Legal Services

FINANCIAL SERVICES

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Securing your financial well-being

ON THE SCALES 8 of 2018

Draft circulars issued by the Financial Services Board

The Financial Services Board (‘FSB’) has issued several draft information circulars this year. This publication highlights the key matters covered in the draft circulars.

Summary

Draft Notice: Communication of Benefit Projections to Members of Retirement Funds

- Prescribes the requirements for communication to be contained in retirement projections.

Draft Information Circular: Annual Financial Statements prescribed in terms of section 15(1)

- All funds, irrespective of the value of their assets, will have to submit audited financial statements to the FSB for financial years after 1 January 2019.
- Funds will have to submit their annual financial statements 3 months after the fund’s year end, rather than 6 months later.
- Funds will have to use an accrual accounting basis for financial years after 1 January 2019.

Draft Notice: Prescribed Conditions for Eligibility of Smoothed Bonus Products

- Prescribes the requirements for a smoothed bonus portfolio to be eligible as a default investment portfolio for the purposes of the default regulations.

Draft Notice: Communication of Benefit Projections to Members of Retirement Funds

The draft notice prescribes the requirements for communication to be contained in retirement projections.

The FSB recognises the importance of pension projections.

The notice applies to all funds, except beneficiary funds and unclaimed benefit funds.

A projection statement should be issued when a member joins a fund and with the annual benefit statement and for members receiving living annuities.

The notice sets out the minimum information to be communicated to members, including:

- disclosure that this is guidance, not a promise;
- projected benefit as a multiple of salary (cost to company), not pensionable salary;
- projected monthly pension in current terms;
- risks and assumptions used.

The notice sets out the methodology to be used, depending on whether the fund operates on a defined benefit or defined contribution funding arrangement.

The notice sets out requirements for the assumptions to be used in the projection statements.

The projection statements must be dealt with in funds' statutory valuations and annual financial statements.

Draft Information Circular: Annual Financial Statements prescribed in terms of section 15(1)

The FSB wants to be more proactive in supervising funds and it is considering implementing the following proposals:

- Withdrawal of the current exemption that releases certain funds from having their annual financial statements audited. This means that every single fund, irrespective of the value of its assets, will be required to submit audited financial statements to the FSB. This will apply to all financial years commencing after 1 January 2019; and
- Funds currently have to submit their annual financial statements 6 months after the fund's year-end. The circular says that the FSB proposes to reduce this to 3 months after the fund's year-end; and
- All funds will have to use an accrual accounting basis. Funds will not be able to apply the non-accrual basis for financial years after 1 January 2019.

Draft Notice: Prescribed Conditions for Eligibility of Smoothed Bonus Products

- A smoothed bonus portfolio is an insurance policy in which vested or non-vested bonuses declared over a period may be different to the fund return earned over the same period so as to smooth the fund return.
- A fund can include a smoothed bonus portfolio as a default investment portfolio, if it meets the requirements in the notice for eligibility.
- A formulaic approach must be established to calculate and determine bonus declarations, both vested and non-vested. The notice sets out the factors that the formulaic approach must take into account.
- The cost of any guarantee provided in the policy must be commensurate with the risk and there must be separate disclosure of guarantee charges and other costs relating to the policy.
- The insurer may apply a market-value adjustment (MVA) in pre-determined circumstances as set out in the policy contract, provided that the payment of any individual benefit under a policy must not be subject to any adjustment, for example where such payment is triggered by death, retrenchment or retirement.
- There must be no disinvestment penalties or charges levied by the insurer.
- The asset allocation of the policy must remain within disclosed limits around the strategic asset allocation and must comply with the Pension Funds Act. Where a material change in the strategic asset allocation is being considered, full disclosure must be made to all affected parties and the Registrar of Pension Funds must be notified of the intent to change the strategic asset allocation. Participants must be given the option to opt out of the portfolio if there is a material change in the exposure, without any penalties or MVA applying.
- The underlying mechanism of a smoothed bonus policy may be complex, but the communication about the portfolio and its performance must be relevant, simple and easy to understand.
- The smooth bonus policy must comply with the six TCF fairness outcomes.

Comment: Alexander Forbes has submitted comments on these draft circulars through the industry bodies we participate in. Once the circulars are finalised, we shall issue publications informing you of their terms.

If you need more information, please contact your consultant.