IIFA CONFERENCE – OSAKA OCTOBER 2016

COUNTRY REPORT – SOUTH AFRICA

SUBMITTED BY THE ASSOCIATION FOR SAVINGS AND INVESTMENT SOUTH AFRICA (ASISA)

CONTENT

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1. ASISA – AN OVERVIEW

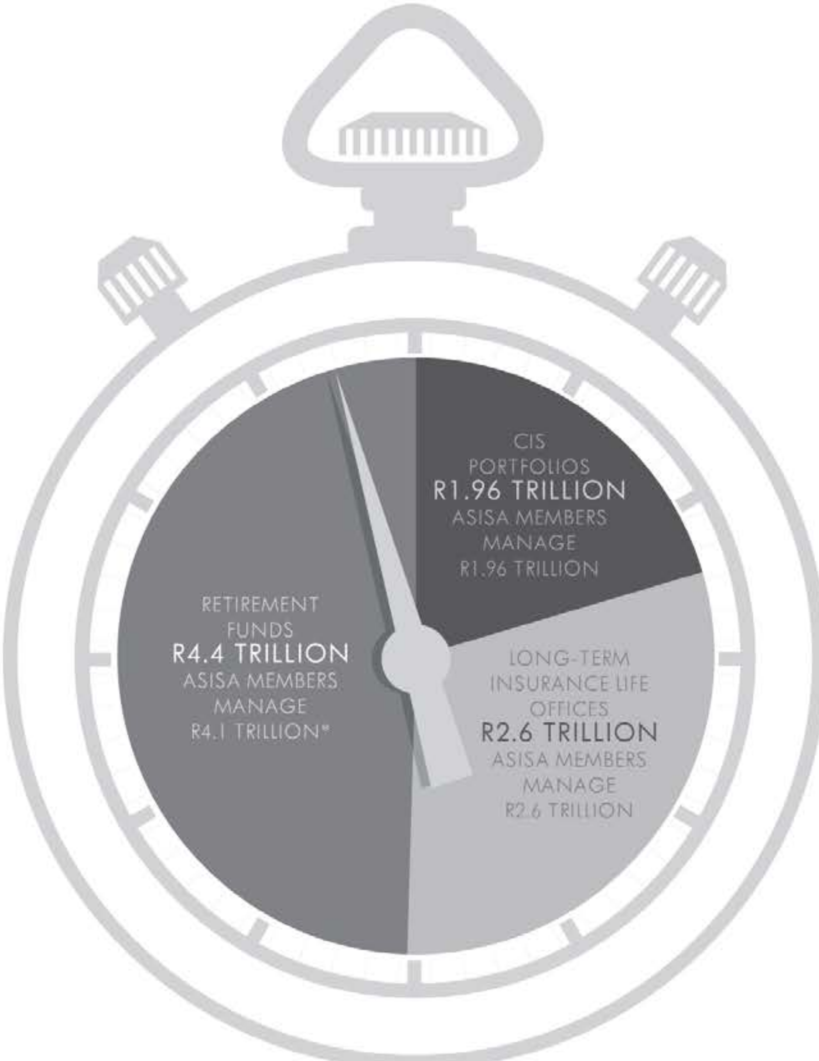
The Association for Savings and Investment South Africa (ASISA) is empowered by a mandate from an industry that manages assets of more than R8.6 trillion. This industry is considered the custodian of the nation's savings and investments and is recognised as one of the country's biggest contributors to the national GDP. Our membership consists of the majority of South Africa's investment fund companies, life insurance companies, investment managers, multi-managers and fund supermarkets.

ASISA and its members are therefore recognised as a formidable partner around the South African Government's negotiation table where we proactively engage on regulatory and other important issues of common concern. While it is ASISA's role to ensure that the key contributions by ASISA members to support the nation's savings, development and transformation initiatives are valued and recognised, we have also been tasked with ensuring that as a collective our industry remains relevant and sustainable.

One of the key challenges that South Africa, and therefore ASISA continues to grapple with is how to increase South Africa's savings pool, protect it, and then deploy it responsibly. According to the South African Reserve Bank Quarterly Bulletin for June 2016, household debt as a percentage of disposable reduced slightly from 77% in the fourth quarter of 2015 to 76.6% in the first quarter of 2016.

In partnership with Government we are working on innovative and creative solutions that will make a real difference in the lives of ordinary South Africans.

The graphic below provides a break down of South Africa's household savings that are managed by ASISA members as at the end of June 2016.



R8.96 TRILLION

TOTAL HOUSEHOLD SAVINGS REGULATED PRODUCTS

R8.66 TRILLION

TOTAL MANAGED BY ASISA MEMBERS

ASISA HOUSEHOLD SAVINGS

as at 30 June 2016

*Difference: Some major pension funds manage some of their own assets.

2. DATA ON FUNDS UNDER MANAGEMENT, PORTFOLIOS AND KEY TRENDS

2.1 Collective Investment Schemes (CIS) Industry

2.1.1 Local

The South African Collective Investment Schemes (CIS) industry has been in existence for 51 years and holds assets under management of just under R2 trillion.

At the end of the second quarter of 2016, the local CIS industry managed assets of R1.96 trillion, compared to R1.8 trillion at the end of June 2015 and R1.64 trillion at the end of June 2014. The industry offered investors a choice of 1 403 portfolios.

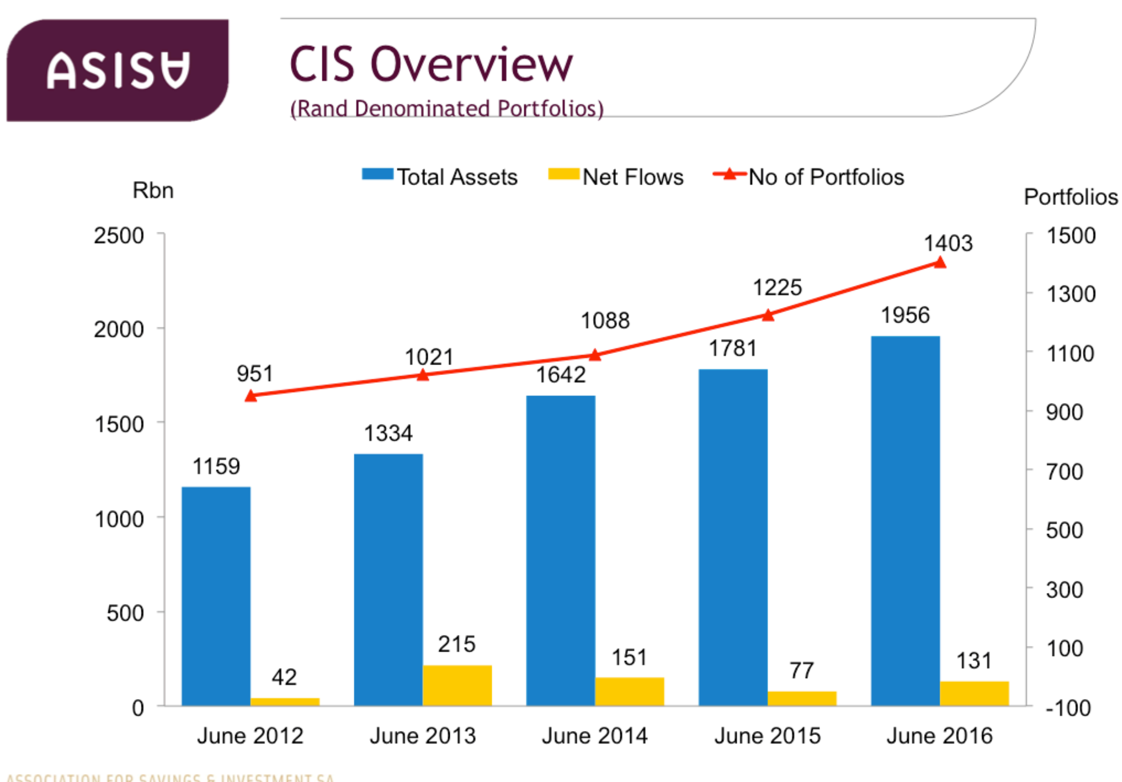
Despite prevailing economic and political uncertainty, South African investors committed a healthy R34 billion in net inflows in the second quarter of this year, which brought the total net inflows for the 12 months ended June 2016 to R131 billion.

The bulk of this money was channeled via South African Multi Asset portfolios, which contributed R71 billion towards the annual net inflows, while SA General Equity portfolios recorded net annual outflows of R5.1 billion to the end of the second quarter 2016.

SA Multi Asset portfolios held 51% of assets, Interest Bearing portfolios 24%, Equity portfolios 21% and Real Estate 4% at the end of June 2016.

Source of sales

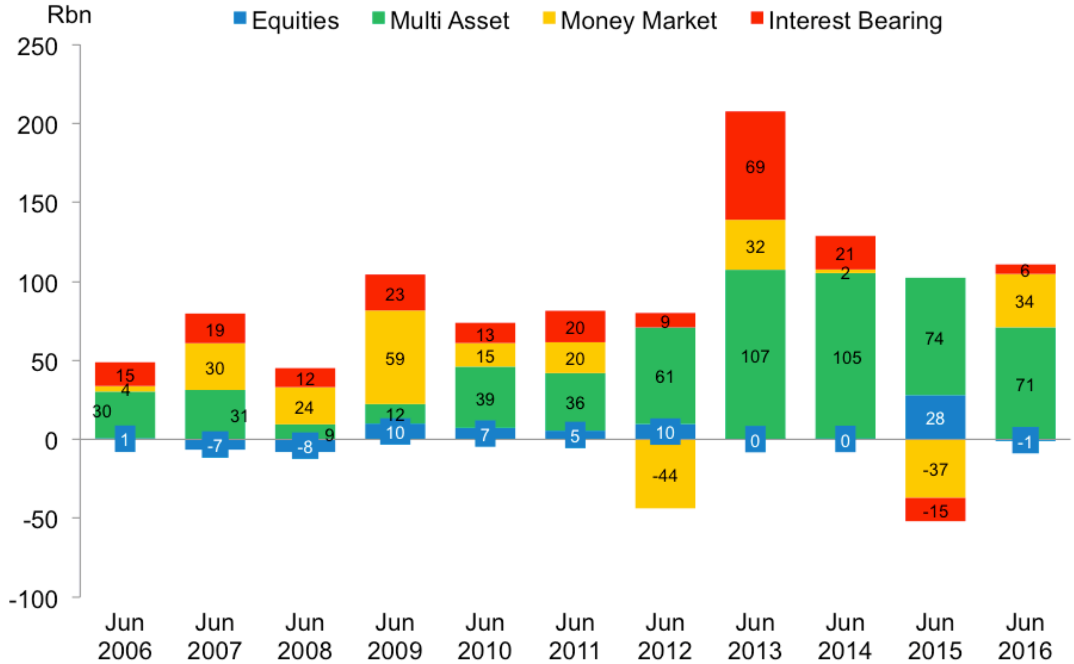
Of the inflows into the CIS industry in the 12 months to the end of June 2016, 32% came directly from investors. Intermediaries contributed 21% of new inflows, while fund platforms generated 23% of sales and 24% of sales were received from institutional investors like pension and provident funds.



ASISA

Net annual flows by sector

(Excluding Worldwide, Regional and Global sectors)



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Portfolio Allocation - SA Funds

June 2011		**June 2016**	
TOTAL	**100%**	**TOTAL**	**100%**
Interest Bearing	49%	Interest Bearing	24%
Money Market	*30%*	*Money Market*	*16%*
FI Varied Specialist	*15%*	*IB Variable Term*	*3%*
Bond	*2%*	*IB Short-Term*	*5%*
Income	*2%*		
Equity	22%	Equity	21%
Real Estate	3%	Real Estate	4%
Multi Asset	26%	Multi Asset	51%
Flexible	*9%*	*Flexible*	*3%*
Prudential	*17%*	*MA Income*	*7%*
		MA Low Equity	*14%*
		MA Medium Equity	*3%*
		MA High Equity	*24%*

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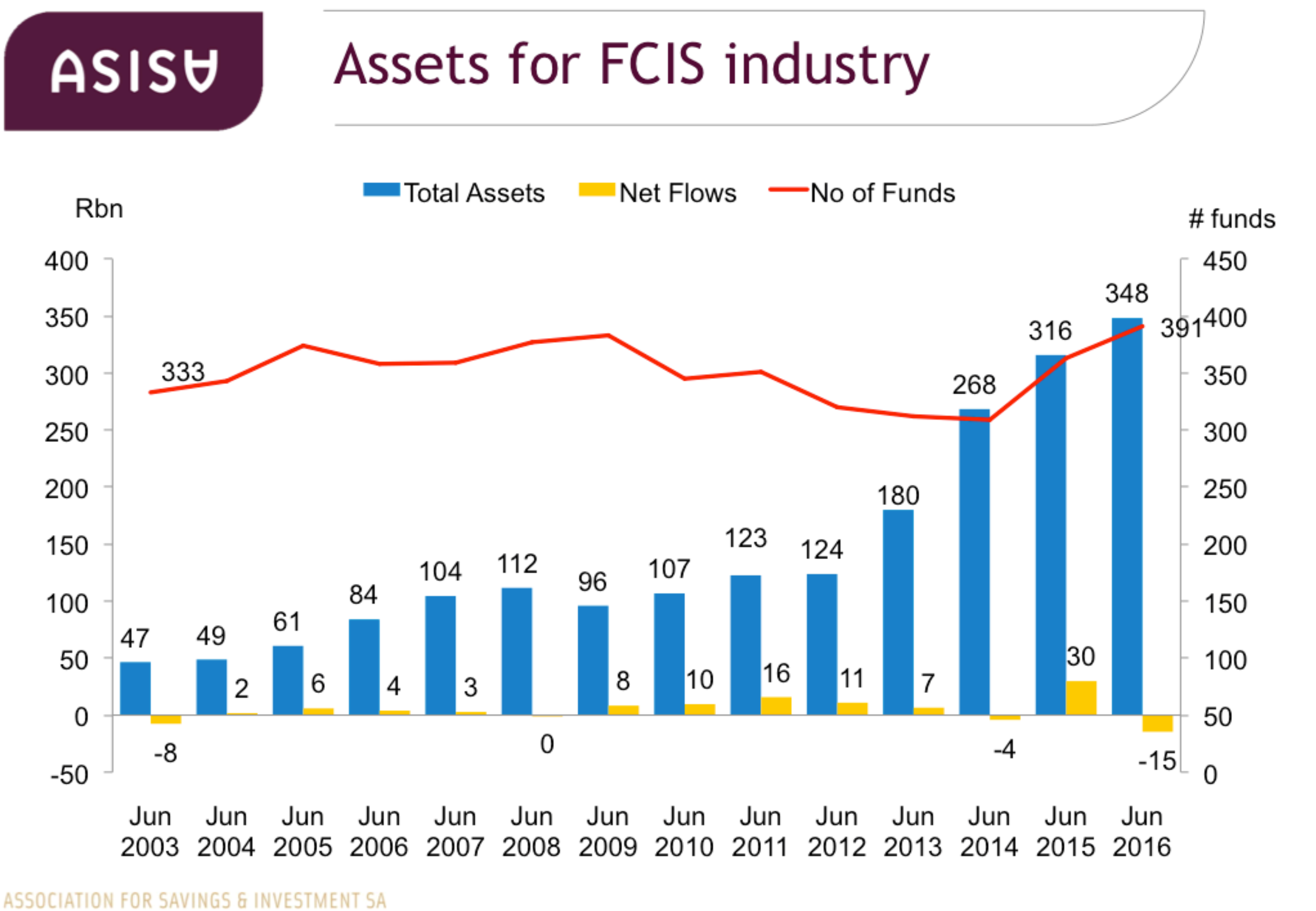
2.1.2 Offshore – Foreign Collective Investment Schemes (FCIS)

South African registered foreign portfolios held assets under management of R348 billion at the end of June 2016.

These foreign portfolios recorded net inflows of R7.2 billion in the second quarter of this year.

Foreign currency unit trust portfolios are denominated in currencies such as the dollar, pound, euro and yen and are offered by foreign unit trust companies. These portfolios can only be actively marketed to South African investors if they are registered with the Financial Services Board. Local investors wanting to invest in these portfolios must comply with Reserve Bank regulations and will be using their foreign capital allowance.

There are currently 391 foreign currency denominated portfolios on sale in South Africa.



3. PRODUCT DEVELOPMENTS

3.1 Hedge Funds

South Africa became the first country in the world to offer comprehensive regulated hedge fund products on 1 April 2015 when hedge funds were declared Collective Investment Schemes in terms of new regulations under the Collective Investment Schemes Control Act (CISCA).

South Africa now has two categories of hedge funds, namely Qualified Investor Hedge Funds and Retail Investor Hedge Funds. Retail Investor Hedge Funds are for individual investors, operating in a similar manner to unit trust funds.

All South African hedge funds must be registered with the Financial Service Board (FSB) in order to continue operating. By September 2016 the FSB had approved 157 Qualified Investor Hedge Funds with assets under management of R61 billion and 112 Retail Investor Hedge Funds with assets under management of R12 billion.

At the end of December 2015*, the South African hedge fund industry held assets under management of R62.1 billion. The 10 largest hedge fund managers in South Africa manage 71% of the hedge fund industry's total assets under management.

**South African hedge fund statistics are released annually.*

4. POLICY AND REGULATORY DEVELOPMENTS

4.1 Financial Sector Regulation Bill

The Financial Sector Regulation Bill introduces a Twin Peaks model of financial sector regulation for South Africa. Twin Peaks is a system for regulating the financial sector and aims to close gaps in the regulatory system. Two regulators will be established – a Prudential Authority within the South African Reserve Bank, and a new Financial Sector Conduct Authority (FSCA). The Prudential Authority will supervise the financial stability of banks, insurance companies and other financial institutions while the FSCA will supervise the market conduct of financial services firms.

The Bill was tabled in Parliament in October 2015. Public hearings were held during November 2015 and February 2016, when ASISA presented to the Parliamentary Standing Committee on Finance on concerns raised by member companies. During July 2016, National Treasury published a proposed revised Bill for consideration by the Standing Committee. The revised Bill takes account of many stakeholder concerns with the tabled Bill. During August and September 2016, the Standing Committee met on several occasions to deliberate over the Bill and the comments received.

The Bill will probably be signed into law in the first quarter of 2017. It is understood that where necessary, different effective dates may be published for different sections of the Bill.

4.2 Solvency Assessment and Risk Management Framework (SAM)

SAM has been developed over a period of seven years in a collaborative process involving the Financial Services Board (FSB) as the regulator, long-term insurance companies and other stakeholders. SAM is a risk-based prudential framework, with the primary objective of improving policyholder protection and contributing to financial stability through aligning insurers' regulatory capital requirements with the underlying risks of the insurer, and providing incentives to insurers to adopt more sophisticated risk monitoring and risk management tools.

It draws from Solvency II in the EU and other international models, but has been tailored for the characteristics of the South African insurance industry.

The legislation to give effect to SAM, the Insurance Bill, has been tabled in Parliament and is expected to be addressed once the Financial Sector Regulation Bill has been dealt with. The aim is for it to be effective in the first half of 2017 depending on the parliamentary process.

4.3 Over-the-Counter (OTC) Derivative Contracts

As part of South Africa's G20 commitments, National Treasury in 2012 introduced enabling legislation for the regulation of OTC Derivatives within a new Financial Markets Act. In terms of this legislation, National Treasury released the first draft of the Financial Markets Act (No.19 of 2012) Ministerial Regulations for over-the-counter (OTC) derivative markets for comment in July 2014.

The second draft was published on 5 June 2015 and the third draft on 21 July 2016.

The Ministerial Regulations in terms of the Financial Markets Act aim to enhance the governance, operational and risk management requirements for market infrastructures and to provide for matters relating to the provision of securities services in over-the-counter (OTC) derivatives.

4.4 Cybercrimes and Cybersecurity Bill

At the end of August 2015, the Department of Justice and Constitutional Development published the Draft Cybercrimes and Cybersecurity Bill together with a Discussion Document for comment by 30 November 2015. ASISA submitted comments on this Bill to the Department of Justice and Constitutional Development on 27 November 2015.

The Bill creates cybercrime offences and penalties and provides for the establishment of various structures to deal with cybersecurity.

The Bill includes financial institutions in the definition of electronic communication services providers. This places an obligation on ASISA members to inform and assist clients in respect of cybercrime, to report offences as stipulated and to preserve data that could assist law enforcement agencies.

ASISA has established a Standing Committee for Cybersecurity to act as a Computer Security Incident and Response Team (CSIRT) for the savings and investment industry to ensure compliance with the requirements in the new Bill.

4.5 Financial Intelligence Centre Amendment Bill

The Bill was passed by Parliament in May 2016 and sent to the President for approval. Consultation with National Treasury and the Financial Intelligence Centre is taking place to prepare for implementation of changes to the regulations and guidance that will be required.

Broadly, the Bill provides for the adoption of a risk-based approach to customer due diligence measures, the enhancement of customer due diligence requirements and the implementation of the United Nations Security Council Resolutions relating to the freezing of assets. The Bill also introduces the concepts of beneficial ownership, ongoing due diligence, and foreign and domestic prominent influential persons.

The Financial Intelligence Centre (FIC) also introduced a new reporting system on 1 April 2016.

4.6 Retail Distribution Review (RDR)

The Retail Distribution Review (RDR) paper issued by the Financial Services Board in November 2014 last year proposes far-reaching reforms to the regulatory framework for distributing retail financial products to customers, seeking to eliminate potential for conflicts of interests and poor consumer outcomes, while creating a sustainable environment for financial advice.

The Financial Services Board (FSB) has held workshops with industry bodies to discuss their comments on the Paper. Towards the end of 2015 the FSB published two documents. The first sets out their current thinking on adviser categorisation as well as a timeline for Phase 1 implementation of RDR proposals. The second gives a general overview of their current thinking on the balance of the RDR proposals and which proposals would fall into implementation Phases 2 and 3.

4.7 Draft Pension Fund Defaults Regulations

In July 2015, National Treasury published draft regulations outlining proposed requirements for all retirement funds to provide defaults in respect of investments, post-retirement income, preservation on leaving the fund, portability between funds and the establishment by each fund of a retirement benefits counsellor. ASISA made written comments on the draft, and held meetings with National Treasury to discuss the draft regulations. Publication of revised draft regulations is expected by the end of 2016.

5. OTHER MAJOR ISSUES AND DEVELOPMENTS

5.1 ASISA Standard on Effective Annual Cost (EAC)

The Standard, probably a world first in its comparative scope and cost transparency, became effective from 1 June 2016 with implementation to be completed by 1 October 2016. From that date onwards the EAC measure must be calculated and disclosed by members in point of sale client documentation.

Developing the EAC proved an ambitious project, which took several years to complete. The EAC is a standardised disclosure methodology that can be used by consumers and advisers to compare charges and the impact on investment returns for most retail investment products across the various regulatory wrappers. The aim is to enable consumers to make informed decisions.

5.2 ASISA Performance Fee Standard

The ASISA Collective Investment Schemes (CIS) Performance Fee Standard comes into effect on 1 January 2017. The next step will be to extend the scope of the Standard to hedge funds, life products and segregated funds.

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