

SUPPLEMENT TO THE IMPACT STUDY OF THE TWIN PEAKS REFORMS

A. INTRODUCTION

An impact study of the twin peaks reforms was submitted to the Standing Committee on Finance on 21 July 2016¹ and a supplementary document was released with the draft Financial Sector Levies Bill (Levies Bill) in November 2016. That document contained estimates of the costs of the new regulators. National Treasury, together with the regulators, has subsequently prepared another detailed costing of the two regulators taking into consideration the latest levy formulas and revised adjustments in the Levies Bill.

1. Table 1: Estimated Levies and fees for Twin Peaks regulators

	Financial regulation costs (SARB & FSB Budgets –2018/2019 FY)	Estimated Fees & Levies (Levies Bill – 2019/2020 FY)
Prudential Authority (SARB- Bank Supervision Department)	R294m	R423m <i>See Table 3</i>
Financial Sector Conduct Authority (Financial Services Board)	R663m	R768m <i>See Table 9</i>
Other	-	R173m <i>See Schedule 3,4 and 5</i>
Total	R959m	R1,364m

Source: Own calculations based on data provided by the South African Reserve Bank and Financial Services Board

B. SCHEDULE 1: PRUDENTIAL AUTHORITY

2. Prudential Authority Budgets for the 2017/2018 and 2018/2019 financial years

- 2.1 The Bank Supervision Department's approved budgets for the 2017/18 and 2018/19 financial years amounted to R287 million and R295 million respectively. This represents a 3 per cent increase.
- 2.2 The Prudential Authority (PA) will be established on 1 April 2018 and for the 2018/19 financial year, will continue to be funded from the Reserve Bank's resources until the Levies Bill is promulgated; it will only take effect for the 2019/20 financial year. The 2017/18 budget represents the cost of prudential regulation of banks only. Once the Twin Peaks model is implemented the PA will in

¹ <http://www.treasury.gov.za/twinpeaks/Impact%20Study%20on%20Twin%20Peaks%20Reforms.pdf>

addition to the banks², also be responsible for prudential regulation of insurance firms³ and financial market infrastructures⁴. This will increase the costs of regulation, given the additional responsibilities.

Table 2: Prudential Authority approved budgets for 2017/2018 and 2018/2019 FYs in R000's

Description	2017/2018 FY Budget	2018/2019 FY Budget
Personnel Costs	205,428	244,329
Operational Costs	82,050	50,624
Total Budget	287,478	294,954

Source: SARB

3. Prudential Authority estimated levy and fees Income 2019/2020

Table 3: Prudential Authority estimated levies and fees income for 2019/2020 in R000's

Department	Total Levies	Fees*	Total levies and fees
Banks	266,155	5,821	271,976
Life Insurers	67,566	-	-
Non-life Insurers	47,022	-	-
Exchanges	28,558	-	-
Central Securities Depositories	4,400	-	-
Associated Clearing Houses	1,435	-	-
Central Counterparty	1,372	-	-
Road Accident Fund	100	-	-
Microinsurers	32	-	-
Mutual Banks	30	41	71
Cooperative Banks	7	4	11
Independent Clearing Houses	-	-	-
Trade Repository	-	-	-
Total levy and fee income	416,677	6,033	422,710

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

- 3.1 Estimated levies and fees income amounts to R423 million for the 2019/20 financial year. This represents an overall increase of 44 per cent from the 2018/19 approved budget of the Bank Supervision Department (to be the Prudential Authority).
- 3.2 In comparison to the Bank Supervision Department's approved budget for the 2017/18 financial year, the amount that will be levied on banks for the 2019/20 financial year through the Levies Bill is 8 per cent lower. This effectively means that the cost of regulation for banks will be reduced and this could be attributed to benefits from economies of scale.
- 3.3 An estimated 64 per cent of levies raised will be raised from commercial banks while 27 per cent will be raised from the insurance firms. Financial Markets Infrastructures (FMIs) will contribute about 9 per cent to the total levies and fees that will be raised by the Prudential Authority during the 2019/20 financial year.
- 3.4 Assuming CPI of 5.3 and 5.4 percent for the 2018 and 2019 respectively, the budget for the Bank Supervision Department for the 2019/20 financial year, without Twin Peaks and the additional responsibilities conferred on the PA, would have been R319 million. When only**

² These include Commercial Banks, Co-operative Banks and Mutual Banks.

³ These include life, non-life and micro-insurers.

⁴ These include Exchanges, Central Securities Depository, Independent Clearing House, Associated Clearing House, Central Counterparties as well as Trade Repositories.

considering the cost of banking regulation under the Twin Peaks, it can be concluded that the cost of bank regulation decreased by 15 percent while the effective increase as a result of the additional responsibilities of the Prudential Authority under the Twin Peaks regulatory approach will be about 32 per cent.

- 3.5 The tables below indicate estimated amounts that will be paid by the largest and smallest players per category of financial sector as per the proposals in the Levies Bill:

Table 4: Levies for the largest and smallest 5 banks in R000's

Largest Banks		Smallest Banks	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Bank 1	45,000	Bank 1	88
Bank 2	45,000	Bank 2	78
Bank 3	45,000	Bank 3	70
Bank 4	45,000	Bank 4	67
Bank 5	40,759	Bank 5	57

- 3.6 The largest 4 commercial banks will pay R45 million each (capped amount) in levies to the PA for the 2019/20 financial year. The largest 5 banks will account for about 83 per cent of the total bank levies that will be paid to the PA for the period under review.
- 3.7 In 2017, profit before tax for all banks amounted to about R80 billion. The total levies and fees are about 0.34% of total bank profits before tax.
- 3.8 Banks can pose significant risks to the financial system and therefore the current 'flat rate' fee which is paid annually is no longer a feasible funding model for their regulatory oversight. The proposed formulae in the Levies Bill also account for considerations for small banks. The formula and maximum amount are aimed at not unduly burdening banks.
- 3.9 Banks requested the SARB to fund the PA from the current cash reserve requirement. However, the issue of the cash reserve requirement should not be linked to the levies payable by banks for prudential regulation. The cash reserve requirement is a monetary policy tool and the proposed levies are aimed at recovering the cost of the PA insofar as it relates to the regulation and supervision of banks. Funding the regulation and supervision of a bank from the cash reserve requirement is not a viable option.

Table 5: Levies for the largest and smallest 10 non-life insurers in R000's

Largest Non-life Insurers		Smallest Non-life Insurers	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Non-Life Insurer 1	8,604	Non-Life Insurer 1	12
Non-Life Insurer 2	4,218	Non-Life Insurer 2	12
Non-Life Insurer 3	3,685	Non-Life Insurer 3	12
Non-Life Insurer 4	3,506	Non-Life Insurer 4	12
Non-Life Insurer 5	2,910	Non-Life Insurer 5	12
Non-Life Insurer 6	1,475	Non-Life Insurer 6	12
Non-Life Insurer 7	1,297	Non-Life Insurer 7	12
Non-Life Insurer 8	1,267	Non-Life Insurer 8	12
Non-Life Insurer 9	1,230	Non-Life Insurer 9	12
Non-Life Insurer 10	1,064	Non-Life Insurer 10	12

- 3.10 South Africa's largest non-life insurer will be levied about R8.6 million by the PA while the smallest non-life insurer will have to pay about R12 000. The 10 largest non-life insurers will account for about 62 per cent of the total levies by the non-life insurers (see table 5 above).

- 3.11 South Africa's largest life insurer will pay about R13 million in levies to the PA for prudential regulation and supervision while the smallest life insurer will pay about R50 000. The 10 largest life insurers will account for about 82 per cent of the total levies by life insurers.
- 3.12 There are some micro-insurance firms that will be exempt from paying levies to the PA, while others will pay a levy of about R9 000 per year.
- 3.13 The base amounts proposed for the various types of insurers is based on the type of insurer (short-term has a lower base amount than long-term due to the nature of their overall risk profile in relation to the financial system).

Table 6: Levies for the largest and smallest 10 life insurers in R000's

Largest life Insurers		Smallest life Insurers	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Non-Life Insurer 1	12,898	Non-Life Insurer 1	50
Non-Life Insurer 2	8,552	Non-Life Insurer 2	50
Non-Life Insurer 3	8,441	Non-Life Insurer 3	50
Non-Life Insurer 4	7,653	Non-Life Insurer 4	50
Non-Life Insurer 5	6,866	Non-Life Insurer 5	50
Non-Life Insurer 6	3,296	Non-Life Insurer 6	50
Non-Life Insurer 7	2,857	Non-Life Insurer 7	50
Non-Life Insurer 8	2,360	Non-Life Insurer 8	50
Non-Life Insurer 9	1,962	Non-Life Insurer 9	50
Non-Life Insurer 10	1,503	Non-Life Insurer 10	50

Table 7: Levies for the financial market infrastructures

Financial Markets Infrastructures	
Type of Entity	Levy Amount
Exchange 1	27,358
Central Securities Depository 1 Associated Clearing House	4,174
Central Counterparty 1	1,435
Central Securities Depository 2	1,372
Exchange 2	400
Exchange 3	400
Exchange 4	400

- 3.14 All FMIs account for about 9 per cent of total levies raised by the PA. A distinction has been made between levies payable by different types of FMIs, depending on the size of the FMI, complexity as well as the risks they pose to the financial system.
- 3.15 External Central Counterparties (CCPs) and Trade Repositories (TRs) are expected to require less onerous oversight than domestic CCPs and TRs and therefore they have a lower base amount and cap.

C. SCHEDULE 2: FINANCIAL SECTOR CONDUCT AUTHORITY

4. Financial Sector Conduct Authority Levy Income for 2017/2018

- 4.1. For the 2017/2018 financial year, the Financial Services Board (FSB) budgeted levies and fees income amounted to R658 million. Levies and fees from licensed financial advisors and intermediaries contributed 29 per cent of the total levies and fees raised by the FSB during the 2017/2018 financial year (see table 8 below).

- 4.2. Pension funds and long term insurance (now life insurance) accounted for 22 and 18 percent of the income raised respectively. Levies and fees from market infrastructures accounted for 4 per cent of the total levies and fees raised by the FSB.
- 4.3. Following the implementation of the Twin Peaks approach to regulation, the Financial Services Board will now have an additional responsibility for the market conduct regulation of all banks, as well as a mandate for financial literacy and education. The broadened mandate and required change to regulatory and supervisory approach, will add to the total budgeted costs required to execute their mandate.

Table 8: Financial Sector levies and fees income for 2017/2018 in R000's

Department	Total Levies	Fees*	Total levies and fees
FAIS	180,387	10,000	190,387
Pensions	141,246	5,968	147,215
Long Term insurance	115,083	1,170	116,253
Short Term insurance	75,000	1,720	76,720
Collective Investment Schemes	33,891	12,000	45,891
Market Abuse	23,000	-	23,000
Exchange	17,037	342	17,379
Hedge funds	16,703	400	17,103
Strate Associated clearing house	3,600	-	3,600
Credit rating agencies	2,910	-	2,910
Central Securities Deposit	500	-	500
Total levy and fee income	609,357	31,601	640,958

Source: Financial Services Board

Table 9: Financial Sector budgeted levies and fees income for 2018/2019 in R000's

Department	Total Levies	Fees*	Total levies and fees
FAIS	191,761	10,000	201 761
Pensions	145,681	5,000	150 681
Long Term insurance	114,517	235	114 752
Short Term insurance	76,898	345	77 243
Collective Investment Schemes	37,187	12,000	49 187
Market Abuse	24,840	-	24 840
Exchange	18,020	693	18 713
Hedge funds	17,691	488	18 179
Other (interest)	-	-	-
Strate Associated clearing house	3,800	-	3 800
Credit rating agencies	3,201	-	3 201
Central Securities Deposit	530	-	530
Total levy and fee income	634,126	28,761	662,887

5. Financial Sector Conduct Authority levy and fees Income 2019/2020

- 5.1. The 2019/20 financial year levies and fees for the FSCA are estimated at R768 million. This is a 14 percentage increase from the 2018/19 financial year budgeted levies and a 17 percent increase from the 2017/18 levies and fees.

Table 9: FSCA estimated levies and fees income for 2019/2020 in R000's

Department	Levies	Fees*	Total
Financial Services Providers- Category I or IV	112,483	4,426	116,909
Financial Services Providers- Category II, IIA or III	125,385	4,934	130,318
Financial Services Providers- Category I and/or IV	9,154	360	9,514

FAIS			256,742
Pension Fund- Occupational Fund	89,894	3,178	93,072
Pension Fund- Preservation, Provident & Annuity	72,241	2,570	74,812
Pension Fund- Administrator	13,756	698	14,454
Pensions			182,337
CIS- Securities	20,242	5,214	25,457
CIS- Hedge Funds	20,868	1,080	21,948
CIS- Property	720	186	906
CIS- Participation Bonds	172	44	216
Foreign CIS	24,983	6,436	31,418
Collective Investment Schemes			79,945
Life Insurance	75,428	0	75,428
Commercial Banks	62,668	0	62,668
Non-life Insurance	50,642	316	50,959
Exchanges	34,187	400	34,587
Central Counterparty	12,098	0	12,098
Central Securities Depository	5,564	0	5,564
Credit Rating Agencies	3,500	0	3,500
Associated Clearing House	1,845	0	1,845
OTC Derivative Providers	1,620	0	1,620
Trade repository	540	0	540
New CCP	540	0	540
Micro-insurers	38	0	38
Mutual Banks	32	0	32
Co-operative Banks	4	0	4
Total levy and fee income	738,605	29,843	768,448

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

- 5.2. During the 2018/19 financial year, regulated entities will continue to be levied on the same basis as the current approach in terms of the Financial Services Board Act. Accordingly, for the 2018/19 financial year, there will be no significant changes to the levies that regulated entities that are supervised by both the FSB (to be Financial Sector Conduct Authority) and the Bank Supervision Department (to be Prudential Authority) are levied.
- 5.3. For the 2019/20 financial year, the FSCA budgeted levies and fees amount to R768 million. Levies and fees from licensed financial advisors and intermediaries will contribute 33 per cent of the total levies and fees to be raised by the FSCA during the 2019/20 financial year. Pension funds and insurers account for 24 and 16 percent respectively. Levies and fees from market infrastructures account for 6 per cent of the total levies and fees raised to fund FSCA's operations while banks and CIS account for 8 and 10 per cent respectively.
- 5.4. **Assuming CPI of 5.3 and 5.4 percent for the 2018 and 2019 respectively, the FSB's budget for the 2019/20 financial year, without Twin Peaks, would have been R710 million. When compared to FSCA's estimated levy and fees income of R768million for the 2019/20 financial year under the Twin Peaks regulatory framework, this represents an 8 percentage increase in costs.**

Table 10: FSCA Levies for the largest and smallest 5 banks in R000's

Largest Banks		Smallest Banks	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Bank 1	14,463	Bank 1	54
Bank 2	12,928	Bank 2	53
Bank 3	11,315	Bank 3	52
Bank 4	10,289	Bank 4	51
Bank 5	4,841	Bank 5	50

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

- 5.5. Currently the business of banks is not subject to supervision by the FSB. Supervision of the conduct of banks is now included in the mandate of the FSCA under the FSR Act. The proposed levy formulae for banks have been informed by the estimated initial costs of supervision of the conduct of banks. The largest bank will be levied about R14 million by the FSCA in the 2019/20 financial year while the smallest bank will pay about R50 000.
- 5.6. The information to be used in calculating the levy payable by a bank will be gross liabilities as stated in the most recent audited annual statutory return of the bank preceding the levy period.

Table 11: FSCA Levies for the largest and smallest 10 life insurers in R000's

Largest Life Insurers		Smallest Life Insurers	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Life Insurer 1	10,000	Life Insurer 1	50
Life Insurer 2	8,552	Life Insurer 2	50
Life Insurer 3	8,442	Life Insurer 3	50
Life Insurer 4	7,654	Life Insurer 4	50
Life Insurer 5	6,866	Life Insurer 5	50
Life Insurer 6	3,296	Life Insurer 6	50
Life Insurer 7	2,857	Life Insurer 7	50
Life Insurer 8	2,361	Life Insurer 8	50
Life Insurer 9	1,962	Life Insurer 9	50
Life Insurer 10	1,503	Life Insurer 10	50

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

- 5.7. Life insurers will account for about 10 per cent of FSCA's total levies and fees for the 2019/20 financial year. The largest life insurer will pay R10 million in levies for regulation by the FSCA while the smallest players will pay R50 000. The average levy for the largest 10 life insurers is R5.3 million.
- 5.8. The Bill introduces a new formulae for microinsurers. A combined total of about R38 000 will be raised from all the microinsurers.

Table 12: FSCA Levies for the largest and smallest 10 non-life insurers in R000's

Largest Non-life Insurers		Smallest Non-life Insurers	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Non-Life Insurer 1	5,000	Non-Life Insurer 1	12
Non-Life Insurer 2	4,218	Non-Life Insurer 2	12
Non-Life Insurer 3	3,685	Non-Life Insurer 3	12
Non-Life Insurer 4	3,506	Non-Life Insurer 4	12
Non-Life Insurer 5	2,910	Non-Life Insurer 5	12
Non-Life Insurer 6	1,476	Non-Life Insurer 6	12
Non-Life Insurer 7	1,298	Non-Life Insurer 7	12
Non-Life Insurer 8	1,267	Non-Life Insurer 8	12
Non-Life Insurer 9	1,231	Non-Life Insurer 9	12
Non-Life Insurer 10	1,064	Non-Life Insurer 10	12

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

- 5.9. Non-life insurers will account for about 7 per cent of FSCA's total levies and fees for the 2019/20 financial year. The average levy for the largest 10 non-life insurers is R2.5 million. Only 5 non-life insurers will pay levies and fees above this average while the remaining 5 non-life insurers from the largest 10 non-life insurers will pay levies and fees below the top 10 average. The smallest players in the non-life insurance business will pay an average of R12 500 each to the FSCA.

Table 13: FSCA Levies for the financial market infrastructures

Financial Markets Infrastructures	
Type of Entity	Levy Amount
Exchange 1	32,567
Central Counterparty	12,098
Central Securities Depository 1	5,024
Associated Clearing House	1,845
Central Securities Depository 2	540
Exchange 2	540
Exchange 3	540
Exchange 4	540

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

- 5.10. All FMIs account for about 6 per cent of total levies, which will be levied by the FSCA for their regulation.
- 5.11. The proposed levy formulae for FMIs have been amended to better reflect the fact that there are new players in the sector and to reflect the need to better recover costs of supervision associated with the sector. Proportionality in respect of various market infrastructures is provided for by way of a different percentage for the variable amount of the levy formulae dependent on the nature of the conduct activity.
- 5.12. The levy formulae as set out in Schedule 2 of the draft Bill are based on the value of trades for exchanges, the value of settlements for Central Securities Depositories, and the value of trades cleared for clearing houses and central counterparties. This is an appropriate levying mechanism as it reflects the volume of transactions/activity which is better linked to the way that financial market infrastructures raise their revenues.

Table 14: FSCA Levies for the largest & smallest 10 category I or IV FSPs in R000's

Largest Cat I/IV FSPs		Smallest Cat I/IV FSPs	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Category I FSP 1	2,000	Category I FSP 1	4
Category I FSP 2	2,000	Category I FSP 2	4
Category I FSP 3	2,000	Category I FSP 3	4
Category I FSP 4	2,000	Category I FSP 4	4
Category I FSP 5	2,000	Category I FSP 5	4
Category I FSP 6	2,000	Category I FSP 6	4
Category I FSP 7	1,784	Category I FSP 7	4
Category I FSP 8	1,240	Category I FSP 8	4
Category I FSP 9	1,139	Category I FSP 9	4
Category I FSP 10	977	Category I FSP 10	4

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

- 5.13. The different categories of the Financial Services Providers (FSP) and Intermediaries will account for the bulk of levies and fees (about 33 per cent) that will be used to fund the operations of the FSCA.
- 5.14. The levies are calculated annually and payable once a year.
- 5.15. Cat I or IV consists of FSPs who render advice and/or intermediary services in respect of all financial products. The largest ones will be liable for a levy amounting to about R2 million while the smallest players will only have to pay an annual levy of about R4 000 to the FSCA.

Table 15: FSCA Levies for the largest & smallest 10 category II, IIA or III FSPs in R000's

Largest Cat I/IV FSPs		Smallest Cat I/IV FSPs	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Category II,IIA or III FSP 1	2,000	Category II,IIA or III FSP 1	8.6
Category II,IIA or III FSP 2	2,000	Category II,IIA or III FSP 2	8.6
Category II,IIA or III FSP 3	2,000	Category II,IIA or III FSP 3	8.6
Category II,IIA or III FSP 4	2,000	Category II,IIA or III FSP 4	8.6
Category II,IIA or III FSP 5	2,000	Category II,IIA or III FSP 5	8.3
Category II,IIA or III FSP 6	2,000	Category II,IIA or III FSP 6	8.3
Category II,IIA or III FSP 7	2,000	Category II,IIA or III FSP 7	8.2
Category II,IIA or III FSP 8	2,000	Category II,IIA or III FSP 8	8.0
Category II,IIA or III FSP 9	2,000	Category II,IIA or III FSP 9	8.0
Category II,IIA or III FSP 10	2,000	Category II,IIA or III FSP 10	8.0

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

5.16. Cat II, IIA or III consists of FSPs who render intermediary services of a discretionary nature on segregated clients' accounts or pooled funds from investors and invest on behalf of clients without implementing bulking. The larger players under this category will be liable for a levy amounting to about R2 million while the smallest players will only have to pay an annual levy of about R8000 to the FSCA for their regulation.

5.17. Cat II, IIA or III consists of FSPs who manage funds on behalf of their clients/investors, and render intermediary services of a discretionary nature on segregated clients' accounts (Cat II) or pooled funds from investors and invest on behalf of clients (Cat IIA) without implementing bulking, and Bulking for Cat III. The larger players under this category will be liable for a levy amounting to about R1 million while the smallest players will only have to pay an annual levy of about R4 000 to the FSCA for their regulation.

Table 16: FSCA Levies for the largest & smallest 10 category I or IV FSPs in R000's

Largest Cat I and /or IV FSPs		Smallest Cat I and/or IV FSPs	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Category I and/ IV FSP 1	1,018	Category I and/ IV FSP 1	4
Category I and/ IV FSP 2	274	Category I and/ IV FSP 2	4
Category I and/ IV FSP 3	223	Category I and/ IV FSP 3	4
Category I and/ IV FSP 4	204	Category I and/ IV FSP 4	4
Category I and/ IV FSP 5	168	Category I and/ IV FSP 5	4
Category I and/ IV FSP 6	68	Category I and/ IV FSP 6	4
Category I and/ IV FSP 7	66	Category I and/ IV FSP 7	4
Category I and/ IV FSP 8	58	Category I and/ IV FSP 8	4
Category I and/ IV FSP 9	47	Category I and/ IV FSP 9	4
Category I and/ IV FSP 10	42	Category I and/ IV FSP 10	4

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

Table 17: FSCA Levies for the largest & smallest 5 pension funds administrators in R000's

Largest Pension Funds Administrators		Smallest Pension Funds Administrators	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Pensions- Administrators 1	264	Pensions- Administrators 1	11
Pensions- Administrators 2	124	Pensions- Administrators 2	11
Pensions- Administrators 3	123	Pensions- Administrators 3	10
Pensions- Administrators 4	104	Pensions- Administrators 4	9
Pensions- Administrators 5	78	Pensions- Administrators 5	8

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

5.18. The largest Pension Fund administrator will pay about R264 000 while the smallest administrators will pay only about R8 000.

5.19. The proposed levy formulae for administrators of pension have been revised to better reflect the cost of supervision associated with administrators and the estimated income needed by the FSCA to meet its mandate as set out in the FSR Act in respect of pension fund business.

Table 18: FSCA Levies for the largest & smallest 10 Pension Funds⁵ in R000's

Largest Pension Funds		Smallest Pension Funds	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Pension Fund 1	19,599	Pension Fund 1	2
Pension Fund 2	12,395	Pension Fund 2	2
Pension Fund 3	9,243	Pension Fund 3	2
Pension Fund 4	5,940	Pension Fund 4	2
Pension Fund 5	4,137	Pension Fund 5	2
Pension Fund 6	3,969	Pension Fund 6	2
Pension Fund 7	3,292	Pension Fund 7	2
Pension Fund 8	2,750	Pension Fund 8	2
Pension Fund 9	2,750	Pension Fund 9	2
Pension Fund 10	2,750	Pension Fund 10	2

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

5.20. The largest Pension Fund will pay about R20 million to the FSCA while the smallest Pension Fund will be liable for R2000. The 10 largest pension funds will pay about 40 per cent of the total levies and fees that will be levied on Pension Funds.

5.21. Pension Funds will only be liable to pay levies to the FSCA and not the PA.

5.22. The percentages for the variable amounts of the levy formulae for pension funds as set out in Schedule 2 to the draft Bill are based on the number within members of funds and are informed by the estimated income needed by the FSCA to meet its mandate as set out in the FSR Act in respect of pension fund business.

Table 19: FSCA Levies for the largest & smallest 10 CIS funds in R000's

Largest CIS Funds		Smallest CIS Funds	
Type of Entity	Levy Amount	Type of Entity	Levy Amount
Collective Investment Scheme 1	877	Collective Investment Scheme 1	241
Collective Investment Scheme 2	829	Collective Investment Scheme 2	138
Collective Investment Scheme 3	636	Collective Investment Scheme 3	79
Collective Investment Scheme 4	571	Collective Investment Scheme 4	66
Collective Investment Scheme 5	502	Collective Investment Scheme 5	53
Collective Investment Scheme 6	471	Collective Investment Scheme 6	50
Collective Investment Scheme 7	450	Collective Investment Scheme 7	35
Collective Investment Scheme 8	442	Collective Investment Scheme 8	23
Collective Investment Scheme 9	426	Collective Investment Scheme 9	23
Collective Investment Scheme 10	349	Collective Investment Scheme 10	22

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

5.23. The largest CIS will pay about R877 000 in levies to the FSCA while the smallest one will be liable for R22 000. The 10 largest CIS will pay about 7 per cent of the total levies and fees that will be levied on CIS.

⁵ This includes the occupational, pension preservation, provident preservation as well as retirement annuity funds.

- 5.24. To ensure consistency and uniformity the proposed structures of the levy formulae for collective investment schemes have been aligned (although the percentage of the variable component may differ). The number of portfolios approved by the regulator per manager is reflective of supervisory activity and the total assets under management are reflective of supervisory intensity (on a risk-based approach).
- 5.25. The levies are calculated and collected four times during the levy period due to the nature of the business of collective investment schemes, specifically as CIS managers can add, amend or withdraw their schemes/portfolios at any given time. This allows for levies to be closely linked to the activities and to facilitate liquidity planning.

D. SCHEDULE 3: FINANCIAL SERVICES TRIBUNAL

	Variable Amount	Description of Variable	Formula
Formula	2.5% x (Y1 + Z2)	Y1= amount of levy payable by the supervised entity in terms of Schedule 1 Z2= amount of levy payable by the supervised entity in terms of Schedule 2	Levy = Variable amount
Calc	<u>R29 million</u>		

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

E. SCHEDULE 4: OMBUD COUNCIL

	Variable Amount	Description of Variable	Formula
Formula	2.5% x Z	Z= amount of levy payable by the supervised entity in terms of Schedule 2	Levy = Variable Amount
Calc	<u>R18 million</u>		

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

F. SCHEDULE 5: STATUTORY OMBUD SCHEMES

(a) Office of the Pension Fund Adjudicator

	Variable Amount(s)	Description of Variable	Formula
Office of the Pension Fund Adjudicator	6.25x L	L= number of members and every other person who receives regular periodic payments from such a fund (excluding any member or such person, whose benefit remained unclaimed and beneficiaries of members of pension funds) as reflected in the latest annual financial statements furnished to the registrar as at 28 February of the preceding levy period	Levy= Variable Amount
Calc	<u>R72 million</u>		

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

(b) Office of the Ombud for Financial Services Providers

	Base Amount	Variable Amount	Description of Variable	Formula
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Office of the Ombud for Financial Services Providers	R1100	AA x 690 AA = W – BB	W = Average total number of key individuals plus average total number of representatives, calculated over the period 1 September to 31 August BB = Average total number of key individuals that are also appointed as representatives, calculated over the period 1 September to 31 August	Levy = Base Amount + Variable Amount
Calc	<u>R 54 million</u>			

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

G. SUMMARY OF ESTIMATED TOTAL LEVIES AND FEES

6. Summary of total income of the proposed levies and fees by Institution

Reference	Institution/Cost Centre	Proposed Income
Schedule 1	Prudential Authority	R423m
Schedule 2	Financial Sector Conduct Authority	R768m
Schedule 3	Financial Services Tribunal	R29m
Schedule 4	Ombud Council	R18m
Schedule 5	Office of the Pension Fund Adjudicator	R72m
Schedule 5	Office of the Ombud for Financial Services Providers	R54m
TOTAL ESTIMATED LEVY AND FEE INCOME		R1,364m

- 6.1 It is estimated that the implementation of the twin peaks regulatory framework will result in direct cost on the regulated entities amounting to R1.36 billion that will be recovered from the regulated entities in the form of levies and fees. This represents an increase of about 42 percent from the 2018/19 budgets.

H. INTERNATIONAL COMPARISON

- 6.2 A desktop study has indicated that the direct cost of twin peaks implementation are comparable to those of other countries that have implemented a twin peaks model of financial sector regulation. South Africa's costs (using the current estimates) in relation to the costs in Australia are 2.5 times lower while they are 0.3 times lower than in Netherlands and the UK when expressed as a percentage of GDP.

Country	Total Cost of Prudential and Conduct Supervision	Total Cost of Prudential and Conduct Supervision in US\$	GDP Figures for respective Countries	Cost of Prudential and Market Conduct Regulation as a % of GDP
Australia	\$1,153m	US\$ 0.91bn	US\$1,205bn	0.08%
Netherlands	€235m	US\$ 0.27bn	US\$771bn	0.04%
UK	£772m	US\$ 1.00bn	US\$2,619bn	0.04%
South Africa*	R1,364m	US\$ 0.12bn	US\$394bn	0.03%

Source: Various sources and own calculations

I. CONCLUSION

The FSR Act shifts regulation toward the Twin Peak model to better manage risks and reduce gaps and inefficiencies in regulation. The Act seeks to support a stable and more inclusive financial sector that will benefit the society in general through:

- Maintaining the stability of the financial system as a whole
- Maintaining the safety and soundness of regulated financial institutions and market infrastructures
- Protecting consumers of financial products and services and ensuring that financial institutions treat customers fairly
- Supporting expanded access to appropriate financial products and services

The FSR Act will benefit *retail financial customers* through improved transparency, suitability and costs of financial products and services that assist in building greater confidence and trust in financial institutions; *financial institutions and shareholders* through a well-managed competitive playing field in the financial sector that adheres to sound prudential and conduct standards and fosters market integrity; and *small to emerging enterprises* through improved access to financial capital for investment and affordable services.

The benefits that will accrue to the financial sector and the broader financial customers, outweighs the marginal increase in the cost of regulation that will result from the twin peaks implementation.