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President

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12 February 2010

Mr. Christiaan Ahlers
Head: Actuarial Pensions
Financial Services Board
P O Box 35655
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By email: christiaana@fsb.co.za

Dear Mr Ahlers

RE: INTERPRETATION NOTE 2 OF 2010: RESERVE ACCOUNTS IN RULES

The Retirement Matters Committee of the Actuarial Society of South Africa welcomes the opportunity to comment on the Second Draft Interpretation Note ("IN") regarding "Reserve Accounts in Rules" to the Financial Services Board ("FSB").

We are disappointed that many of our previous comments and recommendations were not allowed for in the Second Draft. The paragraph numbering below conforms to our letter dated 10 September 2009, indicating which of our previous comments were allowed for or not, plus adding any new observations or queries.

1. We have previously expressed our viewpoint that it is not necessary to require every contingency reserve to be allowed for in the rules of the fund - this has not been allowed for in the Second Draft. Please advise if even a temporary contingency reserve must be included in the rules e.g. an Expense Reserve relating to a Surplus Apportionment exercise.

We are concerned that the requirement of registering rule amendments to allow for contingency reserves will cause delays e.g. in Section 14 transfer applications. Please advise if the setting up of a contingency reserve must wait for the completion of a statutory valuation, which in our opinion will lead to further delays.

2. We requested that the IN indicate circumstances when a Fund with contingency reserve accounts would be granted valuation-exemption status - this was not allowed for.
3. We suggested alternatives whereby the Registrar can exercise discretionary powers in respect of contingency reserves - these were not allowed for.
4. Our comments were allowed for.

5. Our comments were allowed for, as the contentious paragraph stating that a contingency reserve account can only be held in respect of a single contingency was removed. Hence we interpret the new paragraph 16.1 of this IN version to mean “contingency or contingencies”.
6. Our comments were partially allowed for, as one term was changed per our suggestion. We further suggested the inclusion of a line referring to Trustee discretion, which was not included.
7. Our comment that once justified in a statutory valuation report and in the rules there is no further need to justify a contingency reserve in future valuation reports was not allowed for.
8. Our comments were allowed for.
9. Our comments about the Act not requiring the setting up of a contingency reserve in the rules were not allowed for.
10. Our overall comments concerning Accounting and Valuation issues were partially allowed for, as per the paragraphs below.
11. Our comments, concerning the inclusion of Actuarial values in rules and financial statements, were not allowed for.
12. Our comments were partially accepted, as the statement that an approximation is required was removed, but now an agreement with the auditors must be reached. We believe this to be more onerous on the actuary, and we suggest that if the FSB is going to insist on the values being shown in the Financial Statements, that the values as per the last approved statutory valuation could be shown as an agreed solution.
13. Our comments were allowed for.

We trust that you will reconsider our comments and the additional observations made and we encourage the Registrar to modify the IN accordingly.

Yours sincerely

ARTHUR ELS
Chairman
Retirement Matters Committee
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This letter was dispatched electronically, without e-signature