority focus areas to be included in the strategy were tabled at the RSC meeting of 3 March 2016.
Recommended organisational design for the FSCA developed to support organisational readiness for transition to the FSCA.	Number of RSC meetings to monitor all aspects of the transition.	This objective was added in 2016.	10 RSC meetings where the recommended organisational design for the FSCA will be developed.	18 RSC meetings	8 meetings	A proposed functional organisational design for the future FSCA was discussed and agreed in principle in a series of meetings from July 2015 onwards with the understanding that the functional design will be used to inform a detailed structural organisation design.

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Performance by key divisions

This performance review is limited to progress against the key strategic objective (sound financial institutions) of our primary revenue drivers: retirement funds, insurance, financial advisory and intermediary services, and collective investment schemes. These divisions account for 90% of our revenue and the bulk of our activities, providing an accurate and appropriate picture of the FSB's performance against its key strategic objective.

Retirement funds

The retirement funds division of the FSB is mandated by the Pension Funds Act 1956 (PFA) and Friendly Societies Act 1956 to licence and supervise friendly societies, retirement funds, beneficiary funds, pension fund benefits administrators and related persons and entities. The FSB executive committee has transferred responsibility for registration and supervision of friendly societies from

this division to the insurance division, effective 1 April 2016.

There are over 5 000 registered retirement funds and friendly societies (with only around 40% of retirement funds regularly receiving contributions and/or paying benefits). The combined value of their assets is over R3.7 trillion.

A number of retirement funds are not subject to regulation and supervision

under the PFA, including the Government Employees Pension Fund (GEPF), because they were established by separate statutes. All other funds must be registered in terms of the PFA and are thus regulated and supervised by the registrar of pension funds.

The division comprises four departments, with the following primary responsibilities:

Department	Responsibilities
Licensing and registration	<ul style="list-style-type: none"> » Registering rules and amendments to the rules of funds and friendly societies » Granting or refusing approval to pension fund administrators to conduct related business.
Prudential supervision	<ul style="list-style-type: none"> » Analysing annual financial statements » Overseeing the liquidation process of retirement funds.
Surveillance and enforcement	<ul style="list-style-type: none"> » Conducting on-site visits and managing risk-based supervision » Overseeing complaints submitted to the FSB.
Research and policy	<ul style="list-style-type: none"> » Researching trends to prepare proposals for new regulatory instruments and supervision strategies for retirement funds.

SIGNIFICANT INDUSTRY ISSUES

» Litigation on the retirement funds "cancellations project" and related matters: Ms RT Hunter, a senior official of the FSB, lodged a court application against the registrar of pension funds on the closure and cancellation of retirement funds. Respondents in this matter are the minister of finance, board of the FSB, Abel Sithole as chairperson of the FSB, Dube Tshidi and Jurgen Boyd of the FSB.

» Unclaimed benefits: The aggregate value of unclaimed benefits reported by retirement funds regulated and supervised under the PFA in calendar 2014 was R34 billion. The FSB hosted an outreach programme in Soweto to assist pension fund members and their beneficiaries to submit enquiries and complaints to pension funds, including those for unclaimed benefits that may be due to them. We also hosted a media roundtable to solicit the help of personal finance journalists in warning the public of a growing trend of

individuals purporting to be authorised by funds to help members obtain unclaimed benefits while charging sizeable fees for services members could get free from the funds or by contacting the FSB.

Retirement funds and administrators were requested to submit information on unclaimed benefits which will be captured in an FSB database to enable the public to use the web-based search engine to ascertain if they are entitled to any unclaimed benefits.

LITIGATION MATTERS

FSB appeal board

The number of appeals against the registrar's decisions in the review period increased slightly from the previous year. We do not anticipate that appeals to this board, or the financial services tribunal in the twin peaks dispensation, will be significantly different to current trends.

Two appeals were outstanding at the beginning of the review period and nine new appeals were received during the period. Three were withdrawn after the registrar supplied detailed reasons for his decisions. Please refer to our supplementary report for details.

High Court litigation

The registrar was actively involved in eight High Court and Supreme Court of Appeal matters in the review period, as detailed in our supplementary report.

INTERNATIONAL RELATIONS

The division continues to fulfil its role in the activities of the International Organisation of Pension Supervisors (IOPS), OECD working party on private pensions, and SADC's committee of insurance, securities and non-banking financial authorities (CISNA). During the year, we hosted several delegations of regulators, and representatives of governments and parliaments from other African countries.

INDUSTRY OVERVIEW

As at 31 March 2016, there were 5 126 (2015: 5 139) registered retirement funds in South Africa of which 1 940 (2014: 2 023) funds are active (a fund with members for whom it receives contributions and/or pays benefits).

The financial information below includes GEPI, Transnet and Telkom funds, which had the highest aggregate value of assets for the year ended 31 December 2014, according to reports submitted to the registrar. Statistics are the latest available for retirement funds and friendly societies.

Retirement funds: Financial year ended 31 December 2014

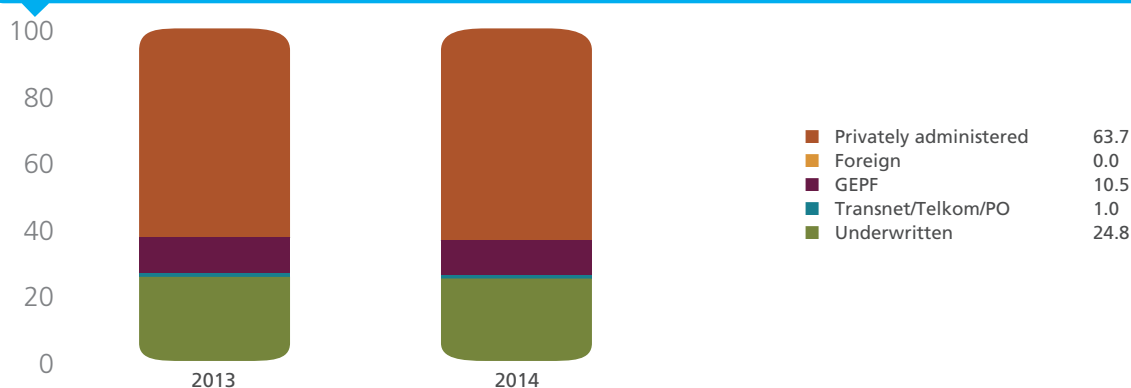
Financial year ended	2012	Change %	2013	Change %	2014	Change %
Number of funds	6 581	(31.0)	5 144	(21.8)	5 150	0.1
Membership (000)	15 005	9.1	15 256	1.7	15 943	4.5
Contributions (Rm)	160 769	12.7	174 816	8.7	195 384	11.8
Benefits paid (Rm)	164 182	10.9	188 993	15.1	234 115	23.9
Assets (Rm)	2 749 145	13.1	3 211 017	16.8	3 677 244	14.5

Friendly societies: Financial year ended 31 December 2014

Financial year ended	2012	Change %	2013	Change %	2014	Change %
Number of funds*	102	0	102	0	102	0
Membership (000)	417	10.3	518	24.2	486	(6.2)
Contributions (R000)	121 234	5.1	98 621	(18.7)	96 919	(1.7)
Benefits paid (R000)	64 611	11.0	60 561	(6.3)	63 249	4.4
Assets (R000)	714 617	13.9	794 699	11.2	830 818	4.5

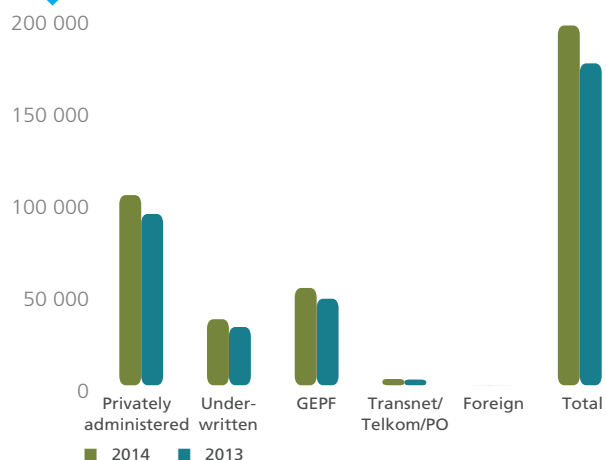
*98 (2013: 98) friendly societies were exempted under section 3 of the Friendly Societies Act 1956 from submitting returns for the financial year 2014, as they do not have an annual income exceeding R100 000. One underwritten society remains exempted in terms of section 3(2)(b).

MEMBERSHIP (%)

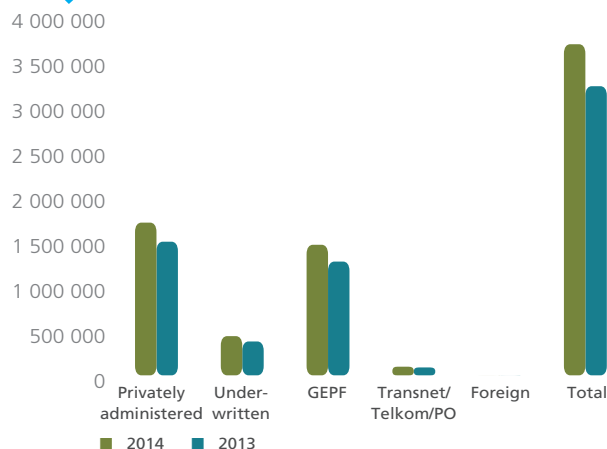


Performance by key divisions continued

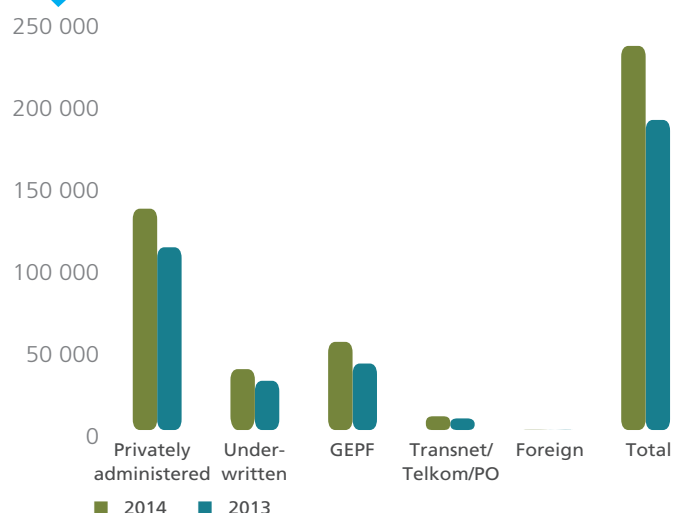
CONTRIBUTIONS (Rm)



ASSETS (Rm)



BENEFITS (Rm)



REGULATORY POLICY PROJECTS

Solvency assessment and management (SAM)

SAM is a risk-based regulatory framework that sets out enhanced capital, governance and risk management requirements for insurers. Its primary purpose is better protection of policyholders and beneficiaries. It also aims to align capital requirements with the underlying risk of an insurer; provide incentives to insurers to adopt more sophisticated risk monitoring and risk management tools; and maintain financial stability.

Insurance

The insurance division is responsible for supervising and enforcing the Long-term Insurance Act 52 1998 and Short-term Insurance Act 53 1998 (Insurance Acts) to achieve the regulatory objectives of maintaining a fair, safe and stable insurance market that protects policyholders and potential policyholders. In the review period, the division continued to implement its risk-based supervisory framework and took regulatory action for non-compliance with the Insurance Acts. The regulatory framework is being enhanced by embedding the solvency assessment and

management (SAM) regime for insurers, as well as various market conduct requirements aimed at supporting fair treatment of customers.

The division comprises:

- » Insurance groups supervision department
- » Insurance prudential supervision department
- » Micro-insurance supervision department
- » Insurance regulatory framework department
- » Insurance compliance department
- » Insurance enforcement department
- » SAM unit.

This has been a multiyear project, initiated in 2009, involving robust consultation with industry stakeholders. Due to shifting legislative timelines, the SAM implementation date has been revised to 2017.

Since 2009, 117 discussion documents have been published on various components of the SAM framework. Several research projects underpin the development of legislation to give effect to SAM (the Insurance Bill), in collaboration with industry and other stakeholders. These include three quantitative impact studies, an economic impact study, a pillar II readiness review

and follow-up review that focused on the own-risk and solvency assessment (ORSA) process, a reinsurance regulatory review, and a thematic review on insurers' expense assumptions.

Over the last two years, the insurance industry, the FSB and other stakeholders have been preparing for the implementation of SAM through the light parallel run in 2014 and comprehensive parallel run in 2015. This phased parallel run has enabled an iterative process of refining technical specifications and improving industry readiness for the SAM start date, with a high level of participation by insurers in the process and active dialogue between insurers and the FSB to address issues as they arise.

Consumer credit insurance

The FSB supported National Treasury in evaluating proposals to cap the cost of credit life insurance published by the Department of Trade and Industry. We also provided detailed inputs in responding to comments received on the technical report on the consumer credit market in South Africa released by National Treasury and the FSB in July 2014.

National Treasury will release a roadmap for implementing stronger reforms in the consumer credit insurance market in 2016.

The division issued an information request (information request 3/2015 (LT&ST)) in December 2015 to gather data on current practices in the consumer credit insurance sector to develop an appropriate supervisory approach. Responses were received in March 2016 and are being analysed.

Micro-insurance

In light of the twin peaks model, the prudential regulatory framework for micro-insurance will be included in the Insurance Bill. This bill in turn will give

effect to National Treasury's micro-insurance policy document by supporting the development of an inclusive insurance sector and introducing proportionate regulation and supervision of micro-insurance operations and providers. The conduct-of-business regulatory framework will be included in subordinate legislation to be issued under the remaining parts of the Short- and Long-term Insurance Acts and the Financial Advisory and Intermediary Services Act.

An update to be published in 2016 will include the roadmap for implementing the framework, timelines and transitional arrangements.

Third-party cell captive insurance

Final policy proposals from the discussion paper on aspects of regulating cell captive insurance and similar arrangements in South Africa (2013) depend on finalising the retail distribution review as well as finalising SAM proposals on capital requirements for cell captive insurers. Final proposals are expected to be published in 2016.

REGULATORY FRAMEWORK

Bills

The Insurance Bill will introduce a proactive and risk-sensitive approach to prudential supervision of insurers and insurance groups, and a micro-insurance framework. The draft bill was approved by cabinet on 15 April 2015 and released two days later for public comments by 29 May 2015.

A response to public comments and revised bill were made available to industry associations (ASISA and SAIA) on 6 July 2015 for comments by 24 July 2015. National Treasury also hosted workshops with industry associations on 31 July 2015 to discuss their comments on the draft bill.

The bill, certified by the state law advisers on 19 October 2015, was served at cabinet on 4 November 2015 and tabled

in parliament on 28 January 2016 for consideration, deliberation and adoption. Parliament will, however, consider this bill after the Financial Sector Regulation Bill.

In addition to releasing primary legislation for public comment, the FSB will release subordinate legislation (prudential standards) in tranches for consultation.

Regulations and rules

» *Demarcation regulations on health insurance and medical schemes:* The draft regulations demarcate medical schemes and health insurance products. Parameters are proposed for health insurance products to preserve the principles of social solidarity and cross-subsidisation embedded in medical schemes. Finalising these regulations has been challenging, given the extensive comment received from numerous stakeholders. A detailed response document will be released with final regulations. The division issued an information request (information request 4/2015 (LT&ST)) in December 2015 for specific information on health policies (long-term insurers) and accident and health policies (short-term insurers) currently offered by industry to assist in supervising the regulations once effective. Responses to the information request were due by 29 April 2016 and are being analysed.

» *Proposed amendments to insurance binder regulations:* The proposed amendments issued for public comment in July 2014 seek to address emerging undesirable practices and regulatory gaps identified after implementing the regulations in January 2012 and to better align the regulations with stated principles. Finalisation will be informed by the outcomes of the retail distribution review and deferred while the phase 1 proposals¹ of this review are finalised.

¹ Status update: Retail distribution review phase 1 of November 2015 and general status update: retail distribution review of December 2015.

Performance by key divisions continued

Conduct-of-business returns

Development of the proposed quarterly conduct-of-business return for long-term and short-term insurers is progressing well. A second draft of the returns was published for comment in December 2015. A pilot project was conducted with industry volunteers in the fourth quarter for further insights on any practical challenges that may be encountered by insurers in completing the returns. Consultation with industry will continue into the next financial year, with final returns planned to be published before the end of 2016.

SUPERVISORY MATTERS

Insurance group supervision

The division continues to review insurance groups with the cooperation of their management. These are performed quarterly for the five largest groups on the current regime. All identified insurance groups are also monitored either annually or biannually (depending on size) as part of the parallel run noted under SAM.

The FSB and bank supervision department of SARB have quarterly cross-sector supervisory colleges to discuss major domestic banking and insurance groups. Members from the division also attended international supervisory colleges involving registered insurers.

The division again hosted regional supervisory colleges with other African insurance supervisors for the four large insurance groups. The South African supervisor is the lead regulator for three of these groups.

Stress testing

The division receives annual submissions for all long and short-term insurers on both economic and insurance stress tests. Based on these submissions, insurers remain resilient to adverse economic stresses and scenarios.

Financial Intelligence Centre Act (FICA) matters

The division conducts FICA inspections and attends quarterly enforcement forum meetings.

During the period, it conducted three FICA on-site inspections on accountable

institutions under section 45B of the Financial Intelligence Centre Act 38 2001 to ensure compliance with anti-money laundering and combating terrorist financing activities. Long-term insurers are considered accountable institutions under FICA.

LICENCES

Long-term insurers

During the period, one new long-term insurer was registered and two deregistered. The number of registered long-term insurers at 31 March 2016 is shown below:

	2016	2015
Types		
Insurers		
Typical insurers	28	28
Niche insurers	13	12
Linked insurers	15	15
Cell captive insurers	6	5
Assistance insurers	7	8
Insurers in run-off	5	7
Reinsurers		
Long-term only	3	3
Long and short-term (composite)*	4	4
Total	81	82

*Composite insurers are treated as separate entities.

Short-term insurers

During the period, one new short-term insurer was registered and four were deregistered. The number of short-term insurers registered at 31 March 2016 is shown below:

	2016	2015
Types		
Insurers		
Typical	31	31
Niche	33	35
Cell captive	6	9
Captive	8	11
Insurers in run-off	11	6
Reinsurers		
Short-term only	3	3
Short and long-term (composite)*	4	4
Total	96	99

*Composite insurers are treated as separate entities.

On-site visits

Sixteen prudential on-site visits at solo insurers were conducted, based on their risk profile assessments. These visits highlighted the following:

- » Improved governance structures in most insurers, mainly attributable to the division's introduction of board notice 158 of 2014 dealing with governance and risk management requirements
- » Lack of adequate data to optimise underwriting and business decisions; however, notable initiatives and projects are under way at various insurers to improve data quality, with formal data governance processes being implemented. We believe this improvement is partly in response to insurers' increased awareness of the management information necessary to undertake the own-risk and solvency assessment
- » Improved insurance expertise in the internal audit functions of insurers.

During the period, the division conducted three prudential risk-based visits at large insurance groups, which did not highlight any serious concerns.

It also completed 15 market conduct on-site visits. Five were for insurers conducting micro-insurance business (assistance business), highlighting some concerns with assistance business group policies. Any non-compliance identified was addressed with the relevant insurers and corrective action taken.

Thematic visits

The division conducted a thematic review of insurers' claims-handling practices in the second and third quarters, visiting six short-term and eight long-term insurers. Key findings and observations informed proposed amendments to policyholder protection rules. Areas of concern for specific insurers are being addressed with the relevant insurers' management teams and will be closely monitored as part of the ongoing supervisory process.

Inspections, referrals, curatorships and liquidations Inspections

During the year, no inspections were requested. One inspection requested in the prior period was completed and four were still under way by year-end. One inspection initiated by the FAIS department was referred to the insurance division as the entity was also contravening the Long-term Insurance Act.

Referrals to South African Police Service (SAPS)

One matter was referred to SAPS to investigate unregistered insurance business. The division regularly follows up on progress.

Referrals to the enforcement committee

The division refers contraventions of the Insurance Acts, including entities conducting unregistered insurance business, to the enforcement committee. During the year, the division referred one entity for contravening section 8(2)(d) of the Short-term Insurance Act. Two insurers were referred to the committee, with one fined for contravening rule 16.1(c) of the policyholder protection rules (long-term insurance) 2004 and the other for contravening section 44 of the Short-term Insurance Act. The remaining case is still being considered by the enforcement committee.

Curatorships

New Era Life Company Limited entered curatorship in September 2009. The curators' proposal to place New Era under business rescue was approved by the High Court in October 2012. The division received the 11th business rescue practitioner's report on 9 June 2015, and requested the practitioner to start applying for the liquidation of New Era. However, the division also received a submission from a party interested in acquiring New Era, which is still being considered.

Appeals

One appeal against the decision of the registrar was lodged during the period. The appeal board's decision is currently part of a review application in the High Court.

REGULATORY ACTIONS

Unregistered insurance business

The division continued its campaign to name and shame entities conducting unregistered insurance business by publishing their details in national newspapers or FSB media releases. During the period, we published the names of 16 entities. These notices warn the public to be cautious when buying funeral insurance policies and ensure that entities are underwritten by a registered long-term insurer.

Consumer complaints

During the period, the division received 704 complaints, 84% of which were resolved. Outstanding cases are being investigated.

ENGAGING WITH INDUSTRY ASSOCIATIONS

The division liaises regularly with industry ombuds, representative bodies of insurers, intermediary associations, and the auditing and actuarial professions.

International engagements

International Association of Insurance Supervisors (IAIS)

The IAIS is the global standard-setting body for insurance regulation. Its membership spans over 200 jurisdictions worldwide. Our deputy executive officer: insurance is an executive committee member of IAIS, its regional coordinator for sub-Saharan Africa, and chairs its implementation committee. Members of the division attended numerous IAIS working group and committee meetings during the year.

Performance by key divisions *continued*

Committee of insurance, securities and non-banking financial authorities for SADC (CISNA)

CISNA falls under the SADC committee of senior treasury officials. Its members are supervisory authorities of capital markets, retirement funds, collective investment schemes, insurance companies, medical schemes, micro-finance and financial cooperatives, and providers of intermediary services from SADC countries. Its secretariat is housed at the FSB and the committee meets at least biannually. Members of the division attended a number of CISNA meetings during the year.

Financial advisory and intermediary services

The FAIS division is responsible for administering the Financial Advisory and Intermediary Services Act 37 2002 (the FAIS Act) through four departments.

REGISTRATION

This department is responsible for:

- » Processing new licence applications for financial services providers (FSPs)
- » Profile changes (variations to application details under an FSP's licence conditions)
- » Approving compliance practices, compliance officers and those providing these services under supervision
- » Updating the central representative register
- » Approving mandates
- » Voluntary lapsing of licences
- » Approving recognition of qualifications and monitoring regulatory examinations.

The registrar authorises five categories of FSPs:

- » Category I – those who render financial services without discretion
- » Category II (also known as discretionary) – provide intermediary services in choosing a particular financial product, but without bulking (pooling) client funds

- » Category IIA FSPs – hedge fund managers
- » Category III – investment administrators, mainly specialising in bulking collective investments on behalf of clients (linked investment services providers or Lisps)
- » Category IV – assistance business administrators that manage assistance policies on behalf of the insurer under a written mandate between the parties.

Given the different categories and business models, the department adopts different approaches to scrutinising each licence application. We conduct preliminary on-site visits to all complex categories (mainly IIA and III) which could affect the registrar's decision. We also continuously consult with local and foreign regulatory authorities in considering applications, based on a memorandum of understanding for information sharing.

Licence applications

In the reporting period, 785 new applications were authorised (2015: 635) with 90% of applicants authorised as category I FSPs, and the remainder for category II and IIA financial services activities. Fourteen applications were declined for not meeting fit-and-proper requirements for FSPs and 311 FSPs voluntarily requested to have their authorisation lapsed.

Profile changes

In the period, 21 707 profile change applications were received and 18 738 completed. The department continues to improve efficiencies to adhere to its service level commitment.

Compliance officers

Under the FAIS Act, an authorised FSP with more than one key individual or more than one representative must appoint one or more compliance officers. This officer must meet minimum prescribed requirements to be approved

by the registrar. The department approves four types of compliance arrangements: compliance practices including juristic persons, in-house officers who monitor compliance for specific FSPs under a contract of employment and compliance officers under supervision.

During the period, it approved five compliance practices, 105 compliance officers (both in-house and those employed by compliance practices) and 40 compliance officers under supervision.

Compliance officers under supervision are individuals who do not yet have the required experience and render services under the guidance and instruction of a supervisor under an exemption by the registrar (board notice 126). The number of approved compliance officers under supervision has increased to create a pool of compliance officers in the financial services market who are deemed fit and proper.

One compliance officer's approval was withdrawn and the individual subsequently debarred in the period.

Lapses

A total of 311 licences were voluntarily lapsed, down from 459 in the previous year. These were due to business mergers, retirements and independent FSPs who decided to provide financial services as juristic representatives under other authorised FSP licences.

Regulatory examinations (RE)

The pass rate for level 1 RE continues to increase gradually. The scope of this examination is based on FAIS legislation and the improved pass rate translates to a decrease in the number of licence suspensions and withdrawals. This is a clear indication that the objective of these examinations is being achieved.

The Afrikaans RE version was rolled out in March 2012 with good initial demand. However, given the decline in both

demand and the pass rate versus the expense of offering this option, it was discontinued in the review period.

The registrar is reviewing the competency framework in consultation with the industry and intends to issue a proposal for public consultation by mid-2016. The objective of the review is to build on existing competency requirements by establishing an effective and

proportionate regulatory framework to ensure FSPs have the right levels of product knowledge, meet appropriate standards of professionalism and undergo continuous professional development where necessary.

Recognised qualifications

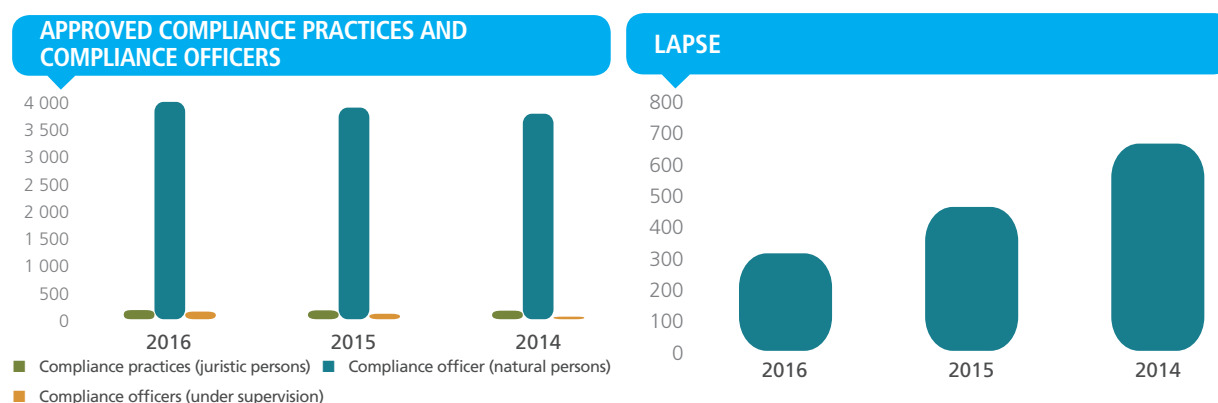
The fit-and-proper requirements of 2008 introduced new qualification requirements. Qualifications satisfying

specific criteria are published as a list of recognised qualifications. This is an important step in the evolution of fit-and-proper requirements for the industry – one that will ultimately promote its professional development. The department approved 66 recognised qualifications and declined three in the period, and published an updated list.

FAIS statistics at 31 March 2016

Authorised FSPs at 31 March 2016	Category I (advice/ intermediary services FSPs)	Category II (discretionary FSPs)	Category IIA (hedge fund manager FSPs)	Category III (administrative FSPs)	Category IV (assistance business administration FSPs)
2016	9 209	588	114	27	99
2015	9 934	649	112	26	86

Some FSPs are authorised under multiple categories.



Regulatory examinations	RE 1 all key individuals	RE 3 specifically CAT II and IIA	RE 4 specifically CAT III	RE 5 all representatives
Affected	14 901	1 355	52	84 137
Attempted	13 616	1 232	51	78 600
Successful	13 415	1 223	48	73 152
Pass rate	90%	90%	92%	87%

Performance by key divisions continued

SUPERVISION

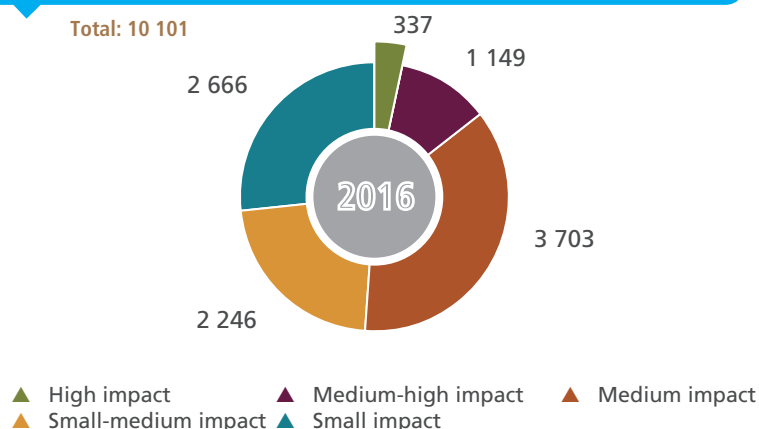
This department has oversight of FSPs and compliance officers, using a risk-based supervision framework for on-site and off-site monitoring. Off-site monitoring entails analysing financial statements and compliance reports, updating risk information based on the outcome of analysing statutory returns, dealing with enquiries, complaints, exemption requests and general profiles of FSPs. On-site monitoring entails risk

assessment visits to FSPs and compliance officers.

The risk-based supervision framework is continually reviewed and enhanced in response to a changing regulatory landscape, international trends and outcomes of on-site and off-site monitoring.

This approach categorises FSPs according to the risks underlying their business activities and the potential impact on consumers, shown below.

RISK CATEGORISATION OF FSPs AT 31 MARCH 2016



SUPERVISORY DEVELOPMENTS

Off-site monitoring

Financial statements

Authorised FSPs are required to submit annual financial statements by the FAIS Act, and their risk categorisation determines whether these have to be audited. A total of 10 004 financial statements were received and analysed, and 363 were outstanding in the reporting period.

The department continues to grant extensions for submitting financial statements. For the review period,

991 extension applications were considered and 812 granted.

Compliance reports

Authorised FSPs must submit compliance reports. Category I FSPs submit these annually, while category II, IIA and III FSPs submit reports biannually. A total of 11 789 compliance reports were received and analysed, and 169 were outstanding in the reporting period.

A total of 247 FSPs were referred for regulatory action for contravening the FAIS Act and subordinate legislation,

primarily for failing to meet fit-and-proper requirements and complying with general/specific codes of conduct.

Irregularity reports

Under the FAIS Act, compliance officers must report material breaches (irregularities) to the registrar. In the review period, 47 irregularity reports were received. These were investigated and 39 finalised, with eight still under investigation at 31 March 2016.

Conduct-of-business report

Since implementation of the FAIS Act, the regulatory framework has evolved with the focus now on market conduct, retail distribution review (RDR) and Treating Customers Fairly (TCF). This has warranted a revision of the current compliance report in both content and format.

The registrar has taken a new proactive approach to supervision and developed a conduct-of-business report aligned to the RDR and TCF. The consultation process with industry began in January 2016 and we anticipate that the final conduct-of-business report will be rolled out in the second half of 2017. The aim is to:

- » Ensure the FSB is pre-emptive in supervising market conduct, shifting from a compliance and rules-based focus to an outcomes-based approach
- » Customise the report to the nature and type of business
- » Obtain data for trend analysis and identifying regulatory gaps to ensure alignment with proportionality and risk-based principles.

On-site monitoring activities

A total of 158 thematic reviews were conducted in the reporting period, covering selected areas:

» *Assistance business administrators (category IV)*

Reviews aimed to establish whether FSPs in this category are correctly authorised, the appropriateness of financial soundness and auditing requirements imposed on these FSPs, as well as the relationship between these FSPs, various insurers and associated contracts.

The reviews began in the second half of 2014, with 27 conducted in this period. The outcome and recommendations from this process are currently under consideration.

The registrar has, however, started incorporating some recommendations into amendments to fit-and-proper requirements for FSPs. These aim to align the regulatory framework to risks underlying the activities of category IV FSPs and are being developed in consultation.

» *Hedge funds and discretionary FSPs (category II and IIA)*

A total of 67 visits were conducted in the reporting period to review the compliance culture of authorised FSPs in these categories. Material findings related to compliance monitoring processes that were below required standards. Failure to comply with licence conditions and financial soundness requirements remain concerns that need to be addressed.

» *Small FSPs without compliance officers*

Training for these FSPs was initiated in 2014 to assist in developing a sound compliance culture (some 530 affected FSPs) to ensure the sustainability of their licences. In the review period, 49 FSPs were visited and participated in this initiative. In addition, the registrar introduced face-to-face workshops for this category. Two workshops assisted 99 FSPs. An impact assessment to

determine how this training has improved the compliance culture will be conducted in the new financial year.

» *Car dealerships*

Ten car dealerships were visited to determine the level of compliance with provisions of the Financial Intelligence Centre Act (FICA). The number and nature of contraventions highlighted challenges faced by small FSPs in fully implementing FICA requirements. While affected FSPs were engaged to address findings, the nature of concerns indicated the need for further guidance, which was achieved via FAIS newsletters and conferences.

Financial Intelligence Centre Act 2001 (FICA)

The department oversees the implementation of FICA by authorised FSPs designated as accountable institutions. It uses various supervisory tools and approaches to monitor compliance, including inspections under section 45B of FICA and analysing compliance reports.

The department conducted 158 on-site inspections alongside risk assessments and thematic reviews under FAIS, and collaborated with the Financial Intelligence Centre (FIC) on 11 inspections to car dealerships and hedge fund managers. Where required, remedial plans were agreed with the affected entities to resolve issues. Significant progress has been made by the affected entities in correcting non-compliance.

Cooperation and information sharing are central to our supervisory framework. Four meetings of the FICA enforcement forum were held in the period, and we participated in all forum activities. We interacted with FIC regularly on non-compliance by regulated entities, and challenges in discharging our obligations under the Act. We also provided inputs and comments on proposed amendments to the act and

participated in meetings on the much anticipated national FICA solution.

COMPLIANCE

The department considers complaints on contraventions of the FAIS Act, and referrals of non-compliance from other departments on evidence of misconduct and non-compliance. These can result in it suspending or withdrawing licences.

Regulatory action

Suspension and withdrawals

Regulatory action cases opened have steadily declined over the past five years from 3 930 in 2012 to 2 348 in 2016, a drop of 40%. In contrast, the percentage of suspended licences able to comply with conditions for lifting suspensions has steadily improved. In 2012, only 47% of suspended cases were lifted compared to 75% in 2016.

In the reporting period, the cases requiring regulatory action dropped 12%, from 2 663 in 2015 to 2 348. There was a small (7%) decrease in the number of suspensions from 931 in 2015 to 865, while lifted suspensions improved significantly by 57% from 413 in 2015 to 650.

ENFORCEMENT

Debarments remain a significant workload for the department, with an increase in complaints from representatives debarred by FSPs. These complaints centre on whether an FSP can debar a representative who has since terminated his/her mandate with the employer (FSP). Representatives argue that an FSP may not proceed with a debarment under section 14(1) when a representative has resigned. Section 14(1) of the FAIS Act provides *"An authorised financial services provider must ensure that any representative of the provider who no longer complies with the requirements referred to in section 13(2)(a) or has contravened or failed to comply with any provisions of this Act in a material manner, is prohibited from rendering any*

Performance by key divisions *continued*

new financial service by withdrawing any authority to act on behalf of the provider, and that the representative's name, and the name of the key individuals of the representatives, are removed from the register referred to in section 13(3)...".

Representatives believe that, on resigning from the employ of the FSP, the authority to act on behalf of the FSP no longer exists. The registrar believes this is a narrow interpretation of section 14(1) of the FAIS Act. The registrar's position is that an FSP may proceed to debar when the representative resigns specifically to frustrate an ongoing investigation against the representative. In 2013, the registrar issued guidelines stating that if the reason for debarment occurred when the representative was employed by the FSP and the conduct was discovered after his departure, the debarment may still be initiated. FSPs have seemingly followed this approach.

Although a debarment under section 14(1) is between the FSP and the representative, the registrar is unfortunately cited as a respondent. His role in these applications has simply been to clarify the legal position in terms of section 14(1). He does not get involved in factual disputes between representatives and FSPs.

As detailed in our supplementary report, two cases warrant noting given their broader implications:

- » The application brought before the High Court by Mr Kevin Govender. The respondents are Liberty (debaring FSP), the registrar of financial services providers and the minister of finance. In addition to challenging the lawfulness of his debarment by Liberty, the applicant has also sought to have section 14(1) declared unconstitutional on the grounds that it violates the principles of the rule of law by granting an employer the power to debar a person industry-wide, thus

preventing/limiting a representative from practising in the profession of his choice.

- » In the matter between Percy Barthram and Discovery, the High Court found that section 14(1) only precluded the representative from rendering financial services on behalf of the debaring FSP. It held that the representative was at liberty to render financial services with other FSPs. The registrar appealed this decision to the Supreme Court of Appeal, which has since clarified the position by holding that the effect of the debarment is industry-wide, ie the debarred representative is precluded from rendering financial services on behalf of any provider.

The registrar therefore proposed an amendment to section 14(1), which was published for comment as a consequential amendment to the Financial Sector Regulation Bill. Currently, the channel of reviewing a decision taken by an FSP under section 14(1) is located in the High Court. The registrar has proposed that representatives should be given the right to appeal the decision of the debaring FSP to the FSB appeal board. This development will align the legal rights of representatives debarred by FSPs with decisions taken by the registrar.

Enforcement orders

Three enforcement orders were issued against FSPs and individuals for contravening the FAIS Act in the review period, with penalties totalling R450 000.

Collective investment schemes

SOUTH AFRICAN COLLECTIVE INVESTMENT SCHEMES IN SECURITIES

The local collective investment schemes (CISs) industry recorded 7.5% growth in assets under management in the review period. Investors had R1.9 trillion

invested at the end of March 2016, up R145 billion from almost R1.8 trillion at the end of March 2015. The total number of portfolios grew by 157 to 1 461 during the period.

Despite prevailing economic and political uncertainty subduing investor confidence, the largest proportion of net inflows of R111 billion came directly from investors (33%), while intermediaries, linked investment service providers (Lisps) and institutional investors invested 21%, 22% and 24% respectively.

FOREIGN COLLECTIVE INVESTMENT SCHEMES IN SECURITIES

These are offshore schemes authorised to be promoted in South Africa. Only authorised schemes can be marketed to South African investors. Portfolios are denominated in foreign currencies, typically the US dollar, pound, euro and yen.

Despite the 10% increase in assets under management to R349 billion in the period, foreign schemes recorded an outflow of R5 billion at the end of March 2016. This is primarily due to the weaker rand-dollar exchange and disinvestment by foreign investors. The total number of foreign funds available for investment in South Africa grew to 379 in the period.

COLLECTIVE INVESTMENT SCHEMES IN PROPERTY

This segment contracted sharply in the review period after most schemes converted to company-structured, JSE-listed real estate investment trusts (REITs) which are not regulated by the FSB. The number of participatory interests declined from 3.9 billion to 251 million, while market capitalisation dropped to R6.6 billion at the end of March 2016, compared to R37 billion a year earlier.

COLLECTIVE INVESTMENT SCHEMES IN PARTICIPATION BONDS

The aggregate owing to the 7 575 participants at 31 March 2016 was R1.3 billion (2015: R1.2 billion). There are currently four schemes and 129 participation bonds (2015: 175).

REGULATORY DEVELOPMENTS

During the period, the department focused on enhancing regulations to promote growth in the industry and offer better protection to investors. Key activities are noted below.

Reviewing capital adequacy requirements for participation bond managers

After the introduction of tax-free savings investments under South African tax regulations, participation bond scheme managers indicated a desire to make tax-free savings products available. The registrar accordingly published board notice 138 2015 in the *Government Gazette* on 17 July 2015, amending capital adequacy requirements for participation bond schemes to enable them to issue tax-free savings products while maintaining sufficient liquidity for these products.

Conditions of registration and fit-and-proper requirement

The registrar published a draft notice for public comment in November 2015, calling for submissions to proposed provisions that will support the Treating Customers Fairly initiative, and address some shortcomings identified in the 2014 financial sector assessment programme conducted by the IMF. The draft notice also incorporates requirements governing the delegation of functions under section 4(5) of the Collective Investment Scheme Control Act 2002. The notice is expected

to be finalised for gazetting by 31 March 2017.

Money market portfolio

After announcing the restructuring of the "good bank" by the African Bank curator, the registrar, in consultation with the industry, exempted money market portfolios holding certain African Bank Investments Limited (ABIL) debt instruments from the requirement of a maximum of 13 months' maturity duration (board notice 39 published on 31 March 2016, effective 4 April 2016). The exemption was granted to avoid a fire sale of these instruments when they become tradeable, which could prejudice investors.

COLLECTIVE INVESTMENT SCHEMES IN HEDGE FUNDS

On 25 February 2015, the minister declared hedge funds as a collective investment scheme under section 63 of the Collective Investment Schemes Control Act 45 2002 (CISCA). The registrar then issued board notice 52 2015 prescribing the requirements governing hedge funds under this regulatory framework. Given the complex and technical nature of these products, a separate hedge funds department was established to facilitate oversight of this industry in South Africa in line with the new legislation.

In terms of the declaration, all hedge funds had to apply for registration by 30 September 2015, either as a new management company wanting to register a hedge fund scheme or as an existing management company registered in terms of CISCA adding hedge funds to its product offering.

Applicants can choose to register a qualified investor hedge fund scheme (QIHF) or retail hedge fund scheme (RHF).

In the review period, nine management companies representing nine QIHFs and seven RHF schemes were approved to operate schemes in hedge funds. Assets under management of registered QIHF and RHF schemes total R58.5 billion and R11.5 billion respectively.

Objectives for 2016

The registration process is expected to continue into the third quarter of the new financial year. The main objective is therefore to complete the assessment of all applications received. The department will concurrently develop the appropriate oversight framework to be rolled out in 2017. The framework will address legislative compliance, portfolio risk and operating risk as a basis for ensuring industry participants structure their operations to protect the interests of investors.

Investment institutions

CAPITAL MARKETS

The capital markets department is responsible for regulating and supervising licensed exchanges, central securities depositories, clearing houses and trade repositories in terms of the Financial Markets Act 19 2012 (FMA). It therefore aims to ensure sound, efficient and fair capital markets and related services for trading, clearing and settlement of securities, including appropriate mechanisms for investor protection.

Industry overview

At 31 March 2016, the JSE Limited was the only licensed securities exchange in South Africa offering an infrastructure for trading in equities, derivatives and debt securities.

Performance by key divisions continued

JSE market participants

	Year ended March 2015		Year ended March 2016	
	Members	Dealers	Members	Dealers
Equity	61	–	58	–
Equity derivatives	116	571	107	780
Commodity derivatives	90	661	65	672
Interest rate	184	607	193	626

Performance indicators

	Year ended March 2015	Year ended March 2016
Number of companies with shares listed	385	397
Turnover of shares	R4 225 billion	R5 347 billion
Average number of trades per day	203 438	258 977
New equity capital raised	R198.4 billion	R194.8 billion
Liquidity	36.4%	35.9%

Market capitalisation of all securities listed on the JSE totalled R15 259 billion (some US\$1 013 billion) at 31 March 2016 (2015: R11 922 billion or around US\$997 billion). This maintained the JSE as the 17th largest stock exchange in the world by market capitalisation.

The performance of JSE markets is detailed on their website.

Industry developments

Market infrastructure licence applications

Exchanges

During the period, the registrar of securities services received a number of applications for exchange licences. Those for ZAR X Proprietary Limited, 4Africa Exchange Proprietary Limited and A2X Proprietary Limited were assessed and published for public objections as per the FMA. These applications were still being assessed and evaluated by the department at 31 March 2016.

Central securities depositories (CSD)

The department continues to assess the application for a CSD licence by Granite Central Securities Depository Proprietary Limited (Granite CSD). The application was tabled before the FSB board's licensing committee in July 2015, which supported the registrar's decision to

impose suspensive conditions on the applicants prior to granting a licence.

Memorandum of understanding

Between FSB, the European Securities and Markets Authority (ESMA) and JSE Clear recognition as a third-country central counterparty (CCP) under European Markets Infrastructure Regulation (EMIR). The memorandum is effective from 30 November 2015 and establishes cooperation arrangements, including exchange of information, on CCPs that are established and authorised/recognised in South Africa, and have applied for EU recognition under EMIR.

This paved the way for JSE Clear to be recognised as a third-country CCP and enables European and multinational banks to continue clearing transactions in the SA derivatives market. It is also an important indicator of the credibility of the South African capital market.

South African Securities Markets Investor Protection Fund

The objective of this fund is to promote the rights of investors in the South African securities markets. Total assets at 31 March 2016 were valued at

R35 million and it approved the following requests for funding during the year:

- » Pinnacle Point Proprietary Limited – an additional R800 000 to assist the directorate of market abuse to proceed with enforcement in the market manipulation matter
- » R2 615 615 to appoint Deloitte – Capital Markets to assist in formulating a framework to regulate securities lending and borrowing activities in South African capital markets
- » R685 500 to finalise the investigation and fund enforcement of the Harmony Gold Proprietary Limited matter.

JSE's move to T+3 settlement cycle for equities

The JSE has confirmed 11 July 2016 as the implementation date for moving to a shorter settlement cycle for equities. The JSE has undertaken to ensure all participants in the market are aware of the move to a T+3 settlement cycle as well as potential challenges from a shortened cycle.

Electronic trading platform for South African government bonds

National Treasury is developing an electronic trading platform (ETP) for government bonds where secondary

market quoting obligations under the primary dealers' contract will need to be met.

The chief aim is to enhance transparency in the domestic bond market and enable National Treasury to more accurately monitor the activities of primary dealers. The move to an electronic platform will enable participants to trade anonymously and have open trading lines with other ETP participants. Under the existing model in the JSE reported or offshore market, participants allocate trading lines to each other based on internal credit processes.

National Treasury, SARB, the JSE, Strate and key representatives from settlement banks are working through legal, regulatory, operational and risk issues raised by the proposed trading model so that, under all circumstances, including the default of an ETP participant, outstanding matched trades will settle.

In terms of market architecture, the ETP model is aligned with the European model, and with the International Organisation of Securities Commissions' (IOSCO) objectives and principles of securities regulation. For the secondary market, IOSCO regulations stipulate that systems for clearing and settlement of securities transactions should be subject to regulatory oversight and reduce systemic risk.

Legislative developments **Subordinate legislation (under FMA)**

Section 25 – reporting off-market transactions

The registrar published board notice 233 2015 to provide guidance on specific information to be reported for off-market transactions. This notice came into effect on 16 December 2015.

Conflict-of-interest policy documents

The registrar published board notice 1 2015 to direct market infrastructures to implement a conflict-of-interest policy

(section 62 of FMA), and to have appropriate governance arrangements to identify and manage perceived and actual conflicts of interest in their structures. A report of all perceived or actual conflicts of interest must be published on the entity's website and reported to the registrar's office. The notice came into effect on 31 December 2015.

Ongoing legislative work

FMA amendments

The Financial Sector Regulation Bill required certain amendments to the FMA. These include the introduction and licensing of a central counterparty (CCP) as a market infrastructure, the equivalence and recognition of external market infrastructures, introducing principles of cooperation between market infrastructures, and licensing an external CCP.

Over-the-counter derivative regulations

The FSB, National Treasury, SARB and other stakeholders are finalising subordinate legislation under the FMA, which includes ministerial regulations on over-the-counter (OTC) derivatives for the South African market.

The aim is to align domestic legislation with G20 recommendations by bringing OTC derivatives transactions under the regulatory ambit. Regulations include licensing a trade repository, reporting obligations for OTC derivative providers and margining requirements.

Interoperable and cooperative relationships between market infrastructures

In response to the changing landscape of South African capital markets, with several entities expressing an interest in participating, the registrar is investigating interoperability and cooperation arrangements between market infrastructures operating or wishing to operate in these markets.

With the market moving away from being served by a single market infrastructure towards being served by multiple market infrastructures, this investigation aims to provide guidance to ensure the FSB continues to meet its regulatory mandate and objectives under the FMA.

International cooperation **IOSCO**

IOSCO's objectives include cooperation in promoting high standards of regulation to maintain fair, efficient and sound markets. Member countries exchange information to promote the development of domestic markets, and embed effective surveillance and enforcement.

The FSB actively participates in the IOSCO board, growth and emerging markets committee, Africa/Middle East regional committee, assessment committee, screening group and a number of task forces. In addition, the FSB is a member of the secondary markets committee and a member of the investment management committee.

SME project

Following the January 2015 World Bank report on small-medium enterprise exchanges in emerging economies, which included significant input from members of the World Federation of Exchanges (WFE) and the July 2015 IOSCO report (which the FSB was instrumental in drafting), WFE has established a joint working group with IOSCO members to conduct data-driven, outcomes-focused research on how exchanges and securities market regulators can enhance access to capital markets for small and medium enterprises. The FSB will be involved in developing a qualitative questionnaire.

Legal entity identifier (LEI)

In 2012, the Financial Stability Board strongly supported the development and implementation of a global LEI system to uniquely identify parties to financial

Performance by key divisions *continued*

transactions. A regulatory oversight committee developed the global LEI system and regulatory uses of the LEI. From October 2015, the Global LEI Foundation (GLEIF) is responsible for accrediting new issuers of LEIs (ie local operating units or LOUs), and monitoring their compliance with rules, including data-quality standards.

In August 2015, the Financial Services Board supported Strate's application for endorsement as a pre-LOU after a due diligence assessment and evaluation against the relevant principles of the regulatory oversight committee. Strate remains a pre-LOU until GLEIF takes over operational governance of the system and it can be endorsed by the foundation as an LOU.

Market abuse

The directorate of market abuse (DMA) is responsible for combating market abuse, particularly those forms prohibited by the

FMA: insider trading, market manipulation and publishing false or misleading statements on listed companies. It has representatives from the FSB, JSE, legal and accounting professions, insurance industry, fund management industry, banking industries, Association for Savings and Investments South Africa and SARB.

The market abuse department investigates matters and report these to the DMA, which in turn will either close a case or refer it for enforcement action.

During the year, the DMA registered 12 new cases for investigation (six for insider trading, five for market manipulation and one for false reporting), bringing total cases registered since inception to 368. These were incidents that warranted investigation, but were not necessarily found to constitute a contravention.

Enforcing anti-market abuse legislation

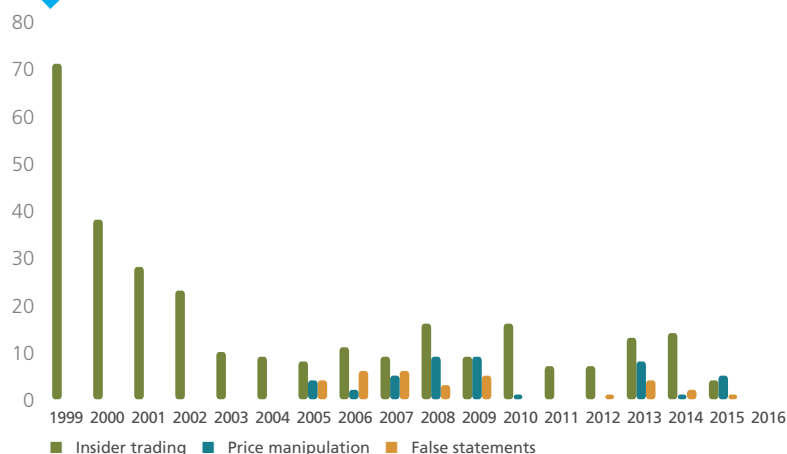
The enforcement committee finalised three market abuse cases and imposed administrative penalties against seven individuals:

- » R15 million against four individuals for price manipulation in Acc-Ross Holdings Limited/Pinnacle Point Group Limited
- » R300 000 against an individual for publishing false and misleading statements in Blue Financial Services Limited
- » R20 000 against two individuals for price manipulation in MICROmega Holdings Limited.

Regularising of affairs of single-counter exchanges

We are leading the project that considers applications for exemptions/licences from single-counter exchanges following the FSB directive of July 2014 which has cross-cutting markets and abuse issues.

MARKET ABUSE INCIDENTS ON THE JSE PER CALENDAR YEAR



New cases registered by the DMA in a calendar year may have occurred in a different calendar year.

Assistance to foreign bodies

One new case was registered for assistance requested by a foreign body.

Completed investigations

During the year, the DMA considered 13 completed investigations. Of these, eight were closed (no/insufficient

evidence). It referred five cases for enforcement action:

- » Two for insider trading in Group Five Limited and Coal of Africa Limited
- » Two for alleged price manipulation in MICROmega Holdings Limited and Comair Limited shares
- » One for false reporting in Harmony Gold Mining Company Limited.

To date, we have received 17 applications for exemption under section 6(3)(m) of the FMA, and granted temporary exemptions to all applicants. Of these, MTN Zakhele and Sasol Inzalo have regularised their affairs by listing on the BEE segment of the JSE in November and December 2015, while Kaap Agri, Overberg, KLK and KWV changed their business models from exchange to over-the-counter trading platform.

The project will be completed once the affairs of all illegal single-counter exchanges have been regularised.

Credit rating services

The credit rating services department has been responsible for registering, supervising and ensuring credit rating agencies comply with the act (Credit Rating Services Act 24 2012) since 2013. It also aims to improve the quality and consistency of supervision and strengthen oversight of local and cross-border agencies.

Given the importance of these agencies in credit markets, the department completed a second round of on-site examinations of registered agencies in 2015 and finalised its reports. These examinations used a risk-based approach that focuses the department's actions in areas where its resources may have the greatest impact.

The department draws on the recommendations of IOSCO and the work of a number of international organisations, underscoring the importance of rapid international cooperation in ensuring the proper functioning and integrity of financial markets, particularly market supervision and authorised activities.

In its ongoing supervision, it works closely with foreign counterparts and has initiated ways to promote coordination and cooperation with international regulatory authorities and supervisors. By 31 March 2016, the department had provided written responses to questions raised by the European Securities and Markets Authority's (ESMA) technical review team on their assessment of the

legal framework regulating credit rating agencies operating in South Africa. The department anticipates that ongoing dialogue with ESMA will lead to bilateral links to facilitate cross-border cooperation and exchange of information.

Consumer education

Internationally, advances in forging closer links between consumer protection, financial inclusion and financial education have been quite significant. There is greater focus on enhancing financial consumer protection by determining what is required to help them gain the confidence, knowledge, information and access to make appropriate choices and fully participate in financial markets using regulated services and products. As a result, financial education now plays a crucial role in the broader consumer protection environment.

The FSB recognised this as far back as 2000 when the FSB Act was amended to include a mandate for financial education. This mandate was expanded

in the Financial Services Laws General Amendments Act in 2013 which requires the FSB to "provide, promote or otherwise support financial education, awareness and confidence regarding financial products, institutions and services".

To achieve this mandate, the FSB's consumer education department uses a multifaceted approach to increase the financial literacy levels of consumers and create a greater awareness of their rights and responsibilities in dealing with financial services providers.

All initiatives (detailed in the supplementary report) are aligned to the risk-based approach of the national strategy established and coordinated by National Treasury. This strategy adopts a life-stage approach that coincides with major events such as starting work, marriage, parenthood, buying a home and retirement. These life stages are underpinned by themes such as budgeting, creating a savings habit, managing debt, rights and responsibilities as well as recourse mechanisms.

Performance by key divisions continued

SALIENT FEATURES

Actuarial

The actuarial department mainly provides a support service to the insurance and retirement funds divisions. Specific regulatory functions have been delegated to its pensions section, including:

- » Analysing actuarial valuation reports, considering and approving surplus apportionment schemes: during the period, the registrar accepted 659 actuarial valuation reports with 603 pending at the end of the period on unresolved queries
- » Considering and approving applications in terms of section 14 of the Pension Funds Act to ensure the scheme of transfer fully recognises the rights and reasonable benefit expectations of remaining and transferring members: during the period, 3 200 new applications were received and considered.

A large number of section 14 transfer cases were pended because of the poor quality of submissions or applications that could not be considered because of outstanding valuations and/or other critical transfer information, including where applications were made by improperly constituted boards. In total, 633 cases were pending at 31 March 2016 compared to 770 in 2015.

International and local affairs

- » Hosted a growing number of African delegates to discuss the FSB's regulatory and supervisory framework
- » Hosted familiarisation and training programme to exchange information on regulatory and supervisory frameworks, and practices of SADC non-banking financial authorities
- » Facilitated memorandums of understanding between the FSB and Jersey Financial Services Commission, Bank of Russia, Capital Markets Authority – Sultanate of Oman, South African Revenue Services, Abu Dhabi Financial Services Regulatory Authority, Jordan Securities Commission, and the Anguilla Financial Services Authority.

Consumer education

- » 218 workshops and presentations reached over 32 000 urban and rural consumers
- » 29 exhibitions reached 11 600 consumers, mainly rural
- » Through 40 media interactions, the FSB reached over 3 million people
- » 6 new resources developed and 117 000 brochures printed
- » Over 66 000 brochures distributed, with the budget booklet proving so popular it was reprinted twice
- » Online trustee training toolkit – the number of trustees registering and passing the assessment test continues to increase
- » Consumers visiting the online MyLifeMyMoney site more than doubled to 95 111 in the review period.

Communications and liaison

The communications and liaison department supports the FSB's vision and mandate by creating and building a positive image and reputation for the organisation through strategic relationships with internal and external stakeholders.

During the year, it continued to improve relations with the media, brand visibility and communication with stakeholders, while enhancing the FSB's corporate identity. Departmental objectives are achieved through internal and external marketing and communications initiatives.

Highlights of the period include facilitating media roundtable discussions on subjects like unclaimed retirement fund benefits, and developments in the insurance and capital markets. Other activities included:

- » There were 54 media releases and four one-on-one engagements between FSB spokespeople and journalists
- » 271 media-related queries were managed
- » Client management system: over 5 866 written queries were received. Most were FAIS related (3 352), followed by pension queries (904)
- » The outsourced FSB call centre, which handles queries via our own toll-free number (0800 202 087/0800 110 443) and the FAIS ombud share-call number, 0860 FAISOM (324 766) received over 80 000 queries
- » Four roundtable discussions
- » Radio, TV and print interviews to inform the media and public on developments in industries regulated by the FSB
- » Almost 6 000 written queries and over 86 300 telephonic queries received from the public.

Enforcement and inspectorate

- » 24 inspections finalised for contraventions of the FAIS Act, Long-term Insurance Act and Pension Fund Act
- » 15 cases considered for contravening legislation, predominantly insurance and FAIS
- » Penalties of almost R19 million imposed (the highest being for price manipulation).

Board of directors



Abel Sithole

Abel Sithole

Chairperson (appointed 2002)

MBA (Wits), MA (international relations) and MPhil (future studies) (Stellenbosch), EDP (City Univ New York), BA (Lawrence), HED (Wisconsin), dip actuarial techniques (IISA), FILPA

Abel is the former president of the Institute of Retirement Funds South Africa and CEO of the Eskom Pension and Provident Fund. He brings extensive industry experience to his role as chairperson of the FSB. He also spent 10 years in the insurance industry, specifically in corporate actuarial and employee benefits. He is currently deputy director of the Institute for Futures Research. Abel serves on the human resources, remuneration and legislative committees of the FSB.



Hilary Wilton

Hilary Wilton

Deputy chairperson (appointed 2002)

BCom (Wits), MBA (Wits Business School), FCII

Hilary is head of risk management at Barloworld Limited, after an extensive career in the insurance industry (primarily short term). She also served in senior roles at Eskom for seven years. Hilary chairs the FSB risk management and remuneration committees, and serves on the human resources and audit committees.



Zarina Bassa

Zarina Bassa

Non-executive (appointed 2008)

CA(SA), ALP (Wharton, Univ Pennsylvania)

Zarina is executive chairman of Songhai Capital, and non-executive director of several blue-chip companies. She was an executive director of Absa Bank, partner at EY, and chaired the Public Accountants and Auditors Board. Zarina brings extensive banking and finance experience to the board and as chair of the human resources committee of the FSB. She also serves on the risk management and remuneration committees.



Francois Groepe

Francois Groepe

SARB representative (appointed 2012)

BCom (hons) and MBA (Stellenbosch), postgraduate diploma law (taxation) (UCT), LLB (Unisa), CMA

Francois is deputy governor of the South African Reserve Bank and has served on its board for 10 years, seven as a non-executive director. He chairs the South African Bank Note Company and South African Mint. Former group managing director and CEO of Media24, and senior group controller at Swiss Re, based at its head office in Zurich. He is a chartered management accountant and advocate of the High Court of South Africa.



Olano Makhubela

Olano Makhubela

National Treasury representative (appointed 2010)

BCom (law) (KZN), BA (law) (Wits), BCom (hons) (economics) (Unisa), MSc (development economics)

Olano is the chief director of financial investments and savings at the National Treasury. He brings a wealth of experience as an economist to the FSB board.



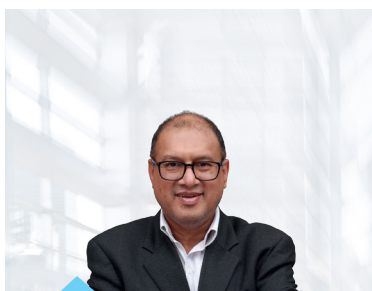
Jabu Mogadime

Jabu Mogadime

Non-executive (appointed 2004)

BA (Univ Botswana), MBA (Univ Wales), dip marketing (CIM)

Jabu is co-founder and executive director of black-owned Uranus Investment Holdings, primarily focused on the financial services and ICT sectors. She brings extensive financial and internal audit experience that includes municipal and public sector bodies in South Africa and the auditor-general's office of Botswana and Zimbabwe. Jabu chairs the FSB audit and licensing committees and serves on the risk management committee.



Ismail Momoniat

Ismail Momoniat

National Treasury representative (appointed 2010)

BSc (hons) and MSc (London School of Economics), MSc (maths) (Wits)

Momo was a mathematics lecturer at Wits University and joined National Treasury in 1995. He has been part of the team modernising the budget process after initially heading the division responsible for provincial and local government finances. He has driven key related governance legislation including the Public Finance Management Act and Municipal Finance Management Act.



Dudu Msomi

Dudu Msomi

Non-executive (appointed 2010)

BA (hons) (Univ Natal), postgraduate dip advertising and marketing, postgraduate dip corporate governance, PMD and MBA (GIBS, Univ Pretoria)

Dudu is the founder and chief executive of Busara Leadership Partners, a consultancy focused on leadership, governance and strategy. She is a former deputy director of the Life Offices Association, and director of Saatchi & Saatchi Advertising. Dudu chairs the finance and investment committee of the Agricultural Research Council. She serves on the FSB's audit, licensing and litigation committees.



Hamilton Ratshefola

Hamilton Ratshefola

Non-executive (appointed 2010)

BCom (information systems) (Univ North West), IBM executive leadership (New York), IBM engineering school

Hamilton was co-founder and chief executive officer of Cornerstone Technology Holdings, a leading manufacturer and exporter of South African-made software. He has extensive local and global experience in the ICT field in the public and private sectors and is currently the director of general business for IBM South Africa. He chairs the legislative committee and serves on the FSB's risk management committee.



Philip Sutherland

Philip Sutherland

Non-executive (appointed 2002)

BCom LLB (cum laude) (Stellenbosch), PhD (Univ Edinburgh)

Philip has been professor of mercantile law for 11 years and heads that department at Stellenbosch University. He serves on the governance committee of the Centre for Corporate Governance in Africa, and was a member of the Actuarial Governance Board for five years. Philip chairs the FSB's litigation committee and serves on the audit and legislative committees.



Diana Turpin

Diana Turpin

Non-executive (appointed 2010)

BBusSci (hons) (UCT)

Chairman of Fairbairn Capital Retirement Funds and SIS Retirement Funds, and a director of Nedgroup Collective Investments and Shine Centre (non-governmental organisation focused on literacy). Di has been closely involved with key regulatory and structural developments in the financial services industry. She serves on the FSB's risk management, litigation and legislative committees.

PART A:
General information

PART B:
Performance information

PART C:
Governance

PART D:
Human resource management

PART E:
Financial information



Caroline da Silva
Deputy executive officer
(FAIS and consumer
education)

Bert Chanetsa
Deputy executive officer
(Investment institutions)

Paul Kekana
Chief financial officer



Marius du Toit
Chief actuary

Rosemary Hunter
Deputy executive officer
(Retirement funds)

Tshifhiwa Ramuthaga
Chief information officer

The board is responsible for monitoring standards of corporate governance and fully endorses application of the recommendations of the King report on governance (King III). The board is committed to governance processes that assure stakeholders that the FSB's operations are conducted ethically, within prudent risk parameters and in pursuit of best practice.

To the best of the board's knowledge, information and belief, the FSB complied with applicable legislation, policies and procedures, as well as the codes of governance in the review period.

COMPOSITION OF THE BOARD AND ITS ROLE

The FSB board comprises 11 non-executive members from diverse backgrounds, appointed by the minister of finance after considering experience, technical skills, the interests of users and providers of financial services, as well as public interest.

The board is primarily responsible for the leadership of the FSB, strategic direction and policy, operational performance, financial matters, risk management and compliance. It generally exercises leadership, integrity and judgement in directing the FSB, based on transparency, accountability and responsibility. It is also the focal point of the corporate governance system of the FSB. Authority for day-to-day management of the FSB's activities is delegated to the management team. The mandate, role and responsibilities of the board are stipulated in the board charter as set out in the FSB Act.

PORTFOLIO COMMITTEE ON FINANCE

The FSB executive committee, including the chairperson of the FSB board, attended one meeting with the parliamentary standing committee on finance on 13 April 2016 to present the FSB Strategic Plan and 2016/17 Annual

Performance Plan. The executive committee also responded to questions raised by the parliamentary portfolio committee.

INDUCTION OF NEW MEMBERS

A comprehensive induction programme was developed to ensure new board members are adequately briefed and have the required knowledge of the FSB's structure, operations, policies and industry-related issues to enable them to fulfil their duties and responsibilities. The manager: board secretariat administers this programme.

New members are given details of all applicable legislation, minutes of board and relevant committee meetings for the previous 12 months, the latest management accounts and relevant committees' terms of reference.

DELEGATION OF AUTHORITY

The board has oversight authority to lead, control and manage the business of the FSB. Through a comprehensive delegation-of-authority framework, it has delegated certain aspects of its authority to the executive officer and executive committee (Exco) to manage the day-to-day business affairs of the FSB. This delegation of authority assists in decision making and meeting strategic objectives without exonerating the board of its accountability and responsibilities for the FSB.

Board member	29/07/2015	14/10/2015	02/12/2015	29/03/2016
A Sithole (chairperson)	✓	✓	✓	✓
H Wilton (deputy chairperson)	✓	✓	A	A
Z Bassa	✓	✓	✓	✓
F Groepe	✓	✓	✓	✓
O Makhubela	✓	✓	✓	✓
J Mogadime	✓	✓	✓	✓
I Momoniat	✓	A	✓	A
D Msomi	✓	✓	✓	A
H Ratshefola	A	A	✓	✓
PJ Sutherland	✓	✓	✓	A
D Turpin	✓	✓	✓	A

✓: Attended

A: Apologies

MATERIALITY FRAMEWORK

The board approved the framework of acceptable levels of materiality and significance in line with the Public Finance Management Act 1 1999, as amended (PFMA).

EXECUTIVE COMMITTEE

In terms of the FSB Act, Exco performs the functions of the board between board meetings. However, in terms of statute, the board charter and delegation-of-authority document, some non-delegated matters are reserved for approval by the board and/or the minister of finance.

BOARD SECRETARY

All board members have access to the advice and services of the manager: board secretariat, who is responsible for ensuring proper governance of the board and guiding board members on their responsibilities under the enabling legislative framework. The manager: board secretariat resigned effective 1 March 2016, and the acting chief operating officer is managing this unit.

BOARD MEETINGS

Board meetings are held at least once every quarter and special meetings convened when necessary. In the review period, four scheduled meetings were held and several extraordinary meetings convened. Exco members attend board meetings ex officio. Details of attendance are shown below:

Corporate governance report

COMMITTEES OF THE BOARD

The board has oversight of the FSB's operations through a governance structure with appropriate committees. These governance committees are responsible for ensuring the FSB complies with relevant legislation, and codes of good corporate governance and

practices. Each committee has its own terms of reference, which are reviewed annually in line with best practice.

Audit committee

The committee assists the board in its responsibility for safeguarding assets, operating control systems, combined

assurance, finance functions, internal and external audit services, and advises the board on the adequacy of risk management processes and strategies. The committee met six times in the previous year, with attendance shown below.

Member	22/04/2015	27/05/2015	17/07/2015	3/09/2015	24/11/2015	22/03/2016
J Mogadime (chairperson)	✓	✓	✓	✓	✓	✓
D Msomi	✓	✓	✓	✓	✓	✓
PJ Sutherland	✓	✓	✓	✓	✓	A
H Wilton	✓	✓	A	A	A	A

✓: Attended

A: Apologies

Risk management committee

The committee assists the board in ensuring the FSB implements effective policies and plans for risk management that will enhance its ability to achieve strategic objectives. It met four times in the review period, with attendance reflected below.

Member	02/06/2015	01/09/2015	23/11/2015	01/03/2016
H Wilton (chairperson)	A	✓	A	✓
Z Bassa	✓	✓	A	✓
J Mogadime	✓	✓	✓	✓
H Ratshefola	✓	✓	✓	✓
D Turpin	✓	✓	✓	✓

✓: Attended

A: Apologies

Human resources committee

The function of this committee is to ensure the FSB's human resources strategy and policies are implemented. It met four times in the period, with attendance shown below.

Member	02/06/2015	01/09/2015	16/11/2015	01/03/2016
Z Bassa (chairperson)	✓	✓	✓	✓
A Sithole	✓	✓	✓	✓
H Wilton	✓	✓	✓	✓
F Groepe	✓	✓	✓	✓

✓: Attended

Remuneration committee

The committee ensures the FSB's remuneration strategies and policies are implemented. It reviews compensation matters, benchmarks salaries of staff and makes recommendations to the board. The committee met four times in the review period, with attendance reflected below.

Member	02/06/2015	01/09/2015	16/11/2015	01/03/2016
H Wilton (chairperson)	✓	✓	✓	✓
A Sithole	✓	✓	✓	✓
Z Bassa	✓	✓	✓	✓

✓: Attended

Licensing committee

The committee provides oversight to ensure the registrar (executive officer) acts in terms of legislation administered by the FSB in discharging his duties. The committee met 11 times in the period, with attendance shown below.

Member	7/04/2015	13/05/2015	12/06/2015	7/07/2015	11/08/2015	8/09/2015	6/10/2015	10/11/2015	8/12/2015	9/02/2016	8/03/2016
J Mogadime (chairperson)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
D Msomi	✓	✓	✓	✓	✓	A	✓	✓	✓	A	✓
H Ratshefola	✓	A	✓	A	✓	✓	✓	✓	✓	✓	A
A Raats	✓	✓	A	✓	✓	✓	✓	✓	✓	✓	✓
S Moraba	A	A	✓	✓	✓	A	A	✓	✓	✓	✓
L Vilakazi	✓	✓	✓	A	✓	✓	✓	A	✓	✓	✓
B Naidoo	A	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓: Attended

A: Apologies

Litigation committee

The committee oversees the FSB's litigation process for claims against, or by, the FSB. It met four times in the period, with attendance reflected below.

Member	03/06/2015	02/09/2015	04/11/2015	02/03/2016
PJ Sutherland (chairperson)	✓	✓	✓	✓
A Loubser	✓	✓	✓	✓
K Mackenzi	✓	✓	✓	✓
D Msomi	✓	✓	✓	✓
AMJ Pinnock	✓	A	✓	✓
S Martin	✓	✓	A	✓
D Msomi	✓	✓	✓	✓
D Turpin	✓	✓	✓	✓

✓: Attended

A: Apologies

Legislative committee

The committee considers new legislation or amendments to existing legislation relating to the FSB's supervisory functions. It meets four times a year with attendance in the review period shown below.

Member	03/06/2015	02/11/2015	04/11/2015	02/03/2016
H Ratshefola (chairperson)	✓	✓	✓	✓
A Sithole	✓	A	✓	A
D Turpin	✓	✓	✓	✓
HB Falkena	A	A	✓	#
M Katz	✓	✓	A	A
A Meyer	✓	✓	✓	✓
PJ Sutherland	✓	✓	✓	✓
E Mphahlele	✓	A	✓	A

✓: Attended

A: Apologies

#: Resigned

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Audit committee report

We are pleased to present our report for the financial year ended 31 March 2016.

The audit committee was appointed by the board of the FSB and has four external board members. The executive officer, chief financial officer and chief risk officer are permanent invitees to committee meetings while the external and internal auditors attend by invitation.

ROLES AND RESPONSIBILITY

The committee is regulated by approved terms of reference and has discharged these responsibilities. The terms of reference are aligned with the requirements of the Public Finance Management Act (PFMA), treasury regulations and King III.

EFFECTIVENESS OF INTERNAL CONTROL

The audit committee has reviewed the:

- » Effectiveness of internal financial control systems
- » Effectiveness of the internal audit function
- » Risk areas of the FSB's operations covered in the scope of internal and external audits
- » Adequacy, reliability and accuracy of financial information and accounting practices provided by management
- » Accounting and auditing concerns identified by internal and external audits
- » FSB's compliance with legal and regulatory provisions
- » Activities of the internal audit function, including its annual work programme, cooperation with the external auditors, reports of significant investigations and responses of management to specific recommendations
- » Independence and objectivity of both internal and external auditors.

As per the internal audit plan, a high-level review of the design, implementation and effectiveness of the FSB's internal financial controls was performed. The review is aimed at providing comfort on financial reporting controls that underpin preparation of the annual financial statements. Based on the information and explanations provided by management, the internal auditors and discussions with the independent external auditors on the result of their audit, the committee believes the system of internal control for the period under review was adequate and effective.

INTERNAL AUDIT

The committee exercises oversight of the internal auditors and is responsible for recommending to the board the appointment, compensation and retention of the internal auditors. In the review period, this function was outsourced to the Business Innovations Group. The risk-based internal audit plan for 2016 was only approved on 3 September 2015 given the uncertainty on the appointment of the internal audit service provider.

The committee believes internal audit is functioning effectively and has addressed material risks to the FSB in its audit. Internal audit reports functionally to the committee chairperson and operationally to the chief risk officer.

The following internal audit work was completed in the period:

- » Enterprise risk management review
- » Internal financial controls review
- » Evaluation and review of processes for reporting performance information
- » Asset management review
- » Supply chain management review

- » Review of human resources recruitment, retention and leave-logging processes, including conflict-of-interest declarations
- » Information technology (IT) audit, including IT applications review and IT continuity and disaster recovery review
- » Detailed audits of the FAIS department's licensing and registrations, and supervision processes.

EXTERNAL AUDIT

The committee is satisfied with the independence and objectivity of the external auditors and has met with them to ensure there were no unresolved issues.

GOVERNANCE OF RISK

The board has established a risk committee to oversee risks associated with the FSB. The chairperson of the audit committee is a member of this committee and vice versa to ensure relevant information is transferred effectively.

The risk committee oversees financial reporting risks, internal financial controls, compliance risks, fraud risk as it relates to financial reporting, and IT risks as these relate to financial reporting.

SUSTAINABILITY

The FSB is committed to promoting and implementing good sustainability practice by minimising its impact on the environment and contributing to the development of our communities and economy. It strives to play an active role in transformation, social development, and sustainable environment and economic performance.

ANNUAL REPORT

The committee has reviewed the annual report of the FSB for the year ended 31 March 2016 and concluded that management is presenting an appropriate view of the entity's position and performance.

EVALUATION OF FINANCIAL STATEMENTS

The committee evaluated the annual financial statements of the FSB for the year ended 31 March 2016. It also reviewed:

- » The external auditor's report
- » The FSB's compliance with applicable laws and regulation
- » Information on predetermined objectives included in the annual report
- » Significant adjustments resulting from the audit.

Based on the information provided by management, internal audit and external audit, the committee considers that these statements comply, in all material respects, with the requirements of the PFMA, and the basis of preparation set out in note 1 of the annual financial statements. The committee concurs that adopting the going concern assertion in preparing the annual financial statements is appropriate.

At its meeting on 21 July 2016, the committee recommended the approval of the financial statements to the board.

Ms Jabu Mogadime



Chairperson: audit committee

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Remuneration committee report

The remuneration committee (RemCom) is committed to applying independent and objective oversight. Its mission is to ensure that remuneration, and associated practices, are defensible which enables the FSB to attract, motivate and retain top talent, as well as execute on its business strategy.

REMUNERATION PHILOSOPHY, STRATEGY AND POLICY

The remuneration mix that is catered for by the FSB is as such: guaranteed package and variable pay. In terms of variable pay, the FSB does not subscribe to long-term incentives as this does not adhere to the FSB's business model. The FSB, on an ongoing basis, adapts its reward strategies to reward good behaviour and retention of staff. In 2015,

70% of staff were rewarded with bonuses based on their performance to ensure that they were retained as the organisation was approaching twin peaks. Funding for the incentive scheme is based on a budgeted percentage of the annual cost to employer payroll. Short-term incentives are subject to board approval each year, based on the performance of the FSB.

Performance targets are set annually and approved by the board. Executive members' individual performance targets are linked to organisational targets and cascaded to individual performance goals. The executive incentive scheme is separate to the staff incentive scheme and the total payout is linked to the individual performance score.

Role of the RemCom

This committee is tasked to ensure that senior management and staff are appropriately rewarded to ensure, as far as possible, that we are able to recruit, retain and motivate people with the skills we require.

The RemCom is a subcommittee of the board of the FSB. Its purpose is to ensure that the FSB adheres to fair pay practices and that staff are rewarded appropriately. The committee dealt with the following matters over the past year:

Period	Work programme
Quarter 1	<ul style="list-style-type: none"> » Mid-year performance review » Review of remuneration aspects » Staff promotions and structural adjustments » Approval of terms of reference
Quarter 2	<ul style="list-style-type: none"> » Salary increases (market trend surveys)
Quarter 3	<ul style="list-style-type: none"> » Performance bonus (approval) » Salary increase (approval) » Performance report (year-end) » Staff promotions and structural adjustments
Quarter 4	<ul style="list-style-type: none"> » Budget provisions

KEY REMUNERATION DECISIONS IN 2015

The FSB ensured that the majority of its staff are paid within market parameters. Salaries were benchmarked between -25% and a maximum of 25% above market median. Structural salary adjustments are granted to performing staff members twice a year (July and December) and the table below summarises adjustments made in July 2015.

General staff

Table 1 – summary of July 2015 structural adjustments

Number of staff	Adjustment	Motivation
40	4%	Staff who were appointed late in 2014, or who were promoted, who did not qualify for annual increase
49	Between 1.6% and 40%	Salary below -25%, as well as motivated by HoD or budgeted by HoD
89		

As at 30 July (after structural adjustments and analyst progressions), 403 employees (77%) were paid below market median; 134 (25%) were paid below -25% of market median, and 30 (6%) were paid above 25% of the market median.

Table 2 – summary of December 2015 structural adjustments

Number of staff	Adjustment	Motivation
47	Between 3.09% and 15%	Adjustment made to align to new FSB minima of -25% to market median
47		

Table 3 – summary of July 2015 promotions

Number of staff	Adjustment	Motivation
29	Between 6.44% and 22.50%	Budgeted analyst progression, as well as motivations received from HoD

Table 4 – summary of December 2015 analyst progressions

Number of staff	Adjustment	Motivation
3	15%	Budgeted analyst progression, as well as motivations received from HoD
3		

Actuarial staff

As part of our retention strategy, we have a policy to encourage the growth and development of actuarial students. The strategy is aligned to industry practices: when students pass their examinations, they receive an incentive either as a structural salary adjustment or a once-off bonus payment. Bonuses differ for the level of the examination. The incentive is applied twice a year and linked to the actuarial study discipline. Incentives granted to actuarial staff during the year are summarised below:

Table 5 – summary of actuarial salary changes

Date	Structural adjustments	Number	Bonuses
July 2015	R100 000.00	6	R52 700.00
November 2015	R90 000.00	3	
December 2015		5	R60 900.00
Total	R190 000.00		R113 600.00

Remuneration committee report continued

SUMMARY OF EXECUTIVE REMUNERATION

Table 7 – summary of Exco remuneration mix

Name	GP R000	STI R000	Total R000
DP Tshidi	4 996	1 071	6 067
JA Boyd	3 037	420	3 457
JI Dixon	3 003	410	3 413
MM du Toit	2 968	380	3 348
TG Ramuthaga	2 671	450	3 121
CK Chanetsa	2 906	350	3 256
CD da Silva	2 731	400	3 131
RT Hunter	2 538	N/A*	2 538
LP Kekana (appointed 1 September 2015)	1 458	0	1 458

* No bonus was paid to RT Hunter as she was not assessed for the period under review.

Human resource management overview

The FSB strives to be the employer of choice and, as such, complies with applicable employment legislation and the code of good practice. The human resources (HR) department continues to affiliate with various HR and legal professional bodies to remain abreast of best practice.

To achieve the FSB's legislative mandate and organisational goals, we acknowledge that people are our most important asset. We promote and motivate employee engagement using a total rewards system to attract, develop, reward and retain highly skilled people. In 2016, 32 staff members were promoted to senior positions under our dedicated progression model.

We are steadily increasing the representation of marginalised groups in line with our employment equity plan, including people living with disabilities. In the review period, 87 new staff members were appointed with an average vacancy rate of 13% (2015: 14.3%) and a turnover rate of 12%.

In supporting the national skills development plan, the FSB has both an internship programme and a graduate development programme to equip young unemployed graduates with work experience and prepare them for the world of work.

In response to the acute shortage of actuaries in South Africa, the FSB runs an actuarial bursary scheme where talented students from disadvantaged backgrounds are supported in pursuing actuarial studies (detailed below).

At the time of reporting, the FSB was procuring an enterprise resource system that will integrate the HR, payroll and other support functions. This is an opportunity to improve process efficiency in the organisation.

INTERNSHIP AND GRADUATE PROGRAMMES

In 2016, nine people were enrolled on the internship programme and 10 on the graduate development programme (2015: six and seven respectively). To date, we have appointed all graduates into full-time employment in various departments. This process has assisted in

ensuring that junior positions are filled with resources trained in-house.

ACTUARIAL BURSARY PROGRAMME

Two students supported by the FSB will complete their academic studies by the end of calendar 2016. To date, 11 students have benefited from this programme.

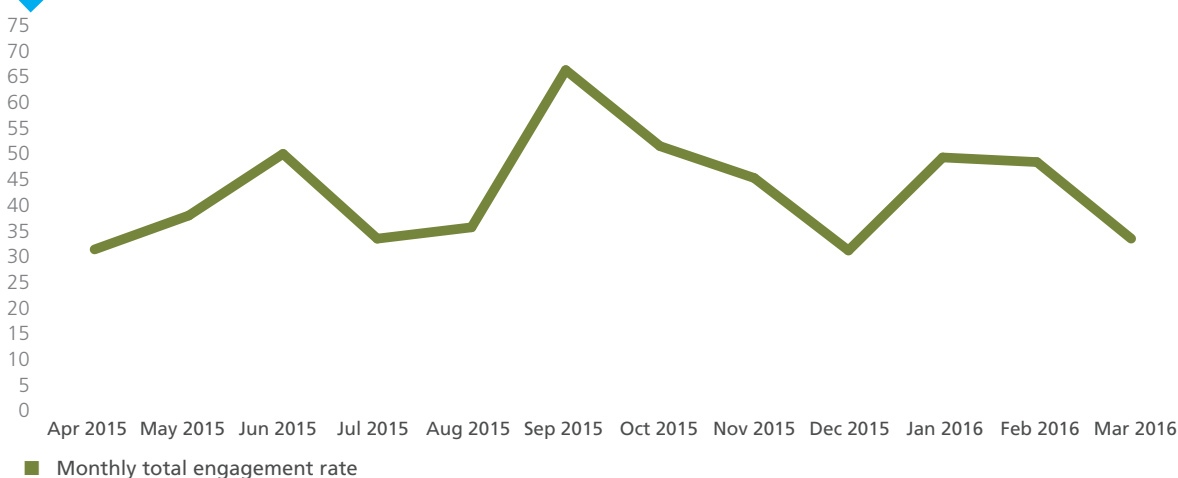
EMPLOYEE WELLNESS PROGRAMME

In promoting the psycho-social wellbeing of its staff members, the FSB has an outsourced employee assistance/wellness programme that also supports immediate family members.

The HR department also facilitates biannual wellness days, where employees can participate in health assessments and HIV voluntary testing and counselling. Employees are encouraged to participate in various sports via approved in-house clubs.

Overall staff engagement in all services offered by the programme was 42.7% in the review period.

MONTHLY TOTAL ENGAGEMENT RATE THIS PERIOD (%)



Human resource management overview continued

WORKFORCE STATISTICS

Our staff complement was 542 on 31 March 2016. Due to normal staff turnover, the scarcity of skills in specialised areas and filling most positions internally (in line with our recruitment and selection policy), the total staff complement compared to the previous year (519) was broadly similar. The FSB was unable to meet its target of filling all 611 positions in terms of the approved resource plan.

Personnel cost by programme

Programme/activity/objective	Total expenditure (R000)	Personnel expenditure (R000)	% of total expenditure	Number of employees	Average cost per employee
Administration	220 155	129 226	59	199	649
Supervise financial advisory and intermediaries in the financial services sector	149 040	61 455	41	121	508
Supervise collective investment schemes in terms of relevant legislation	25 620	16 703	65	29	576
Supervise South African licensed exchanges, central securities depositories and clearances	15 616	10 105	65	17	594
Supervise long-term insurance industry in terms of relevant legislation	100 398	60 380	60	85	710
Supervise retirement funds and friendly societies	125 323	45 595	36	69	661
Directorate of market abuse (securities)	14 104	9 682	69	12	807
Regulating credit rating agencies	5 116	3 856	75	5	771
Regulating hedge funds	4 208	3 501	83	5	700

Personnel cost by salary band

Level	Personnel expenditure (R000)	% of total personnel cost	Number of employees	Average personnel cost per employee (R000)
Top management	26 307	8	9	2 923
Senior management	57 898	17	31	1 868
Professional qualified	168 376	49	244	690
Skilled	63 539	19	164	387
Semi-skilled	24 383	7	94	259
Total	340 503	100	542	628

Performance rewards

The FSB awarded performance bonuses to exceptional performers at the end of the performance cycle, and to executive committee members.

Level	Performance rewards (R000)	Personnel expenditure (R000)
Top management	3 481	26 307
Senior management	3 080	57 898
Professional qualified	7 716	168 376
Skilled	1 293	63 539
Semi-skilled	172	24 383
Total	15 742	340 503

Training costs

The FSB encourages employees' continuous training and development, and funds any training or studies relevant to its core business, subject to budget availability.

Programme/activity/objective	Personnel expenditure (R000)	Training expenditure (R000)	Training expenditure as % of personnel cost	Number of employees trained	Average training cost per employee (R000)
Administration	129 226	1 718	1.3	204	8
Supervise financial advisory and intermediaries in the financial services sector	61 455	727	1.2	125	6
Supervise collective investment schemes in terms of relevant legislation	16 703	263	1.6	30	9
Supervise South African licensed exchanges, central securities depositories and clearances	10 105	621	0.6	17	4
Supervise long-term insurance industries in terms of relevant legislation	60 380	605	1.0	48	13
Supervise retirement funds and friendly societies	45 595	455	1.0	91	5
Directorate of market abuse (securities)	9 682	77	0.8	13	6
Regulating credit rating agencies	3 856	29	0.78	4	7
Regulating hedge funds	3 501	66	1.9	5	13

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Human resource management overview continued

Employment changes

As noted, the FSB appointed 87 new staff members, with an average vacancy rate of 13% in the review period. The turnover rate was 12%.

Three significant external appointments were made:

- » Head: information communication and technology (ICT), operations and applications, 1 May 2015
- » Chief financial officer, 1 September 2015
- » Head: actuarial pensions, 1 November 2015.

The FSB encourages personnel growth through internal appointments/movements, with 37 vacancies filled in this way.

Level	Employed at the beginning of the period	Appointments	Terminations	Employed at the end of the period
Top management	8	1	0	9
Senior management	33	2	4	31
Professional qualified	218	37	35	244
Skilled	164	39	21	164
Semi-skilled	95	8	4	94
Unskilled	0	0	0	0
Total	519	87	64	542

Employment and vacancies

Programme/ activity/ objective	2015	2016			
	Number of employees	Approved posts	Number of employees	Vacancies	% vacancies
Administration and support	193	237	199	38	16
FAIS	121	132	121	11	8
CIS	22	34	29	5	15
Capital markets	13	17	17	0	0
Insurance	84	92	85	7	8
Pensions	72	74	69	5	7
Market abuse	10	12	12	0	0
Credit agencies	3	6	5	1	17
Hedge funds	1	7	5	2	29

Level	2015	2016			
	Number of employees	Approved posts	Number of employees	Vacancies	% vacancies
Top management	8	11	9	2	18
Senior management	34	34	31	3	9
Professional qualified	218	274	244	30	11
Skilled	164	193	164	29	15
Semi-skilled	95	99	94	5	5
Total	519	611	542	69	11

Significant terminations

A total of 64 staff members were terminated in the period. Five of these terminations were for the following positions:

- » Head: actuarial insurance resigned in May 2015
- » Head: insurance SAM resigned in July 2015
- » Senior specialist: insurance regulatory framework retired in August 2015
- » Head: FAIS enforcement resigned in December 2015.

Reason	Number	% of total staff leaving
Death	0	0
Resignation	55	10
Dismissal	1	0.2
Retirement	1	0.2
Ill health	1	0.2
Expiry of contract	0	0
Other	6*	1
Total	64	12

*Six employees in the ICT department were transferred with the business (infrastructure support services) to Apronics Proprietary Limited, effective 1 April 2016, in line with the provisions of section 197 of the Labour Relations Act.

The FSB prides itself on being an employer of choice and is concerned when skilled staff members leave. Issues identified by staff have been addressed in various ways, including aligning salaries to the market. Management is also taken through development programmes.

Labour relations: misconduct and disciplinary action

Nature of disciplinary action	Number
Verbal warning	6
Written warning	0
Final written warning	2
Dismissal	1

EQUITY TARGET AND EMPLOYMENT EQUITY STATUS

The FSB is non-discriminatory and is committed to the code of good practice on employment equity. To monitor progress, the HR department provides quarterly updates to the board, management and staff on implementation of the approved FSB employment equity plan.

The table below indicates that the FSB was unable to meet all targets. Various strategies are currently being explored to source candidates from constituencies where the FSB could not reach its targets.

Levels	MALE							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	3	2	1	1	0	1	2	2
Senior management	4	5	2	3	1	0	7	10
Professional qualified	87	73	4	8	7	4	17	13
Skilled	85	68	6	10	0	2	4	2
Semi-skilled	28	59	1	12	1	1	0	0
Total	207	207	14	34	9	8	30	27

Human resource management overview continued

Levels	FEMALE							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	1	2	0	2	0	1	2	1
Senior management	7	6	1	2	1	0	8	8
Professional qualified	81	71	2	7	10	5	36	19
Skilled	54	66	3	8	1	2	11	8
Semi-skilled	50	61	4	8	1	2	9	4
Unskilled	0	0	0	0	0	0	0	0
Total	193	206	10	27	13	10	66	40

Levels	DISABLED STAFF			
	Male		Female	
	Current	Target	Current	Target
Top management	0	0	0	0
Senior management	0	0	1	1
Professional qualified	1	2	1	0
Skilled	1	2	0	1
Semi-skilled	1	3	2	2
Unskilled	0	0	0	0
Total	3	7	4	4

Health, safety and environment

ENVIRONMENT

As an office-based organisation, the FSB has a limited impact on the environment. Our office building incorporates many green features, particularly energy and water-saving elements.

Energy efficiency

The FSB is committed to sustainable business operations. Accordingly, we undertake our activities with corporate

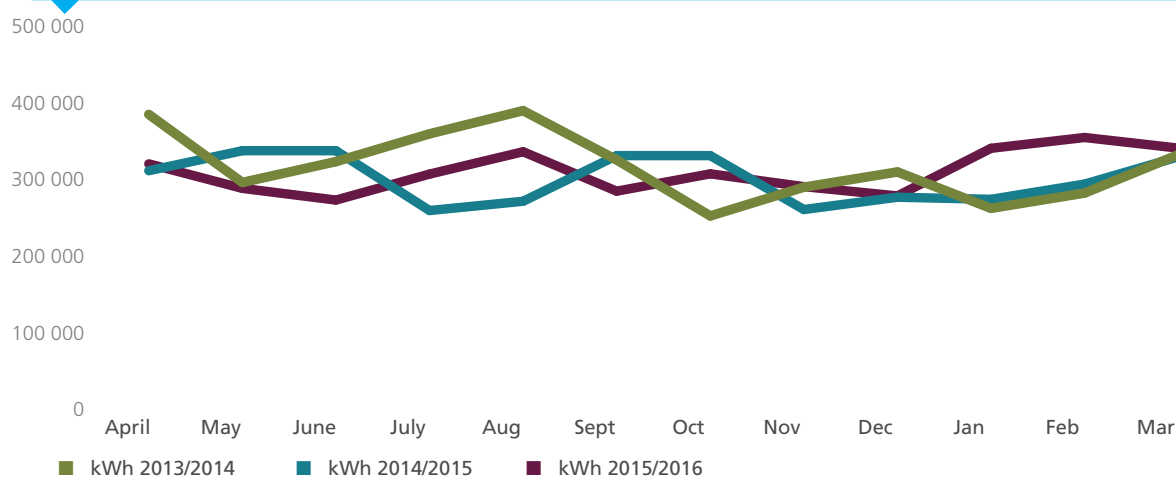
social responsibilities integrated into our objectives. This includes monitoring and measuring our continuous improvement to meet our broader obligations.

To reduce electricity use, light-switch timers were installed in April 2015 and air-conditioning timer switches activated in May. In addition, office lights (excluding common areas) are switched off between 20:00 and 06:00. The HVAC

(heating, ventilation and air-conditioning) is switched off between 20:00 and 05:00 (weekdays), and between 17:00 and 08:00 on weekends.

The increase in electricity consumption in 2016 reflects more office space and higher staff complement. Our focus remains on drawing fewer kilowatt hours from the national grid with associated cost benefits for the FSB.

ELECTRICITY CONSUMPTION (kWh)



Kilowatt hours (kWh)	Total	Monthly average
2014	3 791 379	315 948
2015	3 491 784	290 982
2016	3 706 081	308 840

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Health, safety and environment continued

Recycling

Although our activities are increasingly conducted electronically, we handle tonnes of paper each year. Waste and redundant paper is securely shredded, reducing the landfill burden, saving water and reducing our carbon emissions.



Occupational health and safety (OHS)

The FSB annually carries out OHS training programmes (which were conducted in November 2015) for first aid level 1, 2 and 3; fire marshal and evacuation marshal training for appointed OHS representatives. In addition, we offer first aid level 1 training to non-OHS representatives.

This year, for the first time, basic life support for healthcare service providers was included in the training schedule. This is an internationally recognised licence that enables the holder to assist paramedics and healthcare providers.

In the review period, we further improved the evacuation and rescue ability of OHS representatives by acquiring additional specialised chairs to assist in evacuating injured or disabled staff members. We also introduced emergency evacuation kits with specialised items designed to assist with evacuating personnel, rescue attempts and the survival of trapped staff.

The FSB is committed to complying with health and safety standards. On a quarterly and annual basis, our OHS practices are audited by an external auditor. The FSB received a "no findings" result in the last external annual audit.

Business continuity and recovery

The FSB conducted a business impact analysis for further insight into its business processes, people, technology and facilities. Through this exercise, we have identified new critical processes and recovery requirements relevant for business continuity.

General updates to business continuity plans, emergency procedures and operational plans have been completed, as were the annual disaster recovery site exercises and site visits.

OHS and business continuity management induction presentations are continually provided to new staff.

Annual financial statements

for the year ended 31 March 2016

The reports and statements set out below comprise the annual financial statements to be presented to the Parliament of the Republic of South Africa.

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Report by the members of the board

for the year ended 31 March 2016

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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 Public Finance Management Act No 1 of 1999 (PFMA) and other applicable legislation, it has developed and maintains a system of internal control.

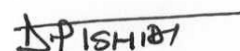
Internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted accounting practice, as well as policies and procedures established by the board and independent oversight by the audit and risk management committees.

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 2016, as set out on pages 67 to 96, were approved by the board on 27 July 2016 and were signed on its behalf by:



Mr AM Sithole
Chairperson of the board



Mr DP Tshidi
Executive officer

Report of the auditor-general to parliament on the Financial Services Board

Report on the financial statements

INTRODUCTION

1. I have audited the financial statements of the Financial Services Board set out on pages 67 to 96, which comprise the statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets and the statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR-GENERAL'S RESPONSIBILITY

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. 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 risks 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 public 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial Services Board as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the PFMA.

ADDITIONAL MATTER

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

8. In accordance with the Public Audit Act of South Africa, 2004 (Act No 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected strategic goals presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

PREDETERMINED OBJECTIVES

9. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected strategic goals presented in the annual performance report of the public entity for the year ended 31 March 2016:
 - » Objective one: Empowered consumers of financial services and products on page 23
 - » Objective two: Proactive stakeholder management, no material findings identified on page 23
 - » Objective three: Ensure sound financial institutions on pages 23 and 24
 - » Objective five: Effective transition to market conduct regulator on pages 24 and 25
10. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
11. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was

Report of the auditor-general to parliament on the Financial Services Board *continued*

consistent with the planned strategic goals. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPPI).

12. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
13. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected strategic goals.

ADDITIONAL MATTERS

14. I draw attention to the following matters:

ACHIEVEMENT OF PLANNED TARGETS

15. Refer to the annual performance report on pages 23 to 25 for information on the achievement of the planned targets for the year.

ADJUSTMENT OF MATERIAL MISSTATEMENTS

16. We identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the following goal statements: Empowered consumers of financial products and services; Ensure sound financial institutions; and Effective transition to market conduct regulator. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

COMPLIANCE WITH LEGISLATION

17. I performed procedures to obtain evidence that the Financial Services Board had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice in terms of the PAA.

INTERNAL CONTROL

18. I considered internal control relevant to my audit of the financial statements, the performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

OTHER REPORTS

19. The FSB has commissioned an investigation to establish whether any pension fund or its members suffered financial prejudice as a result of action taken by the registrar to cancel the registration of dormant and other inactive pension funds during the period between 1 January 2007 and 31 December 2013 in terms of section 27 of the Pension Funds Act, as amended. The investigation is still in progress, the final outcome is expected in the 2016/17 financial year.

Auditor-General

Pretoria
31 July 2016



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Statement of financial position

as at 31 March 2016

	Notes	2016 R	2015 R
ASSETS			
Current assets			
Cash and cash equivalents	3	302 916 002	238 793 195
Receivables from exchange transactions	4	7 676 150	7 762 752
Receivables from non-exchange transactions	5	9 053 670	16 038 822
Prepayments	6	3 757 700	5 090 566
Financial assets at fair value	9	227 771	–
		323 631 293	267 685 335
Non-current assets			
Property, plant and equipment	7	38 690 446	30 914 269
Intangible assets	8	6 526 758	3 332 908
Financial assets at fair value	9	68 088 674	66 632 352
		113 305 878	100 879 529
LIABILITIES			
Current liabilities			
Payables from exchange transactions	10	66 519 181	55 070 009
Payables from non-exchange transactions	11	9 349	60 102
Levies and fees received in advance	12	33 315 706	25 288 771
Provisions	13	7 305 045	6 819 292
Finance lease obligation	14	61 529	–
		107 210 810	87 238 174
Non-current liabilities			
Provisions	13	3 536 086	3 240 507
Finance lease obligation	14	71 683	–
Post-retirement benefit obligations	15, 16	45 265 629	43 326 962
		48 873 398	46 567 469
NET ASSETS			
Contingency reserve	17	65 630 031	59 439 000
Discretionary reserve	17	23 081 785	22 222 735
Accumulated funds		192 141 147	153 097 486
Total net assets		280 852 963	234 759 221

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Statement of financial performance

for the year ended 31 March 2016

	Notes	2016 R	2015 R
REVENUE			
Revenue from exchange transactions	21	76 783 228	59 942 348
Revenue from non-exchange transactions	22	627 541 917	566 181 733
Fair value adjustment	9	1 348 116	8 902 683
		705 673 261	635 026 764
EXPENSES			
Advisory and other committee fees		(6 639 990)	(4 805 290)
Contribution towards funding of the office of the ombud for FSPs	23	(43 422 676)	(35 798 000)
Contribution towards funding of the office of the PFA	23	(47 136 955)	(43 768 702)
Depreciation and amortisation	7, 8	(9 842 643)	(10 393 757)
Executive management remuneration	24	(32 715 175)	(30 363 389)
External audit fees	25	(2 705 748)	(2 656 254)
Finance costs	14	(27 659)	–
Internal audit fees		(933 788)	(675 656)
Legal fees		(10 539 732)	(8 592 541)
Loss on disposal of assets		(62 495)	(236 214)
Non-executive board members' fees	24	(2 611 353)	(2 306 305)
Operating lease rentals – buildings		(41 998 190)	(37 140 414)
Other operating expenses	26	(54 999 872)	(62 984 496)
Professional and consulting fees		(24 119 323)	(11 446 800)
Provision for credit losses	27	(18 619 014)	3 349 493
Post-retirement medical aid fund expense	15	(1 938 667)	(6 699 043)
Salaries, staff benefits, training and other staff expenses		(361 266 239)	(320 606 972)
		(659 579 519)	(575 124 340)
Surplus for the year		46 093 742	59 902 424

Statement of changes in net assets

for the year ended 31 March 2016

	Discretionary reserve R	Contingency reserve R	Total reserves R	Accumulated funds R	Total net assets R
Opening balance as previously reported	14 583 914	54 676 422	69 260 336	115 057 959	184 318 295
Adjustments					
Prior year adjustments (refer to note 34)	–	–	–	(9 461 498)	(9 461 498)
Restated balance at 31 March 2014	14 583 914	54 676 422	69 260 336	105 596 461	174 856 797
Changes in net assets					
Restated surplus for the year (refer to note 34)	–	–	–	59 902 424	59 902 424
Transfer from accumulated funds to contingency reserve	–	4 762 578	4 762 578	(4 762 578)	–
Transfer from accumulated funds to discretionary reserve	7 638 821	–	7 638 821	(7 638 821)	–
Total changes	7 638 821	4 762 578	12 401 399	47 501 025	59 902 424
Restated balance at 31 March 2015	22 222 735	59 439 000	81 661 735	153 097 486	234 759 221
Changes in net assets					
Surplus for the year	–	–	–	46 093 742	46 093 742
Transfer from accumulated funds to contingency reserve	–	6 191 031	6 191 031	(6 191 031)	–
Transfer from accumulated funds to discretionary reserve	859 050	–	859 050	(859 050)	–
Total changes	859 050	6 191 031	7 050 081	39 043 661	46 093 742
Balance at 31 March 2016	23 081 785	65 630 031	88 711 816	192 141 147	280 852 963
Notes	17	17			

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Cash flow statement

for the year ended 31 March 2016

	Notes	2016 R	2015 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Cash received from industry		671 126 987	599 839 994
Interest income		21 779 068	15 836 395
Dividends received		1 204 694	1 196 509
		694 110 749	616 872 898
Payments			
Employee costs		(395 224 931)	(347 388 168)
Suppliers		(113 291 836)	(105 228 179)
Finance costs		(23 194)	–
Other payments		(100 370 051)	(95 116 899)
		(608 910 012)	(547 733 246)
Net cash flows from operating activities	28	85 200 737	69 139 652
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	7	(16 337 646)	(5 699 007)
Proceeds on disposal of property, plant and equipment	7	–	51 000
Finance lease assets		(32 557)	–
Acquisition of intangible assets	8	(4 371 750)	(1 471 543)
Acquisition of non-current investments		(9 990 435)	(11 768 419)
Proceeds from sale of non-current investments		9 654 458	8 287 227
Net cash flows from investing activities		(21 077 930)	(10 600 742)
Net increase in cash and cash equivalents		64 122 807	58 538 910
Cash and cash equivalents at the beginning of the year		238 793 195	180 254 285
Cash and cash equivalents at the end of the year	3	302 916 002	238 793 195

Statement of comparison of budget and actual amounts

for the year ended 31 March 2016

BUDGET ON ACCRUAL BASIS

	Note	Approved budget R	Adjustments R	Final budget R	Actual amounts on comparable basis R	Difference between final budget and actual R
STATEMENT OF FINANCIAL PERFORMANCE						
Revenue						
Revenue from exchange transactions		49 624 600	–	49 624 600	76 783 228	27 158 628
Revenue from non-exchange transactions		595 285 603	–	595 285 603	627 541 917	32 256 314
Fair value adjustment		–	–	–	1 348 116	1 348 116
Total revenue		644 910 203	–	644 910 203	705 673 261	60 763 058
Expenses						
Advisory and other committee fees		(4 423 562)	–	(4 423 562)	(6 639 990)	(2 216 428)
Contribution toward funding of the office of the ombud for FSPs		(37 922 697)	(5 500 000)	(43 422 697)	(43 422 676)	21
Contribution towards funding of the office of the PFA		(47 136 955)	–	(47 136 955)	(47 136 955)	–
Depreciation and amortisation		(11 037 701)	–	(11 037 701)	(9 842 643)	1 195 058
Executive management remuneration		(31 243 522)	–	(31 243 522)	(32 715 175)	(1 471 653)
External audit fees		(2 650 000)	–	(2 650 000)	(2 705 748)	(55 748)
Internal audit fees		(1 200 000)	–	(1 200 000)	(933 788)	266 212
Legal fees		(11 125 600)	–	(11 125 600)	(10 539 732)	585 868
Non-executive board members' fees		(2 432 688)	–	(2 432 688)	(2 611 353)	(178 665)
Operating lease rental – buildings		(46 316 877)	–	(46 316 877)	(41 998 190)	4 318 687
Other operating expenses		(71 959 444)	–	(71 959 444)	(54 999 872)	16 959 572
Professional and consulting fees		(41 901 006)	–	(41 901 006)	(24 119 323)	17 781 683
Provision for credit losses		–	–	–	(18 619 014)	(18 619 014)
Post-retirement medical aid fund expense		–	–	–	(1 938 667)	(1 938 667)
Salaries, staff benefits, training and other staff expenses		(373 961 884)	–	(373 961 884)	(361 266 239)	12 695 645
Total expenditure	39	(683 311 936)	(5 500 000)	(688 811 936)	(659 489 365)	29 322 571
Operating (deficit)/surplus		(38 401 733)	(5 500 000)	(43 901 733)	46 183 896	90 085 629
Loss on disposal of assets		–	–	–	(62 495)	(62 495)
Finance costs		–	–	–	(27 659)	(27 659)
		–	–	–	(90 154)	(90 154)
(Deficit)/surplus for the year		(38 401 733)	(5 500 000)	(43 901 733)	46 093 742	89 995 475

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Summary of significant accounting policies

for the year ended 31 March 2016

1. BASIS OF PREPARATION

Reporting entity

The Financial Services Board (FSB) is a National Public Entity, as specified in Schedule 3A of the Public Finance Management Act No 1 of 1999 (PFMA) (as amended by Act No 29 of 1999). The FSB is mandated by the South African government to supervise and enforce compliance with specific laws regulating financial institutions and to promote financial education and awareness about related products, institutions and services in South Africa.

Basis of accounting

The principal accounting policies applied in the preparation and presentation of these financial statements are set out below. These policies were consistently applied to the years presented, unless otherwise stated.

The FSB's financial statements are prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), as set out in the Accounting Standards Board (ASB) Directive 5 (Determining the GRAP Reporting Framework) and the PFMA (as amended by Act No 29 of 1999).

These financial statements are prepared in concurrence with the going-concern principle and, on an accrual basis, in line with the measurement base applied, being the historical cost unless stated otherwise. They are presented in South African rand.

In terms of Notice 991 and 992 in Government Gazette 28095 of December 2005 and Notice 516 in Government Gazette 31021 of 9 May 2008, the FSB must comply with the requirements of GRAP. Directive 5 details the GRAP Reporting Framework, comprising the effective standards of GRAP, interpretations (IGRAPs) of such standards issued by the ASB, ASB guidelines, ASB directives, and standards and pronouncement of other standard-setters, as identified by the ASB on an annual basis.

Accounting policies for material transactions, events or conditions not covered by the GRAP Reporting Framework, as detailed above, were developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5, issued by the ASB.

In applying accounting policies, management is required to make various judgements, apart from those involving estimations, which may affect the amounts of items recognised in the financial statements. Management is also required to make estimates of the effects of uncertain future events that could affect the carrying amounts of certain assets and liabilities at the reporting date. Actual results in the future could differ from estimates that may be material to the financial statements. Details of any significant judgements and estimates are explained in the relevant policy, where the impact on the financial statements may be material.

Standards and amendments to standards issued but not yet effective

The following standards and amendments to standards have been issued but are not yet effective.

Standard	Summary and impact	Effective date
GRAP 20 – Related Party Transactions	This standard establishes principles for on related party disclosure.	Issued by the ASB – June 2011.
	The impact on the financial results and disclosure is considered to be minimal.	No effective date has been determined by the minister of finance.
GRAP 32 – Service Concession Arrangements: Grantors	The objective of this standard is to establish accounting principles for the service concession arrangements.	Issued by the ASB – August 2013.
	The financial results and disclosure are not likely to be affected when the statement is adopted.	No effective date has been determined by the minister of finance.
GRAP 108 – Statutory Receivables	This standard prescribes the accounting treatment and disclosure for statutory receivables.	Issued by ASB – September 2013.
	The impact on the financial results and disclosure is considered to be minimal.	No effective date has been determined by the minister of finance.
GRAP 109 – Accounting by Principals and Agents	This standard outlines principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.	Issued by ASB – July 2015.
	The impact on the financial results and disclosure is considered to be minimal.	No effective date has been determined by the minister of finance.

1. BASIS OF PREPARATION continued

1.1 Significant accounting judgements and estimates

The preparation of financial statements in conformity with GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the FSB'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

Provisions

Provisions were raised based on management's determined estimate using information available. Additional disclosure of these estimates of provisions are included in note 13.

Depreciation and amortisation

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

Impairment of receivables

Management conducts annual tests to determine whether receivables have suffered any impairment.

Post-employment benefits

The cost of certain guaranteed minimum benefits in terms of defined benefit plan 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 rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.2 Property, plant and equipment

Property, plant and equipment comprise leasehold improvements, computer equipment, furniture, fitting and equipment, as well as motor vehicles.

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost of the item can be measured reliably.

At initial recognition an item of property, plant and equipment is measured at cost. An asset acquired through a non-exchange transaction is recognised at its fair value at date of acquisition. Subsequently all items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses. Depreciation commences when the item of property, plant and equipment is available for use. Property, plant and equipment items are tested for impairment when there is an indicator that the asset or assets should be impaired, refer to note 1.8.

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

The annual depreciation rates are based on the following average useful lives:

Item	Depreciation method	Average useful life
Leasehold improvements	Straight line	expected period of relevant lease
Furniture, fittings, equipment and paintings	Straight line	5 to 50 years
Motor vehicles	Straight line	10 years
Computer equipment	Straight line	3 to 15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. For further detail refer to note 33.

Maintenance and repairs, which neither materially add to the value of assets nor prolong their useful lives, are charged against the statement of financial performance.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. Gains and losses arising from the derecognition of items of property, plant and equipment are determined by comparing the proceeds, if any, with the carrying amount and are recognised in surplus or deficit when the asset is derecognised.

Summary of significant accounting policies continued

for the year ended 31 March 2016

1. BASIS OF PREPARATION continued

1.3 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised when:

- » it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- » the cost or fair value of the asset can be measured reliably.

At initial recognition intangible assets are measured at cost. An intangible asset acquired through a non-exchange transaction is recognised at its fair value at date of acquisition. Subsequently all intangible assets are measured at cost less accumulated amortisation and any impairment losses. Amortisation commences when the intangible asset is available for use.

Intangible assets are tested for impairment annually when there is an indicator that the asset or assets should be impaired. Intangible assets under development and/or not available for use are tested for impairment at reporting date, refer to note 1.8.

Expenditure on research is recognised as an expense when it is incurred. Internally generated brands, mastheads, publishing titles, customer lists, and items similar in substance are not recognised as intangible assets.

The amortisation period, amortisation method and residual values for intangible assets are reviewed at each reporting date. Amortisation is provided to write down the intangible asset on a straight-line basis, to their residual values as follows:

Item	Useful life
Computer software	3 to 20 years

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. Gains and losses arising from the derecognition of intangible assets are determined by comparing the proceeds, if any, with the carrying amount and are recognised in surplus or deficit when the asset is derecognised.

1.4 Financial instruments

Financial instruments are classified in the following categories:

Financial assets at fair value

Investments are initially recognised and subsequently measured at fair value. Interest on government bonds is calculated using the coupon rate which is recognised in the statement of financial performance as interest revenue from exchange transactions. Dividends received from non-current investments are recognised in the statement of financial performance as dividends revenue from exchange transactions when the right to receive payments is established. The fair value movements of quoted investments are recognised in the statement of financial performance. Transaction costs are expensed in the statement of financial performance.

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.

Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for credit losses. A provision for credit losses 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 effective interest rate. The carrying amount of the asset is reduced by the amount of the credit loss which is recognised in the statement of financial performance. When the trade receivable is uncollectible, it is written off and subsequent recoveries of amounts previously written off are credited in the statement of financial performance.

Payables

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

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, which equates to their fair value.

1. BASIS OF PREPARATION continued

1.5 Leases

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

The finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The operating lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The operating lease assets are derecognised when the entity no longer anticipates economic benefits or service potential to flow from the asset.

1.6 Related parties

All payments to executive management and non-executive members of the FSB are disclosed as related party transactions. Transactions and balances with national departments of government and state-controlled entities which occur other than in accordance with the operating parameters established are disclosed separately in the notes to the financial statements.

1.7 Prepayments

Prepayments are payments made in advance for services that have not been delivered for which the FSB expects the delivery in the next financial period. Prepayments are recognised as current assets and are not discounted as the discounting effect thereof is considered immaterial.

1.8 Impairment of non-cash-generating assets

The FSB's non-financial assets only consists of non-cash-generating assets. The FSB assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the FSB estimates the recoverable service amount of the asset.

If there is any indication that assets may be impaired, the recoverable service amount is estimated for the individual asset.

The recoverable service amount of an asset is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its accumulated depreciation or amortisation, the impairment loss is recognised immediately in surplus or deficit.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

The FSB assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of assets attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for assets in prior years.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

Summary of significant accounting policies continued

for the year ended 31 March 2016

1. BASIS OF PREPARATION continued

1.9 Levies and fees received in advance

Levies and fees received in advance are stated at the amount received. The effect of discounting is immaterial.

1.10 Employee benefits

Short-term employee benefits

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

Retirement benefits

The FSB contributes to a pension fund and to a defined benefit post-retirement medical aid liability. 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.

Pension fund

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of financial performance in the period in which they arise.

Post-retirement medical aid plan

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of financial performance in the period in which they arise.

1.11 Provisions

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate used to determine the present value is a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised as provisions. Contingencies are disclosed in note 31.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Performance bonus

Performance bonus is a short-term employee benefit which is expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. A liability for performance bonus is accrued on a proportionate basis as services are rendered. A liability for performance bonus is raised on the estimated amount payable in terms of the incentive scheme which is based on the business and employee's performance in the applicable year. Performance bonuses are expected to be settled within 12 months from reporting date.

1. BASIS OF PREPARATION continued

1.11 Provisions continued

Long service awards

Long service awards are provided to employees who achieve certain predetermined milestones of service within the entity. The entity's obligation under this plan is valued by actuaries periodically and the corresponding liability is accordingly raised. Payments are set-off against the liability resulting from the valuation by the actuaries and are charged against the statement of financial performance. Long service awards are settled as and when employees achieve certain predetermined milestones of service.

Legal fees

Legal fees are provided for legal matters where it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably measured.

1.12 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. Commitments are not recognised in the statement of financial position but disclosed in the notes to the annual financial statements.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Revenue is recognised when the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the FSB and specific criteria have been met as described below.

Revenue from exchange transactions comprises fees and service charges, interest and dividends as well as other recoveries.

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. Interest from government bonds is recognised based on the coupon rate. Interest income from short-term investment is recognised on a time-proportion basis using the effective interest method. Dividends are recognised when the right to receive payment is established, which is normally on the last day to register.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is recognised when the asset is recognised and if obligation arises from the receipt of the asset, the revenue is recognised to the extent that there is no further obligation. Revenue from non-exchange transactions comprises levies, penalties and other income.

All registered entities are required to pay annual levies to maintain their licences in terms of the Financial Services Board Act No 97 of 1990. Levies are raised in terms of the regulations published in the Government Gazette and are accounted for on an accrual basis.

The FSB is funded through levies charged to industry and over-recovered levies in excess of the FSB's requirements are rebated back to the industry. Levy rebates passed on to industry in terms of regulations published in the Government Gazette are recognised as a reduction in revenue.

Fines and penalties raised for late submission of returns are recognised on an accrual basis less any impairments. The income from fines and penalties is credited to the statement of financial performance, but as this income is not considered to form part of the normal operating activities of the FSB, it is transferred to the discretionary reserve.

Services in-kind are recognised as assets and revenue when they are significant to operations and/or service delivery objectives and it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets and revenue can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the nature and type of services in-kind received during the reporting period are disclosed in the notes to the annual financial statements.

Summary of significant accounting policies continued

for the year ended 31 March 2016

1. BASIS OF PREPARATION continued

1.15 Finance costs

Finance costs are charges incurred by the FSB in connection with the finance lease liability.

Finance costs are recognised as an expense in the period in which they are incurred.

1.16 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 statement of financial performance.

1.17 Accumulated funds and reserves

Accumulated funds

Accumulated funds are used to fund working capital requirements, capital expenditure, budgeted deficits (if any), as well as other unforeseen events. Accumulated funds are maintained at approximately two to four months' operational expenditure. National Treasury approval is obtained at the end of every financial year in order to retain the accumulated funds. Accumulated funds include non-cash amounts such as invoiced income not recovered, hence the full balance at year-end is not always represented by actual cash.

Contingency reserve

The contingency reserve is maintained to fund the FSB's long-term capital requirements and to protect the FSB'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.

Discretionary reserve

The discretionary reserve is used primarily to fund consumer education and consumer protection-related expenses. Fines and penalties recognised as income in the statement of financial performance are 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.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including:

- (a) this Act; or
- (b) the State Tender Board Act No 86 of 1968, or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and where recovered it is subsequently accounted for as revenue in the statement of financial performance.

Notes to the annual financial statements

for the year ended 31 March 2016

2. FINANCIAL RISK MANAGEMENT

Financial risk factors

The FSB is exposed to a variety of financial risks as a consequence of its operations namely, market risk, credit risk and liquidity risk. The FSB's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its performance. Financial risk management is carried out by the finance department under approved policies. The FSB provides written principles for overall risk management as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instruments and investment of excess liquidity.

2.1 Market risk

Foreign exchange risk

The FSB does not operate internationally but is exposed to foreign currency risk arising from various currency exposures. Its exposure is limited to foreign membership and subscription fees, foreign travelling expenses, foreign exchange denominated operating expenses as well as investments in off-shore portfolios. The risk relating to off-shore investment portfolios is managed by an investment manager in terms of their mandate. Accordingly, the FSB's exposure to foreign currency risk is minimised.

The following sensitivity analysis has been performed:

At 31 March 2016, if the currency had weakened or strengthened by 10% against the US dollar with all other variables held constant, the deficit for the year would have been R1 009 611 (2015: R921 582) higher or lower on foreign exchange gains or losses on translation of US dollar-denominated transactions.

The off-shore investment portfolios would have been R2 042 377 (2015: R1 830 188) higher or lower arising from unrealised foreign exchange gains or losses on translation of US dollar-denominated off-shore investment portfolios.

At 31 March 2016, if the currency had weakened or strengthened by 10% against the UK pound with all other variables held constant, the deficit for the year would have been R6 164 (2015: R24 286) higher or lower on foreign exchange gains or losses on translation of UK pound-denominated transactions.

Asset price risk

The FSB is exposed to equity securities price risk because of investments held by the FSB, which are classified on the statement of financial position as financial assets at fair value. These investments are managed by an investment manager in terms of an approved mandate. The investment manager manages the price risk arising from investments in equity securities through diversification of the portfolio in accordance with the mandate that gives the manager full discretion.

The FSB's investments in equity of other entities that are publicly traded are included in the All Share Index of the JSE Securities Exchange Limited (All Share Index). The table below summarises the impact of increases/decreases of the All Share Index on the FSB's surplus for the year and on reserves. The analysis is based on the assumption that the All Share Index had increased/decreased by 4% (2015: 15%) with all other variables held constant and that all the FSB's investments moved according to the historical correlation with the index:

Economic entity

	Impact on surplus for the year		Impact on investment portfolio	
	2016 R	2015 R	2016 R	2015 R
All Share Index	1 640 624	6 429 706	1 640 624	6 429 706

Cash flow and fair value interest rate risk

The FSB has significant cash and cash equivalents and its income and operating cash flows are dependent on changes in market interest rates. This is managed in line with movements in money market rates. The FSB does not have any interest-bearing borrowings and therefore there is no adverse exposure relating to interest rate movements in borrowings. Should the balances held on short-term deposit remain constant, the FSB's interest income will fluctuate R2 885 419 for every 100 basis point fluctuation in the prime interest rate.

Notes to the annual financial statements continued

for the year ended 31 March 2016

2. FINANCIAL RISK MANAGEMENT continued

2.2 Credit risk

Financial assets that potentially subject the FSB to concentrations of credit risk consist primarily of cash and cash equivalents as well as accounts receivable. The FSB's maximum exposure to credit risk relating to accounts receivables is the amount as shown in the statement of financial position. Cash and cash equivalents in excess of the FSB's immediate operational requirements are outsourced to a fund manager for investment in approved registered financial institutions. The investment mix is controlled by the FSB.

The FSB investment policy limits investments to A1 rated banks and the Corporation for Public Deposits (CPD), with a maximum of 50% invested in any one bank and no limit to the CPD. The table below shows the percentage invested compared to the total cash invested and balance of cash and cash equivalents invested in five major banks and Corporation for Public Deposits in excess of the FSB's immediate requirements (ie short-term deposits excluding current account balances) at the statement of financial position date:

	2016		2015	
	%	R	%	R
First National Bank Limited	—	—	24.0	51 796 312
Corporation for Public Deposits	100.0	288 541 943	76.0	162 714 961
		288 541 943		214 511 273

No investment limits were exceeded during the reporting period and management does not expect any losses from non-performance by CPD.

2.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient liquid resources and the ability to settle debts as they become due. In the case of the FSB, liquid resources consist of mainly cash and cash equivalents. The FSB maintains adequate resources by monitoring rolling cash flow forecasts of the cash and cash equivalents on the basis of expected cash flow.

Forecasted liquidity reserve as at 31 March 2016 is as follows:

	2016 R	Period 2017 to 2020 R
Opening balance for the period	238 793 195	302 916 002
Operating proceeds	694 110 749	1 034 851 140
Operating cash outflows	(608 910 012)	(907 825 186)
Cash outflow for investments	(30 699 831)	(45 770 441)
Proceeds from sale of investments	9 654 458	14 393 851
Finance lease obligation	(32 557)	(48 539)
	302 916 002	398 516 827

The table below analyses the FSB's financial liabilities at the statement of financial position date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 March 2016				
Payables	44 077 669	—	—	—
Finance lease liability	61 529	65 624	6 059	—
At 31 March 2015				
Payables	28 804 607	—	—	—

Capital risk management

The FSB's objectives when managing its funds and reserves are to safeguard the FSB's ability to continue as a going concern. The FSB maintains various funds and reserves which serve different purposes, refer to note 1.17.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices (level 1) at the statement of financial position date. The quoted market price used for financial assets held by the FSB is the current bid price.

3. CASH AND CASH EQUIVALENTS

	2016 R	2015 R
Short-term deposits	288 541 943	214 511 273
Cash at bank and on hand	14 374 059	24 281 922
	302 916 002	238 793 195

Included in cash at bank and on hand above is an amount of R4 002 828 (2015: R2 930 174), which is earmarked to fund the post-retirement medical aid plan. Also included in cash and cash equivalents is an amount of R22 161 363 (2015: R20 176 370) relating to the discretionary funds that are used to fund consumer education and consumer protection-related expenses. In addition, the FSB maintains a contingency reserve of R87 989 184 (2015: R77 952 325) including interest received to fund long-term capital requirements and to protect operating capacity against the effects of inflation and unforeseen events.

4. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2016 R	2015 R
Legal fees debtors	3 731 857	3 861 144
Less: Provision for credit losses	(3 597 907)	(3 597 907)
Net legal fees debtors	133 950	263 237
Staff debtors	3 886 604	3 336 044
Cost and other recoveries	3 000 265	2 506 474
Interest receivable	92 300	465 717
Other receivables	563 031	1 191 280
	7 676 150	7 762 752
Reconciliation of provision for credit loss of receivables from exchange transactions		
Opening balance	3 597 907	4 098 744
Utilised	–	(960 815)
Reversal of prior year's provision	–	(117 031)
Charged to the statement of financial performance	–	577 009
Closing balance	3 597 907	3 597 907

5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Levy debtors	11 548 122	17 636 478
Less: Provision for credit loss	(9 366 821)	(8 860 788)
Net levy debtors	2 181 301	8 775 690
Inspection cost debtors	12 607 226	13 537 697
Less: Provision for credit loss	(12 607 226)	(13 411 231)
Net inspection cost debtors	–	126 466
Penalty debtors	27 093 847	11 996 779
Less: Provision for credit loss	(20 221 478)	(4 860 113)
	6 872 369	7 136 666
Net trade receivables	9 053 670	16 038 822
Reconciliation of provision for credit loss of receivables from non-exchange transactions		
Opening balance	27 132 131	35 530 226
Provision utilised	(3 555 621)	(4 471 593)
Reversal of prior year provision	(1 277 885)	(18 414 802)
Charged to the statement of financial performance	19 896 900	14 488 300
	42 195 525	27 132 131

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6. PREPAYMENTS

Prepayments comprise membership fees and software licences.

7. PROPERTY, PLANT AND EQUIPMENT

	2016			2015		
	Cost R	Accumulated depreciation and accumulated impairment R	Carrying value R	Cost R	Accumulated depreciation and accumulated impairment R	Carrying value R
Leasehold improvements	2 387 286	(1 545 892)	841 394	1 804 230	(1 099 867)	704 363
Furniture, fittings, equipment and paintings	26 309 184	(13 139 946)	13 169 238	25 956 937	(11 715 066)	14 241 871
Motor vehicles	645 174	(301 301)	343 873	645 174	(257 001)	388 173
Computer equipment	64 755 600	(40 534 776)	24 220 824	49 990 196	(34 410 334)	15 579 862
Finance leased equipments	165 768	(50 651)	115 117	–	–	–
Total	94 263 012	(55 572 566)	38 690 446	78 396 537	(47 482 268)	30 914 269

	Opening balance R	Additions R	Disposals R	Depreciation R	Total R
Reconciliation of property, plant and equipment – 2016					
Leasehold improvements	704 363	583 056	–	(446 025)	841 394
Furniture, fittings, equipment and paintings	14 241 871	777 310	(42 031)	(1 807 912)	13 169 238
Motor vehicles	388 173	–	–	(44 300)	343 873
Computer equipment	15 579 862	14 977 280	(20 463)	(6 315 855)	24 220 824
Finance leased assets	–	165 768	–	(50 651)	115 117
	30 914 269	16 503 414	(62 494)	(8 664 743)	38 690 446

Reconciliation of property, plant and equipment – 2015

Leasehold improvements	1 112 675	33 682	–	(441 994)	704 363
Furniture, fittings, equipment and paintings	13 868 785	2 344 851	(27 547)	(1 944 218)	14 241 871
Motor vehicles	287 034	163 052	(11 432)	(50 481)	388 173
Computer equipment	19 966 290	3 157 422	(236 169)	(7 307 681)	15 579 862
	35 234 784	5 699 007	(275 148)	(9 744 374)	30 914 269

The useful lives and residual values of the various categories of property, plant and equipment were assessed during the current financial year and resulted in a change in accounting estimate. Refer to note 33.

8. INTANGIBLE ASSETS

	2016			2015		
	Cost R	Accumulated amortisation and accumulated impairment R	Carrying value R	Cost R	Accumulated amortisation and accumulated impairment R	Carrying value R
Computer software	9 992 749	(3 465 991)	6 526 758	5 464 761	(3 011 798)	2 452 963
Intangible assets under development	–	–	–	879 945	–	879 945
Total	9 992 749	(3 465 991)	6 526 758	6 344 706	(3 011 798)	3 332 908

	Opening balance R	Additions R	Disposals R	Transfers received R	Transfers R	Amorti- sation R	Total R
Reconciliation of intangible assets – 2016							
Computer software	2 452 964	4 297 673	–	954 022	–	(1 177 901)	6 526 758
Intangible assets under development	879 945	74 077	–	–	(954 022)	–	–
	3 332 909	4 371 750	–	954 022	(954 022)	(1 177 901)	6 526 758

Reconciliation of intangible assets – 2015							
Computer software	1 727 514	1 266 656	(12 065)	120 242	–	(649 383)	2 452 964
Intangible assets under development	795 300	204 887	–	–	(120 242)	–	879 945
	2 522 814	1 471 543	(12 065)	120 242	(120 242)	(649 383)	3 332 909

The useful lives of the various computer software were assessed during the current financial year and resulted in a change in accounting estimate. Refer to note 33.

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9. FINANCIAL ASSETS AT FAIR VALUE

	2016 R	2015 R
Designated at fair value		
Non-current assets		
Financial assets at fair value	68 088 674	66 632 352
Current assets		
Financial assets at fair value: bonds	227 771	–
Total	68 316 445	66 632 352

	Shares R	Gilts and bonds R	Off-shore collective investment schemes R	Total R
Movement for the year ended 31 March 2016				
Opening balance	42 864 703	5 465 768	18 301 881	66 632 352
Acquisitions	8 002 326	1 988 109	–	9 990 435
Disposals	(9 434 092)	(220 366)	–	(9 654 458)
Fair value adjustment	(417 347)	(356 426)	2 121 889	1 348 116
	41 015 590	6 877 085	20 423 770	68 316 445

Movement for the year ended 31 March 2015				
Opening balance	37 264 654	3 607 183	13 376 640	54 248 477
Acquisition	7 318 240	2 450 179	2 000 000	11 768 419
Disposals	(7 693 335)	(593 892)	–	(8 287 227)
Fair value adjustment	5 975 144	2 298	2 925 241	8 902 683
	42 864 703	5 465 768	18 301 881	66 632 352

Hierarchy of financial assets at fair value

The fair value of financial instrument traded in active markets is based on quoted market prices (level 1) at the statement of financial position date. The quoted market price used for financial assets held by the FSB is the current bid price.

10. PAYABLES FROM EXCHANGE TRANSACTIONS

	2016 R	2015 R
Accounts payable	19 884 097	6 264 808
Leave accrual	18 064 576	17 421 484
Accruals	22 469 141	20 649 021
Other payables	1 724 431	1 890 778
Operating lease accrual	4 376 936	8 843 918
	66 519 181	55 070 009

11. PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Unknown deposits	9 349	60 102
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12. LEVIES AND FEES RECEIVED IN ADVANCE

Levies received in advance	1 078 556	871 318
Fees received in advance	32 237 150	24 417 453
	33 315 706	25 288 771

13. PROVISIONS

	Opening balance R	Additions R	Utilised during the year R	Reversed during the year R	Total R
Reconciliation of provisions – 2016					
Provision for bonus	5 917 243	6 157 245	(5 917 243)	–	6 157 245
Provision for legal fees	284 049	–	(257 000)	(27 049)	–
Provision for long service awards	3 858 507	1 569 379	(744 000)	–	4 683 886
	10 059 799	7 726 624	(6 918 243)	(27 049)	10 841 131

Reconciliation of provisions – 2015					
Provision for bonus	5 531 497	5 917 243	(5 531 497)	–	5 917 243
Provision for legal fees	–	284 049	–	–	284 049
Provision for long service awards	3 930 000	408 507	(480 000)	–	3 858 507
	9 461 497	6 609 799	(6 011 497)	–	10 059 799

	2016 R	2015 R
Current liabilities	7 305 045	6 819 292
Non-current liabilities	3 536 086	3 240 507
	10 841 131	10 059 799

14. FINANCE LEASE OBLIGATION

Minimum lease payments due

– within one year	86 727	–
– in second to fifth year inclusive	80 531	–

	167 258	–
Less: Future finance charges	(34 046)	–

Present value of minimum lease payments	133 212	–
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Present value of minimum lease payments due		
– within one year	61 529	–
– in second to fifth year inclusive	71 683	–

	133 212	–
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Current liabilities	61 529	–
Non-current liabilities	71 683	–

	133 212	–
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Finance costs charged for the year	27 659	–
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The FSB leases three of its multifunctional machinery under finance lease. The period of the leases is 36 months. No escalations are attached to the lease agreement as all the machines are leased at the fixed rate for the duration of the lease.

15. POST-RETIREMENT BENEFIT OBLIGATIONS (MEDICAL AID FUND)

The FSB 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, assuming 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 FSB prior to retirement for employees currently in service. The FSB is not liable for post-retirement medical aid benefits in respect of any employee employed after 1 January 1998. The fund is recognised as a defined benefit plan.

The actuary evaluates the liability on an annual basis, allowing for expected future medical cost inflation, investment returns, staff turnover and mortality. The FSB 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 March 2016. It is the policy of the FSB to match this liability with appropriate non-current 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 R4 002 828 (2015: R2 930 174) representing cash on call, has been included with cash and cash equivalents. A certain portion of the post-retirement medical aid is payable within 12 months, however the value thereof is not readily determinable and thus the full liability has been disclosed as non-current. The main actuarial assumption is a long-term increase in health costs of 8.73% a year (2015: 7.5%).

Notes to the annual financial statements continued

for the year ended 31 March 2016

15. POST-RETIREMENT BENEFIT OBLIGATIONS (MEDICAL AID FUND) continued

Amounts recognised in the statement of financial position were determined as follows:

	2016 R	2015 R
Present value of unfunded obligations	45 265 629	43 326 962
Liability in the statement of financial position	45 265 629	43 326 962
The movement in the present value of the unfunded obligation for the year is as follows:		
Opening balance	43 326 962	36 627 919
Current service cost	793 415	695 740
Interest cost	3 552 811	3 333 141
Actuarial (gain)/loss	(791 516)	4 091 580
Benefits paid	(1 616 043)	(1 421 418)
Closing balance	45 265 629	43 326 962
The amounts recognised in the statement of financial performance are as follows:		
Current service cost	793 415	695 740
Interest cost	3 552 811	3 333 141
Benefits paid	(1 616 043)	(1 421 418)
Net actuarial (gain)/loss recognised during the year	(791 516)	4 091 580
Net expenses included in staff costs	1 938 667	6 699 043

The principal actuarial assumptions used were as follows:

Financial assumptions

Discount rate:	9.68% (2015: 8.2%) per annum compound.
Rate of medical aid contribution increases:	8.73% (2015: 7.5%) per annum compound.
Rate general price inflation:	7.73% (2015: 6.5%) per annum compound.

Mortality assumptions

Mortality – Active employee

Before retirement:	Nil
After retirement:	PA (90) Mortality Tables with an age reduction of two years.

Mortality – Pensioners

PA (90) Mortality Tables with an age reduction of two years

The effects of a 1% movement in the assumed medical cost trend rate are as follows:

	Decrease R	Increase R
Effect on the aggregate service cost and interest cost	(734 817)	908 797
Effect on the accumulated benefit obligation	(5 985 653)	7 344 814
	(6 720 470)	8 253 611

Amount for the current year and previous four years:

	2016 R	2015 R	2014 R	2013 R	2012 R
Present value of unfunded obligation recognised in the statement of financial position	45 265 629	43 326 962	36 627 919	35 961 227	28 411 792

16. POST-RETIREMENT BENEFIT OBLIGATIONS

Pension fund

The pension fund for permanent employees of the FSB is registered in terms of the Pension Fund Act No 24 of 1956. Prior to April 2000, the fund was a defined benefit plan for the benefit of all employees. New employees who 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 FSB at 31 March 2000 are entitled to the higher either defined contribution accumulation to the date of exit or the value of the defined benefit applicable on exit in terms of the rules in force as at 31 March 2000. There are currently a total of 48 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. An actuarial valuation of the benefit obligation was performed on 31 March 2016.

Amounts recognised in the statement of financial position are as follows:

	2016 R	2015 R
Carrying value		
Present value of the defined benefit obligation	79 606 000	76 947 000
Fair value of plan assets	(144 034 000)	(128 611 000)
Funded status	(64 428 000)	(51 664 000)
Asset not recognised	64 428 000	51 664 000
	–	–
The FSB does not have an unconditional right to any surplus that may accrue in the fund and therefore cannot recognise an asset in the statement of financial position.		
The major categories of plan assets as a percentage of total plan assets are as follows:		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	76 947 000	59 509 000
Current service cost	2 091 000	1 482 000
Interest cost	7 135 000	6 044 000
Actuarial (gains)/losses	(10 461 000)	3 423 000
Benefits paid	(6 160 000)	(5 094 000)
New pensioners	10 054 000	11 583 000
	79 606 000	76 947 000
Changes in the fair value of plan assets are as follows:		
Opening balance	128 611 000	107 298 000
Expected return on plan assets	11 657 000	10 402 000
Actuarial (losses)/gains	(3 643 000)	4 422 000
Contributions by employer	3 515 000	–
New pensioners	10 054 000	11 583 000
Benefits paid	(6 160 000)	(5 094 000)
	144 034 000	128 611 000
Components of pension cost for the year are as follows:		
Current service cost	2 091 000	1 482 000
Interest cost	7 135 000	6 044 000
Actuarial gains	(6 818 000)	(999 000)
Assets not recognised	12 764 000	3 875 000
Expected return on plan assets	(11 657 000)	(10 402 000)
	3 515 000	–
Calculation of actuarial gains and losses		
Actuarial (gains)/losses – Obligation	(10 461 000)	3 423 000
Actuarial losses/(gains) – Plan assets	3 643 000	(4 422 000)
	(6 818 000)	(999 000)

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16. POST-RETIREMENT BENEFIT OBLIGATIONS continued

Assumptions used at the reporting date

Assumptions regarding the 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 of 63 at the statement of financial position date is as follows:

	Average life expectancy 2016	Average life expectancy 2015
Male	17 years 4 months	17 years 4 months
Female	21 years 8 months	21 years 8 months

Amounts for the current year and previous four years are as follows:

	2016	2015	2014	2013	2012
Defined benefit obligation	79 606 000	76 947 000	59 509 000	89 335 000	98 049 000
Fair value of plan assets	(144 034 000)	(128 611 000)	(107 298 000)	(101 534 000)	(82 448 000)
Statement of financial position restriction	64 428 000	51 664 000	47 789 000	12 199 000	1 875 000
	–	–	–	–	17 476 000

Other assumptions

Key financial assumptions

Discount rate: This is set having regard to the market yield on government bonds, using a weighted average discount rate that reflects the timing and amount of benefit payments – see discussion below. A rate of 10.53% per annum has been used (a rate of 8.81% was used at 31 March 2015).

Long-term price inflation rate: We have assumed a long-term future inflation rate of 7.59% per annum. This was calculated to reflect the difference between the yields on nominal government bonds and index-linked government bonds (at the appropriate duration) after allowing for an inflation risk premium of 1% on the basis that nominal bond yields include an inflation risk premium (being the additional return an investor seeks in compensation for the inflation risk taken on) and therefore that the implied inflation rate is lower than that suggested by the differential between nominal and index-linked bond yields (6.29% used at 31 March 2015).

Salary inflation: It has been assumed that salary increases will take place at a rate of 1.00% per annum in excess of price inflation, ie 8.59% per annum (7.29% used at 31 March 2015).

Pension increases: It has been assumed that pension increases will take place at a rate of 5.69% per annum (4.71% used at 31 March 2015). This represents some 75% of the expected inflation rate above and is in line with the pension increase policy of the fund.

Expected return on plan assets: It has been assumed that the long-term expected return on plan assets is equal to the discount rate of 10.53%, following the approach adopted in the previous disclosure.

	2016 R	2015 R	2014 R	2013 R	2012 R
Experience adjustments					
Active liabilities at end of year	26 223 000	30 779 000	27 265 000	56 961 000	65 510 000
Pensioner liabilities at end of year	53 383 000	46 168 000	32 244 000	32 374 000	32 539 000
Combined assets at end of year	(144 034 000)	(128 611 000)	(107 298 000)	(101 534 000)	(82 448 000)
Funded status at year-end	(64 428 000)	(51 664 000)	(47 789 000)	(12 199 000)	15 601 000
Gains/(losses) on liabilities through experience	(2 139 000)	5 847 000	12 469 000	13 490 000	(2 899 000)
Gains/(losses) on liabilities through assumptions	12 600 000	(9 270 000)	8 203 000	3 349 000	(21 641 000)
Gains/(losses) on liabilities	10 461 000	(3 423 000)	20 672 000	16 839 000	(24 540 000)
Gains/(losses) on plan assets	(3 643 000)	(4 422 000)	(7 022 000)	(7 638 000)	(502 000)

17. RESERVES

	2016 R	2015 R
Contingency reserve		
Opening balance	59 439 000	54 676 422
Transfer from accumulated funds	6 191 031	4 762 578
	65 630 031	59 439 000
An amount of R6 191 031 (2015: R4 762 578) was transferred from accumulated funds to maintain the reserve at 10% of annual levy and fee income.		
Discretionary reserve		
Opening balance	22 222 735	14 583 914
Net transfer from accumulated funds	859 050	7 638 821
	23 081 785	22 222 735
The transfer (to)/from accumulated funds for the year, as reflected in the statement of changes in net assets is calculated as follows:		
Fines and penalties per statement of financial performance	17 540 907	5 998 450
Other income	119 884	87 293
Provision	(16 034 435)	(4 860 113)
Interest allocated to this reserve	1 419 257	1 042 782
Expenses in respect of consumer education	(2 844 883)	(5 965 784)
Reversal provision	658 320	11 336 193
Transfer from accumulated funds	859 050	7 638 821
Net transfer to discretionary reserve	859 050	7 638 821
Total reserves	88 711 816	81 661 735

18. FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Financial assets at amortised costs R	Fair value through surplus or deficit R	Total R
2016			
Financial assets at fair value	–	68 316 445	68 316 445
Receivables	16 729 820	–	16 729 820
Cash and cash equivalents	302 916 002	–	302 916 002
	319 645 822	68 316 445	387 962 267
2015			
Financial assets at fair value	–	66 632 352	66 632 352
Receivables	23 801 574	–	23 801 574
Cash and cash equivalents	238 793 195	–	238 793 195
	262 594 769	66 632 352	329 227 121

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19. FINANCIAL LIABILITIES BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Other financial liabilities R	Total R
2016		
Payables	44 077 669	44 077 669
Finance lease liability	133 211	133 211
	44 210 880	44 210 880
2015		
Payables	28 804 607	28 804 607

20. CREDIT QUALITY OF FINANCIAL ASSETS

	2016 R	2015 R
Trade receivables		
Group 1	21 325 866	11 375 037
Group 2	582 043	277 182
Group 3	40 615 343	42 879 393
Total trade receivables	62 523 252	54 531 612

Group 1 – debtors outstanding for less than 90 days and with no defaults.

Group 2 – new debtors outstanding for more than 90 days and with no defaults.

Group 3 – existing debtors outstanding for more than 90 days and with some defaults.

The total gross carrying amount of the impaired receivables as at reporting date is R54 981 052 (2015: R47 032 098) and the associated total impairment is R45 793 432 (2015: R30 730 039) see note 4 and 5. Of these debtors, the recovery of R20 239 040 (2015: R21 589 535) has been handed over for collection. Refer to the accounting policy note 1.4 for factors management considered in determining whether receivables are impaired.

Cash and deposits are held with A1 rated banking institutions and the CPD and are regarded as having insignificant credit risk. The FSB invests its surplus cash in the short-term deposits accounts. The interest rates on these accounts fluctuates in line with the movements in current money market rates.

21. REVENUE FROM EXCHANGE TRANSACTIONS

Fees and service charges	48 481 583	37 217 986
Legal fees and other cost recoveries	3 449 401	3 377 785
Interest received	20 306 674	14 991 795
Dividends received	1 295 168	1 310 195
Other income	3 242 338	2 920 892
Compensation from insurance	8 064	123 695
	76 783 228	59 942 348

22. REVENUE FROM NON-EXCHANGE TRANSACTIONS

FSB levies	527 357 198	482 156 726
PFA levies	46 509 632	43 867 913
FAIS ombud levies	33 951 900	31 147 375
Penalties	17 540 907	5 998 450
Other income	2 182 280	3 011 269
	627 541 917	566 181 733

23. RELATED PARTIES

	2016 R	2015 R
Year-end balances arising from services provided to/(by) related parties		
Office of the pension funds adjudicator	(1 166 077)	(1 376 984)
Office of the ombud for financial services providers	(8 186 099)	(1 929 302)
National Treasury	225 078	–
	(9 127 098)	(3 306 286)
Funds provided to the office of the pension funds adjudicator in terms of section 30R(1)(a) of the Pension Funds Act No 24 of 1956 as amended.		
Contribution towards funding of the office	47 136 955	43 768 702
Funds provided to the office of the ombud for financial services providers in terms of section 22(1)(a) of the Financial Advisory and Intermediary Services Act No 37 of 2002.		
Contribution towards funding of the office	43 422 676	35 798 000
Revenue received from related parties		
Income received for IT services from pension fund adjudicator	3 000 000	2 724 000
Cost recoveries for legal fees from National Treasury	225 078	–
Cost recoveries for professional fees from South African Reserve Bank	741 734	–
	3 966 812	2 724 000

24. KEY MANAGEMENT REMUNERATION
Executive management remuneration

	Salary R	Incentive bonus R	Leave commutation paid R	Total R
31 March 2016				
DP Tshidi, EO	4 995 665	1 071 139	592 778	6 659 582
JA Boyd, DEO: CIS	3 037 219	420 000	–	3 457 219
CK Chanetsa, DEO: Investment Institutions	2 905 742	350 000	–	3 255 742
CD Da Silva, DEO: FAIS	2 730 645	400 000	–	3 130 645
JI Dixon, DEO: Insurance	3 003 235	410 000	–	3 413 235
MM Du Toit, Chief Actuary	2 968 052	380 000	–	3 348 052
RT Hunter, DEO: Retirement Funds	2 537 500	–	143 836	2 681 336
R Harichunder, Acting CFO and CRO	2 189 688	–	–	2 189 688
TG Ramuthaga, CIO	2 671 343	450 000	–	3 121 343
LP Kekana, CFO (appointed 1 September 2015)	1 458 333	–	–	1 458 333
	28 497 422	3 481 139	736 614	32 715 175

Included in the current year's salary for JA Boyd is a long service award of R18 000. Mr Harichunder was acting CFO from October 2014 to August 2015.

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24. KEY MANAGEMENT REMUNERATION continued

Executive management remuneration continued

	Salary R	Incentive bonus R	Leave commutation paid R	Total R
31 March 2015				
DP Tshidi, EO	4 658 451	1 078 464	348 171	6 085 086
JA Boyd, DEO: CIS	2 810 029	379 224	—	3 189 253
CK Chanetsa, DEO: Investment Institutions	2 704 879	322 080	—	3 026 959
CD Da Silva, DEO: FAIS	2 547 573	311 691	—	2 859 264
JI Dixon, DEO: Insurance	2 795 633	389 614	279 552	3 464 799
MM Du Toit, Chief Actuary	2 763 831	603 249	—	3 367 080
RT Hunter, DEO: Retirement Funds	2 500 000	—	—	2 500 000
TG Ramuthaga, CIO	2 488 819	363 639	—	2 852 458
DM Seedat, CFO (resigned 13 September 2014)	1 171 676	—	711 126	1 882 802
R Harichunder, Acting CFO (appointed 1 October 2014)	1 135 688	—	—	1 135 688
	25 576 579	3 447 961	1 338 849	30 363 389

Non-executive board members' fees

	Board members' fees R	Legislation committee R	Licensing committee R	Litigation committee R	Human resource and remuneration committee R	Audit committee R	Risk committee R	Other R	Total R
31 March 2016									
AM Sithole (Chairperson)	121 114	19 849	—	—	47 909	—	—	42 639	231 511
HS Wilton (Deputy Chairperson)	67 369	—	—	—	40 466	24 810	50 544	58 757	241 946
ZBM Bassa	104 259	—	—	—	55 352	—	50 544	63 719	273 874
J Mogadime	104 259	—	148 227	—	—	98 145	70 392	63 719	484 742
D Msomi	67 369	—	125 436	53 025	—	98 145	—	50 852	394 827
MH Ratshefola	104 259	37 677	107 145	—	—	—	70 392	84 021	403 494
PJ Sutherland	67 369	35 196	—	53 025	—	74 430	—	58 757	288 777
DLD Turpin	67 369	37 677	—	53 025	—	—	70 392	63 719	292 182
	703 367	130 399	380 808	159 075	143 727	295 530	312 264	486 183	2 611 353

31 March 2015

AM Sithole (Chairperson)	79 362	25 718	—	—	31 395	—	—	344 543	481 018
HS Wilton (Deputy Chairperson)	63 481	—	—	—	14 028	39 746	14 028	61 646	192 929
ZBM Bassa	63 481	—	—	—	31 395	—	30 354	65 750	190 980
J Mogadime	63 481	—	117 304	—	—	73 622	46 863	73 336	374 606
D Msomi	63 481	—	107 952	33 304	—	71 284	—	52 294	328 315
MH Ratshefola	63 481	34 473	93 209	—	—	—	33 504	57 111	281 778
PJ Sutherland	63 481	35 642	—	47 332	—	57 256	—	40 318	244 029
DLD Turpin	63 481	24 549	—	47 332	—	—	46 863	30 425	212 650
	523 729	130 306	318 465	127 968	76 818	241 908	171 612	725 423	2 306 305

O Makhubela, I Momoniat and F Groepe are serving as board members of the FSB and employed by National Treasury and the South African Reserve Bank, respectively. In terms of the PFMA, public servants serving as board members in public entities should not be remunerated for their services. Therefore no remuneration was paid to these members.

25. AUDITORS' REMUNERATION

	2016 R	2015 R
Current year – interim fee	382 517	787 034
Prior year audit fees	2 323 231	1 869 220
	2 705 748	2 656 254

26. OTHER OPERATING EXPENSES

Travelling costs	7 344 346	7 674 388
Telephone and call centre	5 057 306	7 133 851
Advertising and publication	10 064 890	10 477 277
Computer, support, maintenance and licensing costs	15 634 795	10 857 017
Insurance	5 512 042	5 149 059
Twin peaks expenses	–	11 508 570
Operational costs	11 386 493	10 184 334
	54 999 872	62 984 496

27. PROVISION FOR CREDIT LOSSES

Current year provision	19 896 900	15 065 309
Reversal of prior year provision	(1 277 886)	(18 414 802)
	18 619 014	(3 349 493)

28. RECONCILIATION OF NET SURPLUS BEFORE INTEREST AND CASH

Surplus for the year	46 093 742	59 902 424
Adjustments for:		
Depreciation and amortisation	9 842 643	10 393 757
Loss on sale of assets	62 495	236 214
Fair value adjustment	(1 348 116)	(8 902 683)
Provision for credit losses	18 619 014	(3 349 493)
Post-retirement medical expenses	1 938 667	6 699 043
Operating lease accrual	(4 466 982)	(2 526 723)
Changes in working capital:		
Increase in receivables	(11 547 263)	(4 495 993)
Decrease/(increase) in prepayments	1 332 866	(4 755 193)
Increase in trade and other payables	16 936 792	12 726 041
Increase in levies and fees received in advance	8 020 928	2 928 209
(Decrease)/increase in provisions	(284 049)	284 049
	85 200 737	69 139 652

29. TAXATION

The FSB is exempt from income tax in terms of section 10(1)(cA)(i)(bb) of the Income Tax Act No 58 of 1962.

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30. COMMITMENTS

	2016 R	2015 R
Capital commitments		
<i>Already contracted for but not provided for</i>		
Capital expenditure	1 371 630	368 366
The FSB board has approved capital expenditure of R89 million for the 2017 financial year.		
Operating lease commitments		
<i>Building lease</i>		
The FSB leases its office accommodation in Riverwalk Office Park, Blocks B and C with operating lease terms that started on 1 November 2009 and 1 October 2015, respectively. The lease agreements for Blocks B and C is seven and eight years, respectively. The operating lease rentals exclude charges for operational costs, electricity, rates and taxes. Escalations of 8% have been included in the lease agreements.		
The total future minimum lease payments under these leases are as follows:		
Minimum lease payments due for Block B		
Due within one year	20 558 899	33 720 946
Due between one and four years	–	20 558 899
	20 558 899	54 279 845
Minimum lease payments due for Block C		
Due within one year	3 518 994	–
Due between one and five years	17 125 539	–
Later than five years	13 654 246	–
	34 298 779	–
Machinery leases		
The FSB leases some of its machinery from different suppliers. The period of the leases varies from 24 to 36 months. No escalations are attached to the lease agreement as all the machines are leased at a fixed rate for the duration of the lease.		
Minimum lease payments due		
Due within one year	366 888	467 456
Due between one and five years	139 724	383 532
	506 612	850 988

31. CONTINGENT LIABILITIES

The FSB has no contingent liabilities.

32. ASSETS ADMINISTERED ON BEHALF OF THIRD PARTIES

In terms of section 77(7) of the Security Services Act, 2004, amounts recovered by the FSB 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 FSB. The balance of the Directorate of Market Abuse Trust account at the end of the year was R1 650 278 (2015: R1 562 636).

33. CHANGE IN ACCOUNTING ESTIMATES

Impact of changes in accounting estimates

Increase in net surplus	2 429 005	3 678 402
Decrease in depreciation on property, plant and equipment	(2 345 095)	(3 355 896)
Decrease in amortisation on intangible assets	(83 910)	(322 506)
	–	–

In the current year management reassessed the remaining useful lives and residual values of property, plant and equipment and intangible assets. The change in estimate is applied prospectively. The effect of this assessment has decreased the depreciation and increased amortisation charges in the current period and increased the depreciation and decreased the amortisation charges for future periods by R2 345 095 (2015: R3 355 896) and R83 910 (2015: R322 506) respectively.

34. PRIOR PERIOD ADJUSTMENTS

	2016 R	2015 R
In the past the FSB did not recognise the provision for bonus and long service awards. The provisions have since been recognised which resulted in a prior period adjustment. The effect of the adjustments are as follows:		
Impact on statement of financial position		
Decrease in accumulated funds – opening balance	–	9 461 498
Increase in provisions	–	(9 775 750)
	–	(314 252)
Impact on statement of financial performance		
Charged to staff cost	–	(314 252)
Surplus reconciliation – 2015		
Surplus for the year as per previous annual financial statements	–	60 216 679
Prior year adjustment:	–	(314 252)
Restated surplus for the year	–	59 902 427
There was no impact in the statement of cash flows.		
35. IRREGULAR EXPENDITURE		
Opening balance	1 642 343	–
Irregular expenditure occurred	–	1 642 343
Prior year correction	(1 642 343)	–
	–	1 642 343
Due to exceptional circumstances legal services were acquired from two service providers prior to receiving their tax clearance certificates as required by National Treasury guideline. The tax clearance certificates were subsequently received.		
36. RECLASSIFICATION OF COMPARATIVES		
Impairment of legal fees and inspection costs		
Management decided to reclassify the prior year's impairment on legal fees and inspection costs to improve the quality of disclosure in the financial statements. The reclassification in the current year has resulted in an increase in income, a decrease in other operating expenses and provision for credit losses. There is no impact on the net surplus.		
Impact on statement of financial performance		
Increase in revenue from non-exchange	–	767 399
Decrease in other operating expenses	–	577 009
Decrease in provision for credit losses	–	(1 344 408)
Net impact on the surplus	–	–
Cash flow statement		
Cash flow from operating activities		
Decrease in cash received from the industry	–	(577 009)
Decrease in cash paid to suppliers	–	577 009
	–	–
37. SERVICES RECEIVED IN KIND		
The FSB receives services in kind in the form of free training from various organisations which is not significant to operations.		
38. RECONCILIATION BETWEEN BUDGET AND CASH FLOW STATEMENT		
Reconciliation of budget deficit with the net cash generated from operating, investing and financing activities:		
Operating activities		
Actual amount as presented in the budget statement	(43 901 733)	(11 676 978)
Timing differences	129 102 470	80 816 630
Net cash flows from operating activities	85 200 737	69 139 652
Investing activities		
Actual amount as presented in the budget statement	(48 933 522)	(8 034 345)
Timing differences	27 855 592	(2 566 397)
Net cash flows from investing activities	(21 077 930)	(10 600 742)
Net cash generated from operating, investing and financing activities	64 122 807	58 538 910

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39. BUDGET DIFFERENCES

Material differences between budget and actual amounts

The budgetary basis and classification bases adopted in the budget are the same as those used in the preparation of the financial statements. The approved budget covers the period from 1 April 2015 to 31 March 2016. Included in this budget are contributions made towards the funding of the offices of the ombud of the financial services providers and pension funds adjudicator.

Revenue from exchange transactions

The reported excess representing a 55% variance to budget was due to the following main contributors:

- » Interest received from discretionary, post-retirement funds and other income which are not budgeted.
- » Fee income received is favourable to budget due to increased volume of applications.

Fair value adjustment

The fair value adjustment relates to the portfolio earmarked for the post-retirement medical fund liability which is not budgeted for due to unpredictable changes in the market.

Advisory and other committee fees

The unfavourable variance of 50% is mainly as a result of increased number of hearings related to FSB regulated entities.

Depreciation and amortisation

The variance of 11% is due to the time delays in the procurement of budgeted assets and changes in useful life estimates.

Internal audit fees

The variance representing a saving of 22% is mainly due to the delays in the reappointment of the current service provider.

Operating lease rentals – buildings

The favourable variance of 9% is as a result of the smoothing of the operating lease rental payments which is not considered during budgeting.

Other operating expenses

The variance (24%) of actual to budgeted amount is mainly as a result of the following:

- » Advertising and recruitment, computer software licences and computer support and maintenance costs, the variance on these line items is as a result of Twin Peaks-related expenditure being delayed pending the promulgation of the Twin Peaks legislation.
- » Underspending on the local travel budget is mainly as a result of fewer onsite visits to the FSB regulated entities.
- » The balance of the under spending is attributable to various cost-saving initiatives implemented by the cost centre managers.

Professional and consulting fees

The variance of 42% is mainly as a result of Twin Peaks-related expenditures which have been delayed pending the promulgation of the Twin Peaks legislation.

Provision for credit losses

Provision for credit losses are not budgeted due to the uncertainty surrounding the recoverability of receivables.

Post-retirement medical aid fund expense

The post-retirement medical aid fund expense is not budgeted as it is dependent on the annual actuarial valuation.

Non-executive board members' fees

The unfavourable variance of 7% is due to the additional number of meetings held in the year under review.

POSTAL ADDRESS

PO Box 35655
Menlo Park
0102

PHYSICAL ADDRESS

Riverwalk Office Park, Block B
41 Matroosberg Road
Ashlea Gardens Extension 6
Menlo Park
0081

CONTACT DETAILS

Tel: +27 012 428 8000
Fax: +27 012 346 6941
Email: info@fsb.co.za
Website: www.fsb.co.za

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