

**BUDGET VOTE SPEECH BY THE DEPUTY MINISTER OF FINANCE  
9 JUNE 2003  
NATIONAL ASSEMBLY**

Madam Speaker

Honorable Members

Each year is defined by a number of significant events that directly influence our financial well being and determine our collective future as players in the global market place. In my 2002 budget speech I talked about the affects of the events of September the 11<sup>th</sup>, the string of spectacular corporate failures around the world and the demise of Argentina as key events that shaped our financial world.

Whilst these events still influence our markets today, the war in Iraq and the spread of the SARS virus are two key events that pose new challenges and are in the process of redefining outcomes in terms of the global economy.

Although we had a suspected case of SARS, fortunately it turned out to be negative. The volatility in global markets that was a consequence of the build up to the war in Iraq affected our markets, both positively and negatively. The gold price shot up along with oil prices, but the net effect was reflected in significantly weaker global equity prices across the board. This has had a severe effect on the performance of pension funds and other market related savings instruments.

The period under review, i.e. the post September 11, the build up to and onset of the war on Iraq, as well as the outbreak of the SARS virus, has also seen a considerable growth in tourism to South Africa as well as a considerable strengthening of the South African currency.

The point that should not be missed is that in South Africa we remain optimistic. How can we not be with an economy that has shown resilience and strength in the face of adversity? We are proud of this fact and will continue to ensure that Government's economic and financial market policies are capable of delivering stability and growth within continuously changing global circumstances.

This environment gives us a chance to reflect on the progress made since last year's budget vote debate on a number of key areas, briefly, developments in our financial markets; progress made with regards to consumer protection and education; the regulation of auditors and accountants; the combating of money laundering; implementation of an effective and efficient system of government procurement; progress made in the disbursement of special pensions and the performance of the Government Employees Pension Fund ("GEPF") whose assets are managed and invested on its behalf by the PIC.

## **FINANCIAL MARKETS**

Reflecting on the year since the last budget, a number of developments have occurred within our financial markets that are worth mentioning.

Firstly, the relationship that was developed between FSTE and the JSE in 2002 has proved fruitful and exciting. Members might be aware that FTSE now calculates all the JSE's indices and works with the exchange to develop new indices. This work is also complemented by the JSE's efforts to develop new markets including a development capital market that is anticipated to be launched within the coming months.

These developments are mirrored in the derivatives market with the development of new types of contracts being offered by SAFEX in the agricultural futures market.

The JSE has also recently issued updated listings requirements that focus on a number of key issues including improved corporate governance amongst

listed companies. Certain aspects of the King Code on Corporate Governance have been expanded on to provide companies with clearer guidelines in terms of reporting and board functions and responsibilities.

Looking at the debt market, the Bond Exchange of South Africa listed R41 million of an initial R150 million issue of Swaziland's Post and Telecommunications debt on 15 April this year. The issue consists of both a short dated floating note maturing on 31 April 2006 and a fixed interest, fixed redemption redeemable on 15 October 2010. This is a significant development for us given the regional role South Africa's financial markets intend to play as a source of regional capital for development. South Africa has both the infrastructure and financial strength to become a powerful regional financial centre.

In terms of the regulatory framework governing the markets, the Collective Investment Schemes Bill was passed towards the end of last year and enacted in the beginning of this year. The Financial Services Board has already begun to implement all the necessary changes to the regulation of the collective investment industry inline with this new legislation.

Madam Speaker, you may recall that in the last budget vote debate we had indicated that the Security Services Bill was going to be tabled in Parliament last year. This is arguably the most important piece of legislation awaiting the Portfolio Committees input because it not only consolidates five pieces of existing legislation into one single Act, but it also represents a whole new approach to the institutional structure of South Africa's financial markets. The Minister of Finance withdrew the Bill from the process of being Tabled in Parliament in early July last year and requested the Treasury to address concerns he had about the practicalities of implementing some of the new provisions contained in the Bill.

As a result of this, the legislation has been delayed for almost a year, but it is now back on track and on its way to Cabinet for the second time after key amendments have been agreed to between the Treasury and the Financial

Services Board. It is now anticipated that this key legislation will be Tabled before this House in the coming quarter.

## **ON CONSUMER PROTECTION AND EDUCATION**

In the past year legislation and regulations have been put in place to ensure that pensioners, policyholders and investors alike are protected and educated. The Financial Advisory and Intermediary Services Act better known as FAIS, was promulgated in mid November last year.

In March 2003 the Minister approved regulations in terms of Sections 22 to 31 of the FAIS Act for the establishment of the FAIS Ombud. The appointment of an Ombud is expected to be finalised by the beginning of July this year. The Ombud will be empowered to impose penalties on advisors or intermediaries who contravene the Act in the form of a fine or imprisonment for up to one year.

In addition to this, the Financial Services Board is currently completing the process of consultation with its FAIS Advisory Committee to begin registering all advisors and intermediaries. This is a crucial step towards the enforcement of the Act given that registration implies that the FSB will have jurisdiction over those it is seeking to regulate. The FSB intends to begin the registration process in July this year.

As part of a comprehensive consumer education strategy, the FSB is planning to launch an education campaign involving the distribution of booklets that will assist low-and middle-income South Africans in their purchase of financial services. The booklets will be issued in basic dialogue format and will accentuate the message, that

*“To live in financial soundness depends more on discipline and an awareness of one’s needs than on intelligence, thus making it possible for each consumer rich or poor, intelligent and not so intelligent to enhance his /her*

*personal financial soundness and by so doing create a wealthier, more prosperous South African society”.*

It is envisaged by the FSB that distribution of these booklets will begin in early July 2003. The FSB is currently fund raising for the printing and distribution of these booklets including raising money for training school teachers and others to teach people about the contents of the booklets.

Finally, the FSB's Consumer Education Department has also been involved in an awareness campaign for surplus pensions. There is a lot of misconception as to who will have access to the surpluses of pension funds and the FSB is trying to ensure that everyone concerned is informed of their rights.

## **AUDITING AND ACCOUNTING PROFESSION**

I would now like to take a moment to focus on auditing and accounting, as it is one of the most fundamental issues affecting the integrity of our markets and economy today.

I am very pleased to address this issue given the substantial progress that is being made towards bolstering the regulation of these two professions. As Members may be aware, the Minister of Finance launched a Panel for the Review of the Accounting Professions' Bill on 6 December 2002. The Panel has nine terms of reference that essentially can be grouped into three key areas, namely:

- the independence of auditors from their clients,
- an appropriate system of accountability and liability for auditors, accountants and senior management, and
- the need for an appropriate institutional and legislative framework to be implemented to support the goal of protecting the integrity of our financial markets through honest, accurate and fair financial reporting.

The Panel is due to provide the Minister with recommendations on the terms of reference by the 31<sup>st</sup> of July this year. The Panel has already solicited public comment which we believe has resulted in lengthy debates about the correct approach to take.

Members should note that the Terms of Reference, all public comment received and other relevant information about the Panel can be found on the Treasury's website by clicking on the icon "Accounting Professions' Bill".

The process that will unfold subsequent to the Panel providing the Minister with recommendations is anticipated to be as follows:

- The recommendations will be reviewed by the Minister and the National Treasury and depending on the practicalities of the recommendations, they will either be fully or partially accepted;
- The accepted recommendations will then be written into legislation through amending the existing Accounting Professions' Bill, the Financial Reporting Bill and with the co-operation of the Minister of Trade and Industry the Companies Act;
- Once the redrafted legislation is complete, this will then be circulated for public comment and inputs will be incorporated where appropriate;
- Once the legislation is complete, Cabinet will be requested to endorse a new way forward in terms of the regulation of auditors and accountants and finally, Parliament;
- It is anticipated that this process should be complete by mid next year given our commitment to ensuring that the integrity of our financial markets is protected.

The approach that we are taking is to try and ensure that the solutions we implement are as holistic and practical as possible. At this point we are very pleased with the progress that is being made and look forward to providing Members with an update next year.

## **FINANCIAL INTELLIGENCE**

There is a growing global realisation that there is a need to keep ill-gotten funds out of global financial systems. Worldwide, countries are establishing or improving financial intelligence units to prevent money laundering and to combat terrorist financing. The cumulative effect of money laundering activities harms a country's reputation and impacts on its financial stability by destabilising the foundations of a nation's financial system. The quick flow of laundered funds distorts business decisions; increases the risk of bank failures; creates liquidity problems in financial markets; and diminishes tax revenue - thereby indirectly prejudicing honest taxpayers.

As far as money laundering is concerned, South Africa has embarked on an ambitious programme, which started when, the Financial Intelligence Centre (FIC) was established in 2001. The Act that creates the FIC, namely the Financial Intelligence Centre Act or "FICA" is regarded as one of the most comprehensive and leading pieces of legislation in this field. Since the beginning of this year implementation of the FICA has gathered momentum, starting with the reporting of suspicious transactions to the FIC from the 3 February 2003 and continues as from the 30 June 2003, the requirement to establish and verify the identity of clients will come into force for reporting institutions.

As no country can implement anti-money laundering measures in isolation, in June 2002, South Africa was accepted as an observer-member of the FATF, which is the de-facto international coordinating body for policy development and assessment in the area of money laundering control and the combating of terrorist financing. It presently consists of 29 member countries and several observer institutions.

Full membership to FATF will ultimately provide South Africa with the opportunity to influence the policy process that has been under way within FATF over the past 18 months.

### **SPECIAL PENSIONS DISPENSATION**

Since promulgation of the Special Pensions Act in 1996 and full implementation thereof in 1997, the total number of applications received was 29 766. The Board has almost completed adjudication on these applications. However, Special Pensions received about 2500 late applications, which are not being processed pending the amendment to the Act to permit late applications.

Finally, it is worth mentioning that Special Pensions established a research unit in September 2002 to enhance the process of collecting information on applicants, facilitate the speedy processing of applications and appeals, and to reach out to those persons who may be eligible for benefits but had not applied.

### **Special Pensions benefit payments**

Since the implementation of the Special Pensions Act No. 69 of 1996 in 1996/97 up to the financial period ended 31 March 2003, the Board has made benefit payments of R1, 08 billion in comparison to the budget of R2, 37 billion. This under-expenditure is as result of administrative delays in processing claims.

However, I am pleased to report that the benefit payments process has improved tremendously during the 2001-2002 financial year. This is attributable to the appointment of Board members on a full-time basis by the Minister. We have utilised the experience of these Board members over a period of a solid two years to conduct a comprehensive review of the Special Pension dispensation which has been completed and is due to go to Cabinet as policy and legislative changes may result.

## **PUBLIC INVESTMENT CORPORATION**

Madam Speaker, as Chairperson of the PIC Board, I thought it important to report on certain it's performance given the general perception that pension funds around the world have shed a substantial amount of value over the past 6 months.

Whilst the equity markets, both domestically and internationally, performed dismally, South African Bonds performed exceptionally well. With an asset allocation tilted towards bonds the PIC managed, yet again, to deliver strong positive returns.

The Government Employees Pension Fund therefore managed to outperform other South African Pension funds, as traditionally equities are favoured above bonds by these funds. The PIC's solid investment returns over the last number of years should ultimately provide the comfort to the members for the GEPF, both active members and pensioners, that the funds are managed in a prudent fashion. The highest standards of fiduciary duty are not only theoretically upheld by the PIC's Board and dedicated staff, but practiced in the true spirit of caring and accountability.

The PIC is an organization faced, like all others, with the challenge of change. It must be expected therefore that change is to be a constant in the PIC but we shall not compromise the savings of members of the GEPF, therefore, strong returns must also be a constant in the PIC.

## **CONCLUSION**

Madam Speaker, Honorable Members, I have tried to capture the main highlights from areas of work I consider important and crucial to our success. As mentioned at the beginning of my speech, key issues shape our collective financial future, but we still have the ability and courage to choose the path to follow. This path is one that needs to be wide enough for all to walk on and

not to exclude or prejudice those who are less fortunate or with fewer financial means.

This implies that protecting the wealth of our citizens is crucial in the face of adversity and global instability. I believe that we have once again achieved this crucial goal.

Thank you.