national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

AMENDMENTS TO REGULATION 28 OF THE PENSION FUNDS ACT TO ENCOURAGE INFRASTRUCTURE INVESTMENT BY RETIREMENT FUNDS

The National Treasury today publishes the final amendments to Regulation 28 of the Pension Funds Act, as published as Notice No. 2230 in *Government Gazette* No. 46649 of 1 July 2022).

Regulation 28, issued in terms of section 36(1)(bB) of the Pension Funds Act, protects retirement fund member savings by limiting the extent to which funds may invest in a particular asset or in particular asset classes, and prevents excessive concentration risk. The regulations widen the scope of potential investments for retirement funds but continues to leave the final decision on any investment to the trustees of each fund, who determine the investment policy for any fund.

These amendments follow two rounds of public comments in 2021. The aim of the amendment is to explicitly enable and reference longer term infrastructure investment by retirement funds, by increasing maximum limits that funds may invest in. To this extent, the amendments introduce a definition of infrastructure, and sets a limit of 45% for exposure in infrastructure investment. To further facilitate the investment in infrastructure and economic development, the limit between hedge funds and private equity has been split. There will now be a separate and higher allocation to private equity assets, which is 15% increased from 10%.

Retirement funds will continue to be prohibited from investing in crypto assets. The excessive volatility and unregulated nature of crypto assets require a prudent approach, as recent market volatility in such assets demonstrates.

A limit of 25% has been imposed, across all asset classes to limit exposure of retirement funds to any one entity (company), not just infrastructure. However, one exception to the per entity limit, is debt instruments issued by, and loans to, the Government of the Republic and any debt or loan guaranteed by the Republic.

The asset allocation to housing loans granted to retirement fund members will be reduced from 95% to 65% in respect of new loans only. This is meant to curb abuse of the housing loan scheme by fund members. The National Treasury is mindful of the important role played by housing ownership in wealth creation and in retirement and will continuously monitor this area of investment.

As part of aligning various regulatory approaches and achieving consistency, only investments in CISCA approved hedge funds will be permitted. The reporting exclusion on look-through of CIS and insurance policies has been removed to enable the regulators to collect important statistics on underlying exposures, as part of understanding and monitoring linkages in the financial system and for proactive supervision.

The amendments will take effect on 03 January 2023, to enable regulators and fund managers to comply with the new regulations. FSCA is in the process of finalising the standard on reporting requirements aligned to the revised Regulation 28 and will issue it for public comment soon.

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