



**CIRCULAR**

Reference: Annexure B  
 Contact person: J. Scheepers  
 Tel: 012 431 0519  
 Fax: 012 431 0619  
 E-mail: [j.scheepers@medicalschemes.com](mailto:j.scheepers@medicalschemes.com)  
 Date: 24 February 2015

**Circular 13 of 2015: Categorisation of assets in terms of Annexure B to the Regulations**

The Council for Medical Schemes (CMS) wishes to express its gratitude to stakeholders for the number of submissions and comments received on the draft guidelines published via Circular 3 of 2015.

Kindly refer to the Explanatory Memorandum issued as an appendix to this circular for considerations taken into account in the classification of assets in terms of Annexure B.

CMS has finalised the Guidelines on the categorisation of assets in terms of Regulation 30 of the Medical Schemes Act 131 of 1998 (Act) read in conjunction with Annexure B to the Regulations. It should be noted that the classification of assets are based on information available to CMS.

Guideline name	Description of guideline
Registered banks as at 31 December 2014	The Guideline provides a listing of all registered banks; mutual banks; local branches of foreign banks; and foreign banks with approved local representative offices as per the South African Reserve Banks' Banks Supervision Unit. The Guideline further sub-categorises these banks in terms of Category 1 of Annexure B to the Regulations.  <a href="#">Click here</a> to access the Guideline.
Instruments listed on BESA as at 31 December 2014*	This Guideline provides a detailed listing of all listed instruments on the Bond Exchange of South Africa (BESA) as at 31 December 2014. The Guideline further categorises these instruments in the different sub-categories of categories 2 (bonds), 3 (property), 4 (exchange

Guideline name	Description of guideline
	<p>traded funds) and 7(other) of Annexure B to the Regulations.</p> <p><a href="#">Click here</a> to access the Guideline.</p>
Listed securities on the JSE as at 31 December 2014*	<p>The Guideline provides a detailed listing of all listed instruments on Johannesburg Stock Exchange (JSE) as at 31 December 2014.</p> <p>It further categorises these securities according to the requirements of Annexure B to the Regulations in the different sub-categories of categories 3 (property), 4 (shares), 5 (debentures) and 7 (other assets).</p> <p><a href="#">Click here</a> to access the Guideline.</p>
Registered insurers as at 31 December 2014	<p>The Guideline provides a listing of all registered insurers as at 31 December 2014 as per the Financial Services Board's (FSB) website.</p> <p>Schemes should refer to this guideline when investing in and accounting for policies of insurance (category 6 to Annexure B).</p> <p><a href="#">Click here</a> to access the Guideline.</p>
Registered Financial Service Providers as at 31 December 2014	<p>This Guideline provides a comprehensive list of registered financial service providers (FSPs) as at 31 December 2014 per the FSB's website.</p> <p>As only Financial Advisory and Intermediary Services (FAIS)-registered entities are allowed to manage investments on behalf of a medical scheme, schemes should refer to the FSB's website (and this guideline) to ensure the registration of their asset managers.</p> <p>Investments managed by these registered entities should be accounted for in such entities' registered names in Part 9(b) to the Annual Statutory Return.</p> <p><a href="#">Click here</a> to access the Guideline.</p>

*\*It should be noted that the purpose of these Guidelines is to provide guidance on the categorisation of assets in accordance with Annexure B to the Regulations, and not to highlight any non-compliance matters. Schemes should ensure compliance with not only the limitations imposed by Annexure B, but also the various Sections of the Act.*



**Tebogo Maziya**  
**General Manager: Financial Supervision**  
**Council for Medical Schemes**

## Explanatory Memorandum: Categorisation of assets in terms of Annexure B to the Regulations

The purpose of the Explanatory Memorandum is to provide more information relating to the considerations taken into account in the classification of assets in terms of Annexure B to Regulation 30 of the Medical Schemes Act 131 of 1998.

It should be noted that the classification of assets are based on information available to CMS.

Category as per Annexure B	Comments
Territories outside the Republic	<p>The Johannesburg Stock Exchange (JSE) publishes on a regular basis lists of all active inward listed securities, there being separate lists for bonds and equities. These securities are considered to be foreign for exchange control purposes by the South African Reserve Bank, and are therefore classified as Territories outside the Republic for Annexure B purposes.</p> <p>All branches of foreign banks (i.e. foreign bank representatives) per the South African Reserve Bank are also included in the Territories outside the Republic classification.</p>
Category 1(a): Reserve Bank DI900 returns	<p>The South African Reserve Bank (SARB) DI900 returns have subsequently changed to BA900 returns.</p> <p>The total equity line (total of lines 97 and 101) per these returns is used in the classification of banks between categories 1(a)(i) and 1(a)(ii).</p> <p>The CMS uses the latest available returns as published on the SARB's website; which might not coincide with the period under review.</p>
Category 1: margin deposits	<p>Category 1 includes margin deposits held with the South African Futures Exchange (SAFEX).</p> <p>As was clarified in Circular 3 of 2011, the underlying bank exposure in respect of margin deposits held with SAFEX should be determined; the amount should be split accordingly and included in the exposure to each individual bank.</p>
Category 1(a)(i)	<p>For prudency purposes, and taking into account that only the October returns are available at the time of classification, a registered bank is only categorised as a category 1(a)(i) bank (with net qualifying capital and reserve funds per Reserve Bank DI900 return greater than R5 billion) in the second year that it has reached this level of reserves.</p>
Category 1(a)(ii)	<p>Due to the well-publicised problems experienced by African Bank, and the fact that only the October returns were available to aid in the classification of banks, African Bank was categorised as a category 1(a)(ii) bank (with net qualifying capital and reserve funds per Reserve Bank DI900 return greater than R100 million) for prudency purposes.</p>
Category 2	<p>This category makes provision for debt instruments which reference to fixed or floating rates, with no embedded derivatives.</p>

Category as per Annexure B	Comments
Category 2(a)(i)	<p>The Government guarantees and fully backs certain bonds.</p> <p>Where a specific category (i.e. categories 2(a)(ii) – (x)) makes provision for an entity which had issued Government guaranteed and backed bonds, the bonds are firstly classified in this separate category.</p>
Category 2(a)(i)	<p>Bonds issued by the Transkei Administration Board have been incorporated in the National Debt Register of the RSA government with effect from 1 July 1998, and is therefore included in category 2(a)(i).</p>
Category 2(a)(viii)	<p>The SA Roads Board is now known as the South African Roads Agency Limited (SANRAL).</p>
Categories 2(a)(xi) and (xii)	<p>Money market instruments issued by banks must be included in category 1. Any other money market instruments (i.e. issued by entities other than banks), must be included in category 2 (or category 3 where applicable).</p> <p>It should however be noted that the categorisation of money market instruments issued by banks in categories 2(a)(xi) and (xii) would be included for compliance testing per the requirements of Explanatory Notes / Conditions 5 and 6 to Annexure B.</p>
Category 2(a)(xiii)	<p>This category makes provision for listed securities that is included in either the OTHI or ALBI, <u>but</u> which is not already included in categories 2(a)(i) – 2(a)xii).</p>
Category 3	<p>Category 3 makes provision for immovable property and claims secured by mortgage bonds thereon, units in unit trust schemes in property shares and shares in, loans to and debentures, both convertible and non-convertible, of property companies.</p> <p>This category is inclusive of property bonds as per the descriptor.</p> <p>The issuer class / sector is considered in the classification of instruments listed on BESA:</p> <ul style="list-style-type: none"> <li>• H30 - Real Estate Operators and Developers</li> <li>• K11 - Residential Property Backed Securities</li> <li>• K14 - Commercial Property Backed Securities</li> </ul> <p>Known property collateral debt obligations are also included in this category.</p> <p>The sector and sub-sectors are considered in the classification of securities listed on the JSE:</p> <ul style="list-style-type: none"> <li>• Real Estate</li> <li>• Real Estate Investment &amp; Services</li> <li>• Real Estate Investment Trusts</li> </ul> <p>All avenues of gaining exposure to property (i.e. equity, bonds, money market instruments, and debentures) are therefore grouped together in category 3.</p>

Category as per Annexure B	Comments
Category 4	The description of the category includes convertible debentures, whether voluntary or compulsory convertible.
Category 4(a)(ii)	The total market capitalisation per company is calculated for purposes of this classification. This would include <i>inter alia</i> ordinary shares, A ordinary shares, B ordinary shares, N ordinary shares, preference shares, depository receipts, nil paid letters and convertible debentures.
Category 4(a)(iii)	<p>This category makes provision for exchange traded funds.</p> <p>The sub-sector is taken into account in the classification of instruments listed on the JSE.</p> <p>Due to the merger of the JSE and BESA on 22 June 2009, all listed bonds with the relevant instrument type are also included in this category.</p>
Category 7	<p>As was clarified in Circular 3 of 2011, <u>all</u> derivative instruments (regardless of its reference asset) are included in category 7.</p> <p>Commodities are also included in this category.</p>