



Executive Summary

- Notice 3: Prescribes the format to be submitted with the annual financial statements as required in terms of section 15 of the Act. Also specifies audit report to be submitted by Large Funds. Applicable to financial year-ends on/after 31 July 2011.
- Notice 4: prescribes public entities for purposes of paragraph 2.1(d) of table 1 to Regulation 28. Applicable with effect from 19 December 2011.
- Notice 5: prescribes the conditions for securities lending for pension funds as per Regulation 28(3). Where applicable, securities lending transactions must comply by 30 June 2012.

Regulation 28 Changes - some further requirements

During 2011 we communicated the revised Regulation 28 requirements and the impact thereof on funds. The Financial Services Board has issued further notices applicable to the requirements in terms of Regulation 28 and the various reporting requirements and forms to be used. All funds and their trustees will have to ensure compliance with these requirements.

Notice 5: Securities Lending

What is "securities lending"?

In finance, securities lending or stock lending refers to the lending of securities by one party to another. The terms of the loan will be governed by a securities lending agreement, which requires that the borrower provides the lender with collateral, in the form of cash, government securities, or a letter of credit of value equal to or greater than the loaned securities. The agreement is a contract enforceable under relevant law.

Conditions

Funds may enter into securities lending where it is in compliance with the:

- Investment policy statement of the fund.
- Liquidity requirements of the fund.
- Principles as set out in Regulation 28.

In addition,

- The transaction must be undertaken in a safe and prudent manner.
- Controls and procedures must be comprehensive and sound.
- Where the administration is outsourced, it must be outsourced to a firm with the necessary experience and expertise.

- The fund must ensure that it transacts with a reputable and credit worthy counterparty.
- The fund may only use specified counterparties for the transaction.
- The trustees of the fund remain ultimately responsible for the transaction.

Monitoring

The fund must evaluate its security lending policy at least once per annum in respect of certain specified criteria.

The board of trustees must continuously monitor that:

- Internal due diligence procedures are followed to establish the quality of a borrower.
- Only specified securities are used as collateral and the value of the collateral exceeds the prescribed minimum.
- Lending happens within the prescribed limits.

Asset class	Maximum securities lending allowed as % of fair value of asset class
Equities - top 100 of companies (by market cap) listed on an exchange	75%
Other listed equities	50%
Debt - government bonds	75%
Other listed debt instruments	50%
Money market instruments issued by a South African bank, including an Islamic liquidity management financial instrument	75%

Type of collateral	Prescribed minimum % of fair value securities lent
Cash	105%
Debt instruments	110%
Equities	115%

Contractual requirements

A securities lending transaction must be undertaken in terms of a legally binding written agreement with the borrower that complies with the definition or a 'master agreement' as contemplated by section 35B of the Insolvency Act, 1936.

Disclosure

Any securities that are subject to a securities lending transaction remain assets of the fund and must be disclosed in the annual financial statements of the fund as assets of the fund. The following must be disclosed:

- A description and the fair value of the securities lent;
- The counterparty to the securities lending transaction; and
- The type and fair value of collateral and whether the collateral is held in the name of the fund or on behalf of the fund.

For purposes of the 25% counterparty limit as set in Regulation 28, the counterparty exposure of the securities lending will not count towards such 25% limit.

Trustees will have to ensure they understand these requirements and ensure compliance by the fund and all third parties appointed by them.

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