NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

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2020. Mr N J J van R Koornhof (Cope) to ask the Minister of Finance:

Whether the National Treasury intends to take steps to prevent institutions and brokers from investing money in investment houses that offer investors unrelated market growth on their investments; if not, why not; if so, what are the relevant details?

NW2496E

REPLY:

Yes, when the regulators in the FSB or SARB (rather than National Treasury) are made aware of any scheme offering suspiciously high rates of return, they do investigate whether any laws are being contravened. In almost every case of unrealistically high rates of return being promised it is likely to involve illegal practices, such as 'Ponzi' / pyramid schemes, or investors being misled deliberately and fraudulently as to the returns they can expect. It is the intention that all financial service providers be registered; however, illegal schemes will rarely be registered as they do not want to be identified. Many of these schemes are only reported when they fail to pay as promised, rather than earlier when they start taking in contributions. It is not possible for the authorities to act unless such schemes have been brought to the attention of regulators (or law-enforcement agencies) in some way.

It should be noted that it is not feasible to try and determine what a market rate of return should be and therefore what is a high or higher-than-market rate of return. For this reason the focus can only be on unrealistically high rates of return. That said, it is the explicit aim of every investment house or asset manager to "beat the market", and they should not be prevented from doing so, provided that they do so within a framework of acceptable market conduct practices and the law. With regard to brokers, the FSB routinely conducts investigations into the activities of brokers who have recommended to investors that they invest in schemes which are in contravention of financial sector laws and regulations, in order to determine whether they were / are themselves in contravention of the requirements of the Financial Advisory and Intermediary Services (FAIS) Act.

In addition, the FSB currently runs the *Treating Customers Fairly* initiative, which requires financial service providers to adopt tougher business conduct oversight. This initiative is expected to significantly improve the quality of consumer protection for customers of financial services. The impending twin peaks model of financial sector regulation will also, by creating a dedicated market conduct regulator, strengthen the ability of the regulators to ensure that financial service providers behave appropriately towards their customers. This will further prevent abuses ranging from the provision of deficient financial advice to egregious and blatant cases of fraud and misrepresentation.

It is very important that all individuals need to exercise restraint when offered any product that promises returns that appear to be too good to be true. In addition, it is important for all individuals to check that anyone offering them a financial product is registered with the FSB or SARB. Individuals must also refuse to deal with any persons offering products via general email addresses (via 419 type scams or gambling winnings when you have not even entered any game), or requesting personal financial or password information, or who cannot prove their residence or identification.

Individuals should never allow greed to blind them from common sense realities. This is basic financial education and recent events have proven that even high-powered business executives have fallen for such schemes.