Updated Regulatory Reporting and Audited Financial Statement Prudential Standards for Pension Funds

Presented by:
Nandipha Ngcobo
Senior Legal Advisor
NBC Holdings (Pty) Ltd

PENSION LAWYERS ASSOCIATION 30TH ANNUAL CONFERENCE

CONTENTS

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CONTENTS

REQUIREMENTS RELATED TO REGULATORY REPORTING AND ANNUAL FINANCIAL STATEMENTS FOR PENSION FUNDS

INTRODUCTION

- On **the 25th of November 2025**, the Prudential Standard and supporting documents were submitted to Parliament in terms of section 103(1) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act).
- The Prudential Standard seeks to **consolidate all audit and regulatory reporting requirements.**
- The Prudential Standard incorporates both the regulatory reporting requirements and the format of the financial statements into one instrument.
- The Prudential Standard seeks to **align the regulatory reporting requirements with the updated sections of the International Financial Reporting Standard ("IFRS") and the International Accounting Standard.**
- This Prudential Standard will replace **Board Notice 14 of 2009 and Board Notice 77 of 2014.**

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MAIN REGULATORY CHANGES UNDER THE PRUDENTIAL STANDARD

Annual Financial Statements

- Must comply with full IFRS Principles and the South African Auditing Practice Statement.
- Be prepared in accordance with the Reporting Concepts and Conceptual Framework contemplated in Chapter 3.

Removal of exemptions

- All funds are required to have their financial statements audited **regardless of the total value of assets held by a fund.**

Regulation 28

- Schedule IA – investment schedule, now makes provision for the fund, under column E to report on Section 28(9) investments
- Schedule L requires fund to report on Regulation 28(9) Investments.

MAIN REGULATORY CHANGES UNDER THE PRUDENTIAL STANDARD

Onerous reporting

- Boards are required to disclose information relating to their Investment Policy Statement.
- Cybersecurity.
- Annuity Strategy.

ESG Reporting

- Schedule Q expected to include reporting in respect of Environmental Social And Governance (ESG).
- Confirm whether Investment Policy Statement includes ESG integration.
- Disclose whether the annual reports currently address the elements contained in the Authority's Guidance Notice on sustainability.

MAIN REGULATORY CHANGES UNDER THE PRUDENTIAL STANDARD

INFRASTRUCTURE ASSETS

- Schedule IB proposed to include Table 2 from Regulation 28 in terms Infrastructure Reporting.

LOOK-THROUGH REPORTING

- Funds must now report on underlying investments and not just top-level pooled funding.
- The reporting now requires funds to drill down.

PROVISION OF THE PENSION FUNDS ACT AND PRESCRIBED NOTICES

- **SECTION 15 OF THE PENSION FUNDS ACT**

- **Section 15 (1) of the Pension Fund Act ("the Act")-** Requires every registered fund shall, **within six months** as from the **expiration of every financial year**, furnish to the registrar such **statements** in regard to its revenue, expenditure and financial position as may be prescribed, **duly audited and reported on by the auditor of the fund;**

- To give effect to Section 15(1) of the Act, the FSCA issued notices prescribing detailed reporting requirements. The two key notices were:—
  - **Board Notice 14 of 2009** relating to regulatory reporting requirements for retirement funds.

  - Prescribed Financial Statements Applicable to the different categories of funds as published in **Board Notice 77 of 2014.**

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OVERVIEW: BOARD NOTICE 14 OF 2009

- **BOARD NOTICE 14 OF 2009 (BN 14)**

- BN 14 sets out the **recognition and measurement principles** to be used in preparation of the financial statements and also **provides guidance relating to disclosure and presentation in the prescribed format of the financial statements as stipulated in BN 14**, which serves as an accounting guide for the pension funds industry.

- The recognition and measurement principles currently applied are **outdated and fail to accommodate regulatory changes introduced over the years (Reg 28 and ESG).** Consequently, preparers of financial statements are required to **modify or supplement existing reporting formats, often with explanatory notes, in order to ensure that all mandated disclosures are properly addressed.**

- **This gap will be addressed through the introduction of the Prudential Standard, which is designed to establish consistent requirements and strengthen the overall framework for disclosure, oversight, and governance."**

OVERVIEW: BOARD NOTICE 77 OF 2014.

- **BOARD NOTICE 77 OF 2014 (BN 77)**
  - **Under this notice the formats for financial statements are prescribed per the following categories—**
  - **Large Funds** - are funds with total assets exceeding R50 000 000
  - **Small Funds-** are funds with total assets of more than R6 000 000, but not exceeding R50 000 000;
  - **Audit Exempt Funds-** are funds with total assets less than R6 000 000.

- Basing the reporting framework solely on fund asset size produced inconsistent disclosures across categories. This approach failed to establish uniform standards, limiting transparency and reducing the effectiveness of oversight and governance.

- **The Prudential Standard will eliminate category-based regulatory reporting. All funds will instead be required to comply in full with the comprehensive reporting standards prescribed by the Authority.**

BOARD NOTICE 77 OF 2014 EXEMPTIONS

- **BOARD NOTICE 77 OF 20142 (BN 77) EXEMPTIONS**

- **Section 2 (5) of the Act read together with Section 15(4) allows the Registrar** to, where practicalities impede the strict application of a specific provision of this Act, **exempt any fund from**, or in respect of, such provision on conditions determined by the registrar.

- BN 77 also **exempted funds which has assets less than R50 million at its financial year-end** from the requirement to have **its financial statements audited and reported on by an auditor** in terms of section 15(1) of the PFA.

- Retirement funds with year-end assets of **R6 million or less**, or with **fewer than 50 members**, were **exempted from appointing an auditor in terms of Section 9(1) of the Act** and **having their financial statements** audited in terms of Board Notice 77 of 2014.

- **Based on the above exemption** BN 77 only required funds with **assets above R50 million** to have its **financial statements audited** and reported on by an auditor in terms of section 15(1) of the PFA.

APPLICATION OF THE PRUDENTIAL STANDARD AND ITS IMPACT GOING FORWARD.

- Chapter 2 of the Prudential Standard expressly states that this Prudential Standard is applicable to **all pension funds registered** under the Act, **regardless of the total value of assets held by a fund**.
- **IMPACT ANALYSIS :**
- This means that the exemptions previously granted under BN 77 will fall away.
- **All fun**ds, regardless of asset value, will be required to **appoint an auditor** and **have their financial statements audited** in accordance with Section 15 of the Act.
- This change will have a **significant financial impact on funds** that were previously exempt, as they will now be required to bear the costs associated with appointing an auditor and having their financial statements audited.
- Funds that were previously exempt **must update their budget to cater for this fund expense** as it will be compulsory to submit audited financial statements.
- **The Industry raised concerns of the administration and operational costs that this change will have on Funds going forward**.

APPLICATION OF THE PRUDENTIAL STANDARD AND ITS IMPACT GOING FORWARD.

- **FSCA RESPONSE TO PUBLIC**

  - In the FSCA's consolidated comments and responses to public comments dated June 2025 ("responses to public "), the FSCA indicated that it is imperative that the financial statements of all pension funds be audited to ensure that the Authority has better oversight on all funds irrespective of size.

  - The FSCA has further indicated in its responses to public, that where appropriate and if full audit increase operational costs such as there are no assets or money to pay for audits, the Authority may consider an exemption on a case-by-case basis i.e. the intention is to carve out terminating funds.

  - **We do not know at this stage the criteria or exemption application format that the FSCA will use to grant such an exemption therefore the decision ultimately rests with the FSCA based on the circumstances presented by a fund, funds must therefore make provision in their budgets for the appointment of an auditor and the costs of getting financial statements audited.**

REPORTING CONCEPTS AND CONCEPTUAL FRAMEWORK

<u>THE REPORTING CONCEPTS DEAL WITH THE</u>—

- For purposes of this Prudential Standard, the reporting concepts deal with the—
  - objective of the financial statements.
  - qualitative characteristics that determine the usefulness of information in the financial statements.
  - definition, recognition and measurement of the elements from which financial statements are constructed.

<u>It is important that your reporting concepts are aligned to the Prudential Standard once it becomes effective.</u>

EFFECTIVE DATE VS IMPLEMENTATION DATE

- **<u>THE EFFECTIVE DATE –</u>**
- This Standard becomes operational six (6) months after its publication being 01 January 2026.
- However, the FSCA has indicated that the practical implementation date will still be confirmed. This means that while the Standard states it is effective from 01 January 2026, the actual enforcement timeline may be later, depending on when the FSCA sets the implementation date.
- While this development introduces some uncertainty for funds, it should not serve as a reason to delay or suspend preparations for compliance with the Prudential Standard.

EFFECTIVE DATE VS IMPLEMENTATION DATE

- **PRACTICAL CHALLENGES WITH THE EFFECTIVE DATE (YEAR END)–**

- In respect of the transitional period, there was a concern that the current effective date (i.e. effective within 6 months after publication) does not provide adequate guidance as to which year ends are applicable.

- It was further indicated that the Prudential Standard should be effective for year ends starting on/after a specific date that should be consistent with other regulatory bodies.

- Industry requested a transitional period for updating templates, reports and formats especially on the environmental, social and governance section.

EFFECTIVE DATE VS IMPLEMENTATION DATE

- **<u>FSCA RESPONSE TO THE PRACTICAL CHALLENGES WITH THE EFFECTIVE DATE (YEAR END)–</u>**

- The FSCA has indicated in their responses to the public that the Prudential Standard will take effect on 1 January 2026.

- What this (practically) means is the Standard will start to apply to a fund on its first year end after the effective date. **If, for example, a fund's year end falls between the date of publication and the effective date, the Standard will not apply to that year end- it will only apply to next year's year end. In addition, extensions for compliance will also be considered on a case-by-case basis.**

- **We are unaware of the criteria that will be used by the FSCA to grant an exemption in this regard.**

DETERMINATIONS AND REPORTING FORMAT

DETERMINATIONS

- The new approach entails that the draft Prudential Standard itself will only include a high-level requirement to report on the matters mentioned in the standard.

- The FSCA then included an empowering provision to states that the FSCA may determine the manner and format of reporting. The latter enabling provision is based on section 108(2)(a) of the FSR Act which states that ''a standard may provide for a financial sector regulator to make determinations, in accordance with procedures defined in a standard, for the purposes of the standard'.

- The intention is for the FSCA to issue a determination, once the final Prudential Standard has been made, which sets out the detail of the reporting (manner and format). To ensure a transparent and fair process, the FSCA is publishing the draft reporting template (draft Determination) for public comment together with the draft Prudential Standard.

KEY-TAKE-AWAYS

-Standard reporting for all funds.

- AFS must comply with IRFS.

-Must ensure FSCA updated templates are used.

- Exemptions for submitting audited AFS has ben removed.

- All funds will be required to appoint an auditor and submit audited AFS.

- Funds are required to report on ESG and Infrastructure assets.

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MAKING A DIFFERENCE
SINCE 1996

Prudential Standard: ESG disclosures

Presented by:
Lee Swan
Head: Sustainability
Alexforbes

Pension Funds Act, 1956: Amendments to Regulation 28 , 2011

In March 2011, amendments to Regulation 28 of the regulations made under Section 36 of the Pension Funds Act (1956) were gazetted by National Treasury. Within the preamble of the amended Regulation 28, the **fiduciary duty of a fund to act in the best interests of its members** is explicit. Further to this, it is noted that this **fiduciary duty supports the adoption of a responsible investment approach** to deploying capital into markets and that funds should give appropriate consideration **to any factor which may materially affect the sustainable long-term performance of the fund's assets, including factors of an environmental, social and governance character.**

Clause (2)(c) of the amended Regulation sets out the principles which must be applied by a fund and its board (and by proxy its external asset managers and consultants and their boards). From the perspective of responsible investment, the following principles are notable:

(v) An obligation to perform reasonable **due diligence** prior to investing in an asset directly or through a third party, so as to take into account the **risks** relevant to the investment;

(viii) Understand the **changing risk profile of assets of the fund over time** (*by implication ESG risks are included*); and

(ix) Before making an investment in and while invested in an asset, consider any factor which may affect the **sustainable long-term performance** of the asset, including, but not limited to, those of **environmental, social and governance** character.

FSCA Guidance Note: Sustainability of Investments and Assets in the Context of a Retirement Fund's Investment Policy, 2019

In mid-2018, the Financial Services Conduct Authority published a **draft Directive for consultation**, which was aimed at providing guidance in respect of the content of some of the essential aspects expected to be included within the investment policy statement of Pension Funds and the manner in which that content should disclosed by pension funds and their proxies. Following consultation by the FSCA on the draft Directive, the FSCA **took a decision to convert the draft Directive into a Guidance Note -** Guidance Note 1 of 2019 was formally published on 14 June 2019.

In the context of the sustainability requirement set out in Regulation 28, the following requirements, contained in FSCA Guidance Note, are worth noting:

- In order to comply with the **sustainability requirements contained within Regulation 28, a fund** **should reflect in its investment policy how its general investment philosophy and objectives seek to ensure the sustainability of its assets**, including, but not limited to the following:
    - **How the fund intends to monitor and evaluate the ongoing sustainability of the assets** which is owns and which it intends to acquire, **including the extent to which *ESG factors* have been considered by the fund, and the potential impact of such factors on the fund**.

In setting out the definitions of wording and terminology, the Guidance Note provides clarity on the definition to be used for the term "ESG factors" as follows:

"ESG Factors" means environmental, social and governance factors. In the South African context, and specifically in respect of assets located in South Africa, these factors include, but is not limited to, the manner in which broad based black economic empowerment is advanced."

Prudential Standard on Requirements Related to Regulatory Reporting and Audited Financial Statements for Pension Funds

The draft Prudential Standard was submitted to Parliament for approval towards the end of 2025. The standard sets out the requirements for the preparation, content, and submission of financial statements for retirement funds.

The Investment Schedule must contain details of all investments, including types, exposures, and **compliance with Regulation 28 and importantly, ESG details**.

The FSCA may consider issuing a guidance note on ESG and infrastructure reporting requirements.

Regulation 28 disclosure: ESG (Schedule I – Q)

Schedule I – Report of the Independent Auditors of Factual Findings to the Authority
Part Q – Regulation 28 ESG compliance

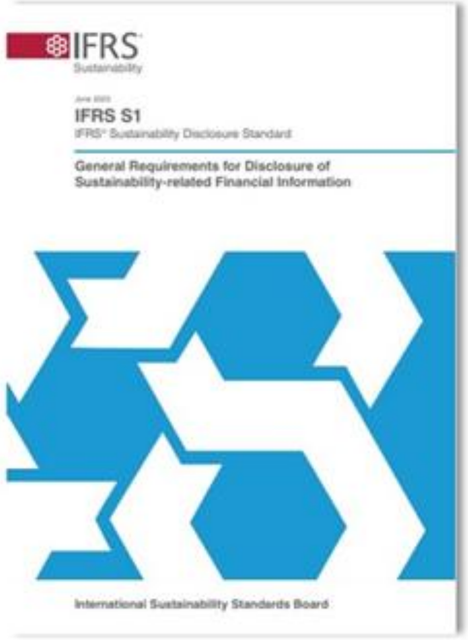
1. Does the fund have an **IPS that includes ESG integration**?
2. Does the fund's **IPS include details on monitoring, evaluating and making strategic decisions about ESG sustainability** of assets owned and acquired?
3. Does the fund's **IPS include an Active Ownership policy**?
4. Does the fund have a **specific policy that supports green/climate investment**?
5. Is the fund **exposed to coal mining, coal logistics and/or coal fired power plants**?
6. Does the fund have **investment in green, social or sustainability themed bonds**?
7. **Would the fund be willing to commit to reduced exposure to coal**?
8. **Would the fund be willing to commit to increasing allocation to green and climate-focused investments?**
9. **Would the fund be willing to commit to increasing allocation to investment with positive social impact?**
10. Did the fund **align with Sustainable Development Goals (SDGs) in some way**?
11. **Do annual reports address sustainability elements in the Authority's Guidance Notice relating to retirement fund IPS sustainability**?

Regulation 28 disclosure: ESG (Schedule I – Q)

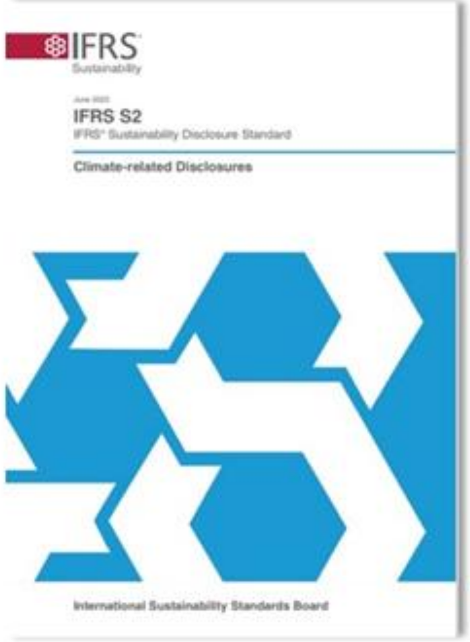
Questions	Large-scale renewable energy generation	Infrastructure	Private Equity	Waste Management	Small-scale renewable energy generation	Public transport	Climate smart/sustainable water systems	Electric vehicles	Green buildings/ green housing	Green bonds	Social bonds	Sustainability bonds
Which of the top 3 categories of green/climate assets are cited by the fund?												
Which green asset allocations apply to the fund?												
What is the **amount of the fund's exposure to coal** (including indirect exposure)?												
What is the **amount of exposure to green, social or sustainability bonds**?												

Beyond the Prudential Standard: We are moving into a period of radically enhanced transparency on sustainability

- National policy process considering the **introduction of mandatory sustainability reporting for South African entities**, including pension funds; likely to integrate the IFRS sustainability and climate standards.
- FSCA intention to introduce **mandatory sustainability reporting (climate first) for large listed companies**, likely to extend to pension funds and CIS; likely to require reporting against the IFRS sustainability and climate standards.



- **IFRS S1**: General Requirements for Disclosure of Sustainability-related Financial Information; and



- **IFRS S2**: Climate-related Disclosures

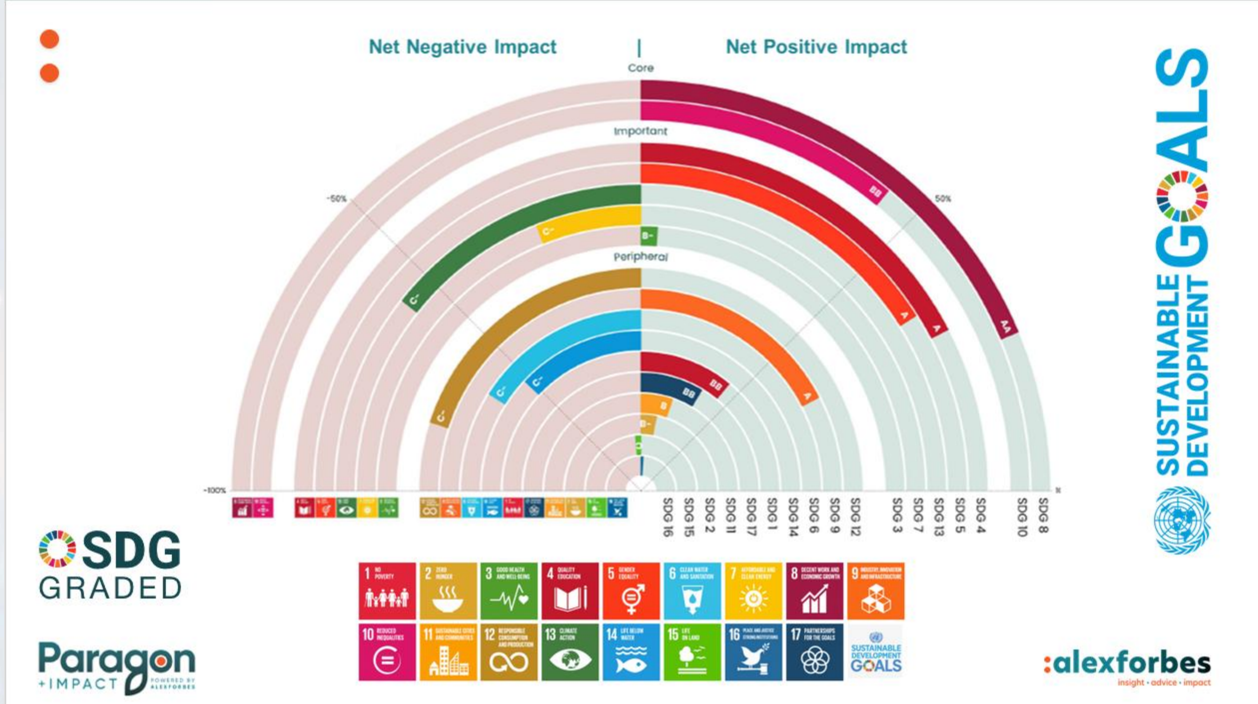
- Global standards
- Financially material sustainability information – "***risks, opportunities, threats and impacts which may affect an entities prospects in the short, medium and long term***"
- Key areas of disclosure:
  - Governance of sustainability within the entity
  - Integration of sustainability into organisation's strategy
  - Risk management
  - Performance metrics and targets

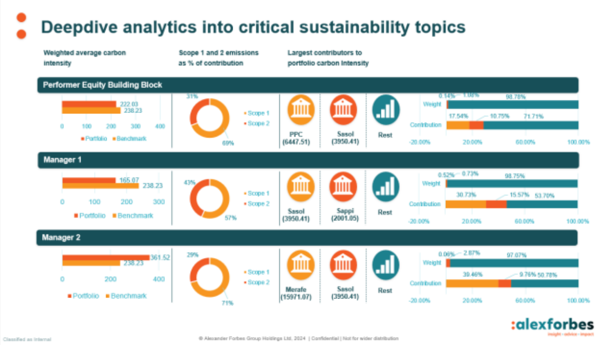
…explicit "SO WHAT?" in terms of financial relevance…

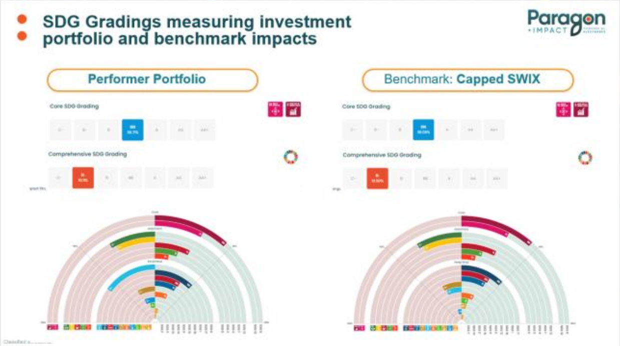
…must clearly relate to the AFS…

Next steps

1. Familiarise yourself with the ESG requirements within the Prudential Standard
2. Undertake a gap assessment against the Prudential Standard requirements and formulate a plan of action to begin closing gaps (data availability, accuracy and definitions will be important)
3. Enhance understanding of your fund through the lens of the Sustainable Development Goals (SDGs)
4. Enhance understanding of the IFRS sustainability and climate disclosure standards and other global sustainability codes and frameworks
5. Engage in the national policy process relating to potential mandatory disclosures
6. Start early, ahead of initial and emerging compliance requirements







THANK YOU