

## SUPPLEMENT TO THE IMPACT STUDY OF THE TWIN PEAKS REFORMS

An impact study of the twin peaks reforms was submitted to the Standing Committee on Finance on 21 July 2016<sup>A</sup>. That document contained estimates of the costs of the new regulators. National Treasury, together with the regulators, has subsequently prepared a detailed costing of the two regulators which will be implemented through the Levies Bill.

### A. Table 1: Estimated Levies and fees for Twin Peaks regulators

	Original estimated costs (SEIAS – July 2016)	Final proposed Income (Levies Bill – Nov 2016)
<b>SARB: Financial Stability</b>	<b>R44m</b>	<b>R44m</b>
<b>Prudential Authority<sup>2</sup></b>	<b>R294m</b>	<b>R341m</b>
Bank supervision	R198m	See Table 2
Insurance supervision	R96m	
<b>Financial Sector Conduct Authority</b>	<b>R696m</b>	<b>R611m</b>
Supervision of non-bank financial institutions	R624m	See Table 3
Additional costs: conduct supervision of retail banking <sup>3</sup>	R72m <sup>3</sup>	
<b>Total<sup>4</sup></b>	<b>R1,033m</b>	<b>R996m</b>
% of GVA of financial corporations <sup>5</sup>	0.27%	<b>0.25%</b>

#### Notes:

1. Own calculations based on data provided by South African Reserve Bank and Financial Services Board.
2. Costs associated with prudential supervision of financial market infrastructure are not included in this analysis.
3. No estimates are yet available for the costs of implementing market conduct supervision of retail banking at the FSCA. It is therefore assumed that these costs will be broadly similar to the costs of market conduct supervision of the insurance industry. This approach was used for illustration purposes by PwC in the study on “Twin Peaks Funding Options” for National Treasury in 2014.
4. The reported costs of insurance supervision at FSB have been split into prudential functions - 57% and market conduct functions - 43%. The estimated shares are based on the costs analysis in the PwC study on “Twin Peaks Funding Options” for National Treasury in 2014.
5. Costs expressed as a percentage of the gross value added (GVA) of financial corporations. GVA measures the contribution of a sector to the economy (output less intermediate consumption). Data on GVA of financial corporations is from the production, distribution and accumulation accounts in the South African Reserve Bank Quarterly Bulletin.

<sup>A</sup> <http://www.treasury.gov.za/twinpeaks/Impact%20Study%20on%20Twin%20Peaks%20Reforms.pdf>

## B. Prudential Authority Levy Income 2016/2017 (Schedule 1 of the Levies Bill)

**Table 2: Estimated annual levies for the Prudential Authority when applying the Levies Bill formula in R'000s**

Department	Total levies	Fees*	Total levies and fees
Commercial Banks	219,614	5,679	225,293
Long Term Insurance	57,743	1,624	59,367
Short Term Insurance	35,694	1,624	37,318
Central Clearing Counterparties	10,000	0	10,000
Exchanges	4,775	0	4,775
Central Securities Depository	3,300	89	3,389
Trade Repositories	500	0	500
Road Accident Fund	100	0	100
Mutual Banks	30	1	31
Co-operative Banks	6	0	6
<b>Total Levy and fee income for the PA</b>	<b>331,762</b>	<b>9,017</b>	<b>340,779</b>

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

## C. Financial Sector Conduct Authority Levy Income 2016/2017 (Schedule 2 of the Levies Bill)

**Table 3: Estimated annual levies and fees for the Financial Sector Conduct Authority when applying the Levies Bill formula in R'000s**

Department	Total Levies	Fees*	Total levies and fees
FAIS	185,444	8,520	193,964
Pensions	161,823	6,029	167,852
Long-term Insurance	55,738	2,528	58,266
Commercial Banks	50,043	1,000	51,043
Exchanges	44,165	0	44,165
Collective Investment Schemes	36,247	11,836	48,083
Short-term Insurance	35,694	1,000	36,694
Central Securities Deposit	3,300	-	3,300
Credit Rating Agencies	3,200	0	3,200
Trade Repositories	500	450	950
Hedge Funds	172	2,571	2,743
OTC Derivative Providers	100	1,000	1,100
Mutual Banks	30	-	30
Co-operative Banks	3	-	3
<b>Total levy and fee income for FSCA</b>	<b>576,549</b>	<b>34,934</b>	<b>611,393</b>

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

NB\* “-” Means that the fee structure has not been developed but insignificant

#### **D. Financial Services Tribunal Levy Income 2016/2017 (Schedule 3 of the Levies Bill)**

---

**Formula:** Total Levy payable in terms of Schedule 1 + Total Levy payable in terms of Schedule 2 × 2.5%

**Calculation:**  $R311.78 + R551.15m \times 0.025 = R21.57m$

---

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

#### **E. Ombud Council Levy Income 2016/2017 (Schedule 4 of the Levies Bill)**

---

**Formula:** Total Levy payable in terms of Schedule 2 × 2.5%

**Calculation:**  $R551.15m \times 0.025 = R13.78m$

---

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

#### **F. Statutory Ombud Schemes 2016/2017 – Office of the Pension Fund Adjudicator (Schedule 5 of the Levies Bill)**

---

**Formula:** Number of members as at 30 June of the levy year × 4.5

**Calculation:**  $9\ 554\ 170 \times 4.65 = R44.43m$

---

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

#### **G. Statutory Ombud Schemes 2016/2017 – Office of the Ombud for Financial Services Providers (Schedule 5 of the Levies Bill)**

---

**Formula:** Base + (The total value of investments managed or administered on behalf of clients in terms of the authorisation as a FSP × 337)

**Calculation:**  $R885 + (110\ 334 \times 337) = R37.18m$

---

Source: Data estimated and simulated using formulas in the Levies Bill and latest available data

#### **H. Summary of total income of the proposed levies and fees by Institution**

Reference	Institution/Cost Centre	Proposed Income
Schedule 1	Prudential Authority	R341m
Schedule 2	Financial Sector Conduct Authority	R611m
Schedule 3	Financial Services Tribunal	R22m
Schedule 4	Ombud Council	R14m
Schedule 5	Office of the Pension Fund Adjudicator	R44m
Schedule 5	Office of the Ombud for Financial Services Providers	R37m
	Financial Stability	R44m
<b>TOTAL ESTIMATED LEVY AND FEE INCOME</b>		<b>R1,113m</b>