

Financial Sector Conduct Authority
Eugene du Toit: Head: Regulatory Framework and
Kedibone Dikokwe: Divisional Executive: Conduct of Business Supervision
41 Matroosberg Rd
Ashlea Gardens
Pretoria
0002

19th October 2021

Dear Madams / Sirs

We would like to raise a matter, which has resulted in some debate in the SAICA Investment Management Project Group ('SAICA IMPG'), dealing with the appropriate accounting treatment of cash held by Collective Investment Scheme Managers ('managers') in 's104' bank accounts. These are the bank accounts owned and operated by managers to comply with the requirements of s104 of the Collective Investment Schemes Control Act 45 of 2002. It has come to the group's attention that, due to perceived ambiguity in the relevant legislation, some managers have, when preparing their financial statements, deemed the bank accounts to be an asset, recognising the cash on their Statement of Financial Position (or 'on-balance sheet') with a corresponding and equivalent liability to the relevant investor, while others have interpreted the legislation to imply that these accounts do not meet the definition of an asset and thus do not recognise the cash in their Statement of Financial Position (i.e. they are treated as 'off-balance sheet').

Request for a directive on the accounting treatment of cash held in 's104 accounts'

It is the understanding of the SAICA IMPG that the cash in these accounts meets the definition of 'Trust Property' in terms of the Financial Institutions (Protection of Funds) Act 28 of 2001 and it is the intention of the relevant regulations that it should not be recognised as an asset to the manager and thus should always be treated as off-balance sheet. We would like to request that the FSCA issue a directive, which would require these bank accounts to be accounted for off-balance sheet (outside of the financial statements of managers) and thus eliminate the current inconsistency of accounting treatment.

COFI Bill

We note that s40(1)(b) of the proposed COFI Bill states that "*A financial institution must— ...In its accounting records and financial statements, clearly indicate the trust property as being property belonging to a specified person for, or on whose behalf, the financial institution is acting*". We note that the reference to disclosure in the financial statements in this section, could cause additional confusion amongst managers in light of the above. It will be appreciated if the FSCA could provide an indication of how these bank accounts (as Trust Property) will be expected to be "indicated" in the financial statements of managers upon promulgation of the COFI Bill. It is the suggestion of the group that these amounts should be treated as off-balance sheet and only separately disclosed in the *notes* to the financial statements of the relevant manager.



We propose that the report in s40(1)(c) of the Bill should be aligned with s19(3) of the FAIS Act if it is the intention for the report to be issued to resemble a s19(3) Factual Findings report.

We welcome any opportunity to engage with the FSCA on the above matters and look forward to the opportunity to resolve the matter.

Yours faithfully,

Kedibone Pilusa
Project Director
SAICA: MIB Technical

N.A. Jacobs
Nicolette Jacobs
Chairman
SAICA IMPG