

ANNEXURE A

EXPLANATION OF BUDGET, ESTIMATES OF EXPENDITURE AND LEVIES AND FEE PROPOSALS

1. INTRODUCTION

- 1.1 In terms of section 239(1) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act), the Financial Sector Conduct Authority (FSCA) must, for each financial year, prepare and adopt:
- (a) a budget in accordance with section 248 that includes an estimate of its expenditure;
 - (b) a proposal for the fees that will be charged and levies that will be imposed by the financial sector body; and
 - (c) projected estimates of its expenditure for next two financial years.
- 1.2 In terms of section 240 of the FSR Act, Part 1 of Chapter 7 of the FSR Act applies (with the necessary changes) to the adoption of the budget, estimates of expenditure as well as the fees and levies proposals as provided for in section 239.
- 1.3 As such, in adopting the budget and determining levies, the FSCA must publish the following documents for public comment:
- (a) The budget, including estimates of expenditure;
 - (b) the levies proposal for the relevant financial year;
 - (c) the fees proposal provided for the relevant financial year;
 - (d) an explanation of the budget, estimates of expenditure and fees and levies proposals, and of the variation of the budget, estimates of expenditure and the fees and levies proposals against the budget, estimates of expenditure and the fees and levies proposals adopted for the previous financial year (section 240(2)(b) of the FSR Act).
- 1.4 The FSCA hereby provides the explanation referred to in paragraph 1.3(d) above.

2. BACKGROUND

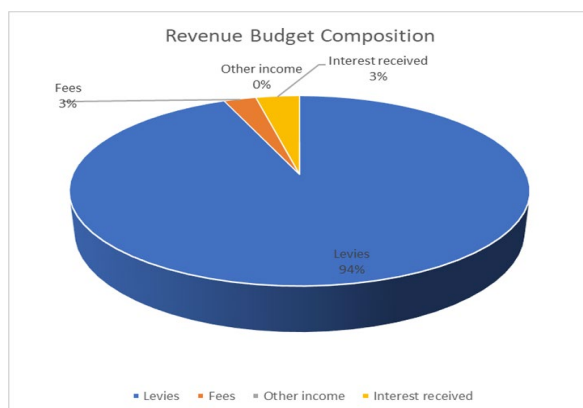
- 2.1 The FSR Act and the Financial Sector and Deposit Insurance Levies Act, 2022 (Act No. 11 of 2022) (Levies Act) regulate the financing of the financial sector bodies constituting the system of financial regulation in South Africa.
- 2.2 It is well established that the regulators of the financial sector should be appropriately and adequately funded to enable them to effectively execute their mandates. This is important to achieve a stable financial system that works in the interests of financial customers and that supports balanced and sustainable economic growth in the Republic.¹ The FSCA is the dedicated market conduct regulator in South Africa with the mandate of enhancing and supporting the efficiency and integrity of financial markets and the protection of financial customers.
- 2.3 The Levies Act provides for the imposition of financial sector levies on supervised entities for the funding of the FSCA and other financial sector bodies. Schedule 2 to the Levies Act (Schedule 2) provides for the calculation of the financial sector levy in respect of the FSCA.

¹ Section 7(1) of the FSR Act.

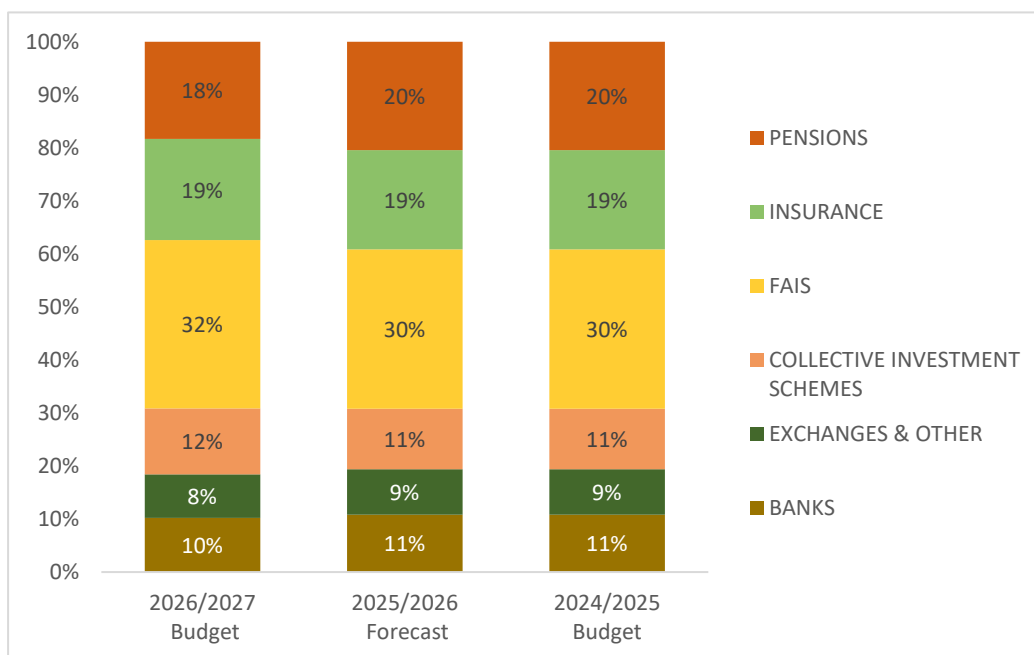
- 2.4 Further, section 237(1)(a) of the FSR Act provides that the FSCA may charge fees to fund the performance of functions under the FSR Act, financial sector laws and the Levies Act.
- 2.5 After the completion of the process prescribed in section 239 of the FSR Act, -
- (a) the FSCA must publish the fees that have been determined (Fee Determination) on its website in terms of section 237(2); and
 - (b) the Minister of Finance (Minister)–
 - (i) must amend the Schedules to give effect to the increase of the levies by the arithmetic mean of the Consumer Price Index as published by Statistics South Africa in the preceding calendar year as contemplated in section 10(4)(b) of the Levies Act; or
 - (ii) may amend the Schedules to the Levies Act as contemplated in section 10(2)(a) of that Act to give effect to a proposal for levies made by the financial sector body in terms of section 239(7)(b) of the FSR Act.
- 2.6 The FSCA's budget, supported by levies and fees, is critical to ensure the FSCA is adequately funded to effectively execute on its mandate.

3. FUNDING MODEL

- 3.1 The FSCA is funded by levies and fees charged to the industry it regulates. The levies are a major contributor to the FSCA revenue and as such, the costs associated with the ongoing supervision and regulation of the financial sector are funded primarily from the levies income.
- 3.2 The FSCA raises sufficient levies to cover its operational requirements and does not, as a rule, budget for a surplus/deficit unless necessary. For the financial year 2026/27 the FSCA is budgeting for gross revenue of R1.231 billion (Budget 2025/26: R1.100 billion), operating expenditure of R1.230 billion (Budget 2025/26: R1.125 billion) resulting in a surplus of R79 000.
- 3.3 The gross revenue budget of **R1.231** billion comprises mainly of levies accounting for **94%** (Budget 2025/26: **92%**) of the gross revenue. The levy income is charged to the supervised entities based on different levy methods and formulae as provided for in the Levies Act and assessments in terms of section 242 of the FSR Act (invoices) are generated annually or quarterly depending on the sector.

Figure 1: Revenue budget composition

- 3.4 The composition of the revenue per industry has remained constant when compared to the previous financial years.

Figure 2: Levy distribution amongst the regulated sectors

- 3.5 Fee income contributes 3% of the gross revenue as it is currently modelled around the user-pay principle. Fee income relates to income charged to supervised entities to fund the performance of specific functions under the FSR Act and the relevant financial sector laws. The fees are payable in advance before any work commences and are modelled around the user-pay principle.
- 3.6 The operations expenditure budget of R1.230 billion (Budget 2025/26: R1.125 billion) comprises of staff expenditure of R876 million (Budget 2025/26: R800 million) and general expenditure of R355 million (Budget 2025/26: R325 million). Staff expenses represent 65% of the total expenditure budget which is attributable to the FSCA being a service organisation with personnel costs being the main cost driver.

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- 3.7 To cover the budgeted operational expenditure (which include the capex expenditure), the FSCA is proposing to increase the levy variables by inflation adjustments of 4%. However, the FSCA is not proposing an increase of the fees contained in the Determination of Fees, 2024².
- 3.8 The proposed increase of 4% to the levy rates translates to an overall increase of 14% to the overall FSCA levy when compared to 2025/26 budget. This is as a result of new entrants and fluctuations in the levy data which are used to calculate levies. Due to fees being applied on the user-pay principle, the budget is based on historic data as well as the anticipated levels of activity.
- 3.9 The 4% proposed inflation increase for the levy income is below the reported Average Consumer Price Index (CPI) of 4.4% as at December 2024. thus reducing the impact of levy increase to regulated entities.
- 3.10 Detailed information on the budget is provided in **Annexure B: FSCA Budget Template 2026/27**.

4. LEVIES PROPOSAL

- 4.1 The levies proposals of financial sector bodies for each financial year inform possible amendments to the Schedules of the Levies Act in accordance with section 239(7)(b) of the FSR Act. The financial sector levy proposed to be payable by a supervised entity to the FSCA as contemplated in Part A of the Levies Act, read with Schedule 2 of that Act, in respect of the 2026/2027 levy year, is an amount equal to the sum of the amounts specified in or calculated in accordance with Table B in Schedule 2, in relation to that supervised entity, in the Levies Proposal as per **Annexure C**. The amount specified is determined by matching a supervised entity with a type of supervised entity listed in the column "Type of supervised entity" in the Table in **Annexure C** and applying the formula in the corresponding line of the column "Formula" in the Table.
- 4.3 The FSCA levy proposal for the 2026/2027 financial year as per **Annexure C** illustrates the proposed increase in the base amount for each supervised entity in the column "**Proposed Base Amount**", the proposed change to the variable amount in the column "**Proposed Variable Amount**" and the proposed increase in the maximum amount applicable to each supervised entity as contemplated in section 4(2) and (3) of the Levies Act in the column "**Proposed Maximum**". The percentage increase for each of these items is shown in the column directly next to the mentioned columns and represents a **4%** increase.
- 4.4 Section 10(4)(b) of the Levies Act provides that the levies in the Schedules to that Act must be increased by the arithmetic mean of CPI as published by Statistics South Africa in the preceding calendar year, unless the Minister determines that there must be no increase or an increase less than that annual rate of increase. Statistics South Africa published an average CPI of 4.4% for the 2024 calendar year.
- 4.5 The levy variables for 2026/2027 must therefore automatically increase by 4.4%. However, the FSCA proposes to apply a 4% increase in line with its projected operating expenditure. The Minister may, in terms of section 10(4)(b) of the Levies

² FSCA General Notice 1 of 2024.

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Act, by notice in the *Gazette*, determine that there must be no increase or an increase less than the reported CPI increase.

- 4.6 Section 10(4)(a) of the Levies Act provides that a Schedule may be amended by the Minister by notice in the *Gazette* to give effect to an increase referred to in paragraph 4.4, and does not require submission to Parliament for approval, but a copy of the notice must be tabled in Parliament for information purpose. An amended Schedule takes effect on the date of publication of the notice in the *Gazette*.

5. FEE PROPOSAL

- 5.1 As indicated above, the FSCA does not propose an increase of the fees contained in the Determination of Fees for the 2026/2027 financial year.