



The Supervision Desk

FAIS CONFERENCE
March 2018

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- FSP & CO statistics
- Supervisory Approach
- Feedback - theme visits 2017/18
- Feedback – projects 2017/18
- Projects 2018/19

Statistics

Authorised FSPs

11 570 (10 978) (10 513)

Category I

10 618 (10 088) (9 699)

Category II

681 (632) (693)

Category IIA

128 (119)

Category III

28 (27) (27)

Category IV

115 (112) (94)

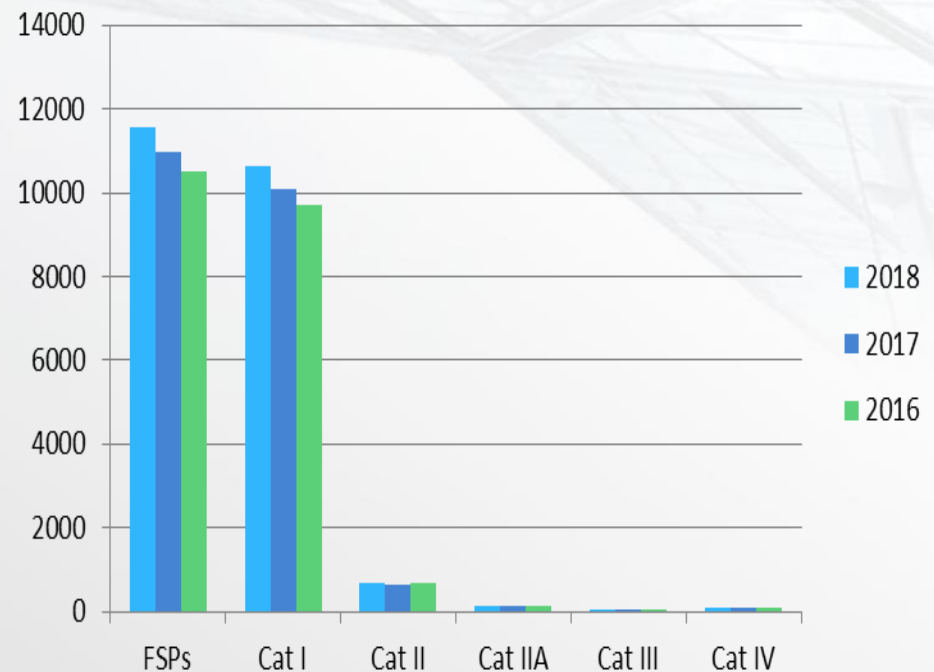
2018
2017
2016

Compliance Officers

3 598 (4 114) (4 053)

1 532 - inactive

2066 - active



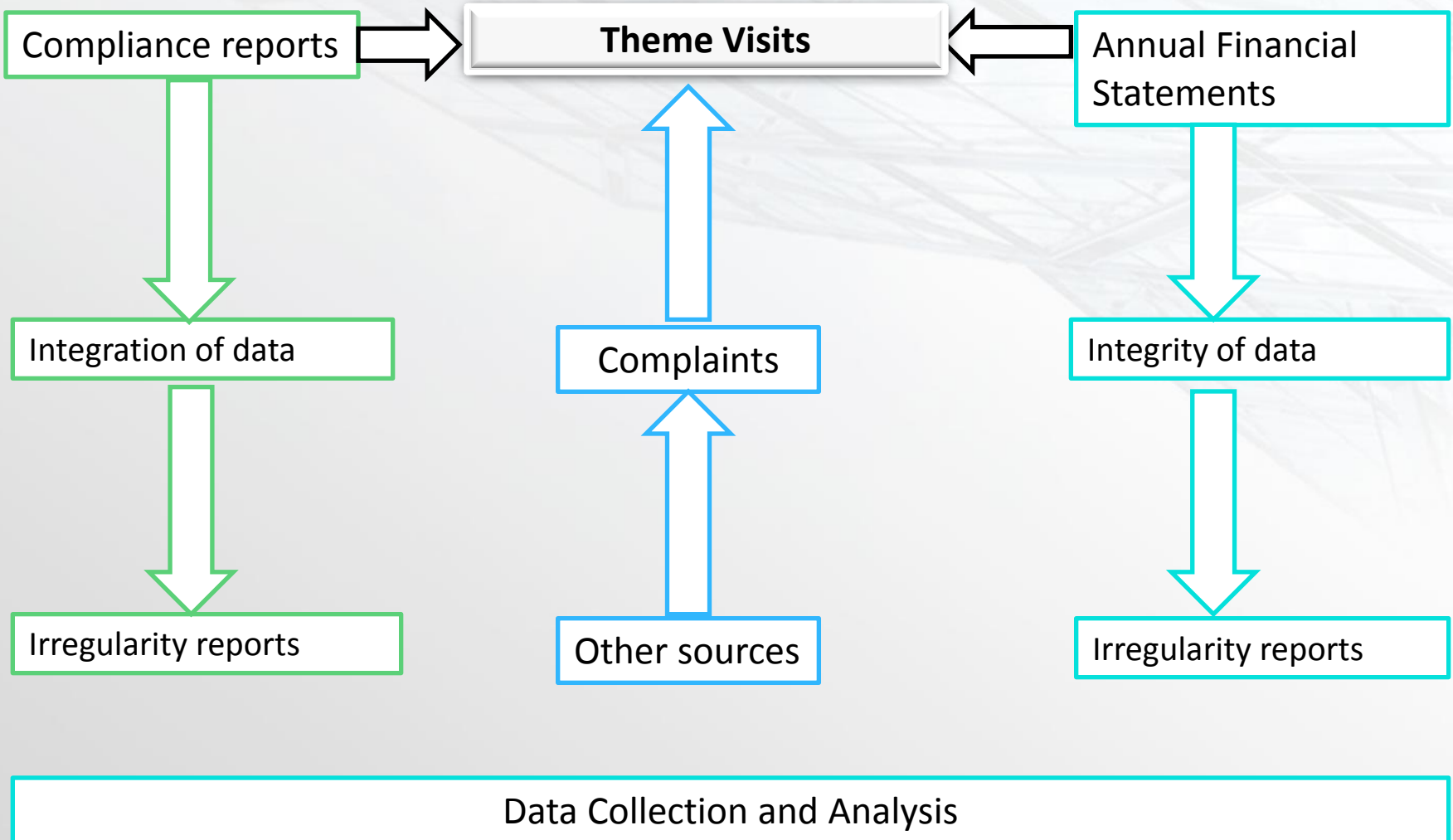
Statistics continued

Type of report/ referral		2017	Total 2017	2016	Total 2016
Financial statements	Hard copy	4 409	9 858	4 586	9 958
	Electronic	5 449		5 372	
	Receipt of extension requests		724		406
Compliance reports	Hard copy	2 158	11 911	2 168	11 679
	Electronic	9 753		9 511	
Irregularity reports			85		53



Referrals for regulatory action	225	406
FAIS staff complement	136	
FAIS Supervision	66	

Supervisory approach



Theme Visits: 2017/2018

Category I (without compliance officer)

- Educational Intervention
- Initiative started in 2014
- A total of 60 FSPs were visited between 01 April 2017 – 28 February 2018

Focus Area

1. Risk management
2. Suitability and records of advice
3. Business continuity
4. Competency requirements, i.e. regulatory examinations and qualifications
5. Professional indemnity cover
6. Disclosures
7. Conflict of interest management
8. Financial Intelligence Centre Act

Main areas of concern

1. Inadequate disclosures to clients
2. Not keeping records of advice furnished
3. No complaints handling policy and procedures in place
4. Not registered with the FIC
5. No or inadequate FICA internal rules

Theme Visits: 2017/18

Category I (with juristic representatives)

- 60 FSPs were reviewed between 1 April 2017 – 30 November 2017
- Compliance with section 13(1)(c) by various sectors
- Prevent undesirable business practice of renting a license
- Contracting with product suppliers in the name of the FSP
- To ensure that all moneys received by a FSP and its juristic representative(s) are reported on by the auditor

Focus Area

1. Collection of premiums by juristic representatives
2. Contracting with product suppliers in the name of the FSP and not the juristic representatives
3. Insurance cover must be held by the FSP and extended to the juristic representatives
4. Advertising and business documentation must clearly reflect the FSP as the principal
5. Compliance monitoring at the juristic representative

Findings

1. Collecting premiums in the bank account of the FSP were problematic in certain areas, predominantly the retail environment.
2. FSPs changing business models to ensure premiums are collected in the right bank accounts.
3. The overall adherence with the requirements had significantly improved

Theme Visits: 2017/18

Ad hoc project

- 15 FSPs were reviewed between 01 April 2017 – 28 February 2018

Focus Area

1. Operational ability of key individual
 - a) Rent-a-key individual
 - b) Supervision of representatives
2. Compliance function

Findings

1. General Compliance:
 - a) Little/no due diligence
 - b) Compliance reports not accurately depicting nature of business, mostly copy and paste exercises
2. Key individuals:
 - a) Quality of management and oversight of the rendering of financial services poor
 - b) Monitoring of representatives of poor quality; its more a paper exercise than practical gaining of experience
3. Compliance officers:
 - a) Unable to service all clients properly
 - b) Lack of understanding of the nature of clients' business



Feedback 2017 projects

1. Conduct of Business Report (COBR)

- Review of comments finalised
- Updated draft COBR to be published for comments

2. Framework for crowdfunding

- Communication on the applicable framework for crowdfunding activities to be published soon

3. Derivatives (Binary Options)

Background of the problem

- The Registrar's office observed a growing number of complaints from investors that have traded in binary options.
- Influx of multi-national entities who provide online platforms for trading binary options.

Data gathering (Survey)

- Investigate the usage of binary options amongst authorised FSPs.
- The scope was expanded to include the usage of derivatives, CFDs and binary options by category I FSPs.



Feedback 2017 projects cont.

Coverage

- The survey took place in February 2017 and was repeated in September 2017
- A total of 923 category I FSPs were surveyed and 371 responded.
- A 41% response rate.

Outcome of survey

- **48% (177 FSPs)** indicated that they have not advised, recommended or provided derivatives to their clients
- **52% (194 FSPs)** have issued or provided derivatives to clients
- Most of the FSPs indicated that they were involved in derivatives as advisers or introducing agents
- There are no category I FSPs that indicated that they issued or provided binary options to clients
- Most of the FSPs indicated that the product is risky and they did not understand how it works



Feedback 2018 projects cont.

4. Amendment to the audit requirements:

- No provision in regulatory framework for compulsory review on behalf of the market intermediaries of the internal controls by an objective and independent party.
- There must be a compulsory requirement for market intermediaries to undertake a periodic review of their internal controls and risk management conducted by someone who can render an independent assessment, preferably an external expert such as an auditor.



PROJECTS 2018/19



Theme Visits 2018/19

- FICA visits:
 - Small FSPs
 - Educational approach
- Ad hoc visits
 - Complaints
 - Information from other sources (e.g. statutory returns/ irregularity reports)
- FICA workshops

Implementation

- The FIC Amendment Act, 2017 was assented to on 26 April 2017
 - The Minister of Finance determined different commencement dates for different sections of the Act
- The 1st set of provisions commenced on 13 June 2017.
 - These were inward looking and did not impact FSPs
- The 2nd set of provisions commenced on 02 October 2017.
 - They required changes to be made to Regulations, Exemptions, systems and controls as well as training to be provided to staff of accountable institutions.



FIC Amendment Act, continued

Impact on FSPs

- Project Plan with milestones on the implementation of new requirements:
 - Adoption of a risk-based approach
 - Implementation of risk management and compliance programme
 - Implementation of customer due diligence measures in addition to identification and verification requirements
 - Enhanced customer due diligence in respect of high risk clients
 - Obtaining information on source of funds or wealth
 - Verification beneficial ownership in respect of legal entities
 - Enhanced measures when dealing with prominent persons (previously politically exposed persons)
 - Responsibility for AML/CFT governance
 - Establish compliance function
 - Ongoing training of staff

Awareness campaigns

- Engage with FSPs regarding implementation, compliance and enforcement of the new provisions
- Continue to engage with FSPs using different platforms to provide support and assistance
- Newsletter to provide regulatory updates
- FICA workshops
- A customised compliance report for FICA
- Conduct FICA inspections to FSPs without COs to assess compliance
- Participate in roadshows hosted by the Financial Intelligence Centre



Thank You

Financial Service