



Media Response: 08 June 2018

**CSOS INVESTMENT IN VBS MUTUAL AND ABSA BANKS LISTED IN THE REGISTRAR OF BANKS,
UNDER THE RESERVE BANK OF SOUTH AFRICA**

This is a Management response to the article in the Mail and Guardian published on 08 June 2018, titled “New Ombud in the hot water over VBS”. We found it necessary to explain the actual processes followed in arriving at the decisions that led to the investment itself.

In terms of section 22(1)(d) of the CSOS Act, CSOS is expected to invest and derive interest from such an investment. CSOS took a decision to invest funds in an interest-bearing account. A request to the relevant governance structure i.e. the Finance Committee was accordingly done. This Committee is also responsible for CSOS investments as per its charter.

In terms of the Treasury Regulations 31.3, the public entity which has funds under management must have an investment policy approved by the Accounting Authority. The Accounting Authority for CSOS in terms of the Public Finance Management Act (PFMA) is the Board. The Accounting Authority approved the Investment Policy on 26 October 2017, which provides for internal investment guidelines.

Following the approval of the policy, the Finance Committee observed that in investing the funds, management should consider a mix of both the Corporate for Public Deposits (CPD), Commercial and Merchant banks and other banks registered with the South African Registrar of Banks. It is important to bring to your attention that VBS Mutual Banks (hereinafter “the VBS”), was at the time of conducting our due diligence, appearing on the list of South African clearing and settlements participants in the National Payment System (NPS) as at 01 February 2017). See the attached list.

At its meeting held on 28 July 2017, the Board directed the CFO to write a letter to National Treasury to request deviation from Treasury Regulations in relation to investing with the CPD in favour of the commercial banks. The letter was written to Treasury, which had to be submitted via the Department of Human Settlements as per the internal established protocols.

CSOS invested R80m in VBS and R20m in ABSA. VBS and ABSA quoted the highest interest rates as compared to others. The decision to invest took into account the diversification of the risk and interest rate. Management therefore accepts that there was an oversight in obtaining the prior approval of the National Treasury. The Minister has since instructed the Auditor-General to conduct an investigation into the matters of VBS and ABSA.

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