



KPMG Regulatory Centre of Excellence

Be on the **inside**

[Important Links](#)

[Contact Us](#)

[Subscribe](#)

[Previous Editions](#)

KPMG in South Africa

Regulatory Updates for the week ended 23 June 2017

FinWatch – A Weekly Newsletter

Find the latest edition of **FinWatch** which provides a gist of all regulatory developments impacting the financial services industry in South Africa.

- [Regulatory Developments](#)
- [Market Developments](#)
- [Accounting / Auditing Update](#)
- [The Inside Edge](#)

Regulatory Developments

Insurance

Presentation by the National Treasury to the Standing Committee of Finance on Insurance Bill

The Bill is a part of the Phase 2 of Twin Peaks reforms. The key issues addressed in the proposed revisions to the Insurance Bill are:

- Promotion of financial inclusion and insurance sector transformation;
- Enhancing safety and soundness of insurers through introducing a new Solvency Assessment and Management (SAM) regime;
- Maintaining financial stability through the introduction of a framework for insurance group supervision;
- Facilitating alignment with international standards in accordance with South Africa's G20 commitments. [FSB](#)

The Insurance Bill incorporating all the reforms has been published by the Financial Services Board (FSB). [FSB](#) For more information, please contact [Derek Vice](#).

Brokerage & Securities Markets

Parliament Briefed on Debt Relief Policy

The Portfolio Committee on Trade and Industry received input from National Treasury on the proposed policy and measures to be legislated for debt relief. The committee wants to introduce stronger relief for over-indebted South Africans. It plans to draw up a committee

bill on debt relief. Some of the proposed guiding principles for debt relief include:

- Different solutions for different categories of distressed persons;
- Ensuring that debtors who can pay, do pay;
- Promoting responsible lending and responsible borrowing; and
- Providing a holistic response and maintaining systemic stability. [Sabinet](#) For more information, please contact [Nicky Kingwill](#).

Others

Parliament Passes Financial Sector Regulation Bill

Parliament passed the Financial Sector Regulation (FSR) Bill and has forwarded it to the President for assent. The Bill aims to put a twin peaks model of financial sector regulation in place. The Financial Services Board will oversee market conduct while the Reserve Bank will take responsibility for prudential regulation. As per the Bill a Council of Financial Regulators has to be set up to ensure cooperation between the twin peaks regulators and other financial sector-related regulators. [Sabinet](#)

Opposition parties oppose Twin Peaks Bill

Opposition parties are concerned that the exclusion of the National Credit Regulator (NCR) in the amended Twin Peaks Bill will leave consumers vulnerable to unscrupulous lending practices. One of the spokesperson's was of the opinion that the exclusion of the NCR could mean that there will be a third body that runs parallel to this (the financial regulation of the Twin Peaks model), which means there's a weak conduct authority for millions of South Africans who buy on credit. [Fin24](#) Please contact [Finn Elliot](#) for more information.

Remarks by the Governor of the SARB at the annual dinner

The Governor spoke on international cooperation and about how South Africa has continued its support for the agreed reforms to strengthen the global financial system. He highlighted that the SARB is an active participant in various forums on the continent, which include the Southern African Development Community (SADC), the Association of African Central Banks (AACB), and the Common Monetary Area (CMA). The Governor indicated that South Africa is fully supportive of the ongoing work on the regulatory approaches to financial digital innovations as well as of the stocktake of cybercrime regulations in the financial sector. In the Governor's opinion the exchange of information as well as the collaboration on research and other matters of mutual interest have been useful in assisting the CMA countries to fulfil their respective obligations stipulated in the Multilateral Monetary Agreement which governs the CMA arrangement. [SARB](#) Please contact [John Martin](#) for more information.

[To Top](#)

Market Developments

Africa

Central Bank of Kenya published a draft guidance note on cyber risk (Kenya)

The Guidance Note published by the Central Bank of Kenya outlines the minimum requirements that institutions need to maintain in the development and implementation of strategies, policies, procedures and related activities aimed at mitigating cyber risk. The guidance note serves the following purposes:

- Create a safer and more secure cyberspace;
- Establish a coordinated approach to the prevention and combating of cybercrime;
- Up-scaling of identification and protection of critical information infrastructure;
- Promotion of compliance with appropriate technical and operational cybersecurity standards;
- Development of requisite skills, continuous building of capacity and promote a culture of fostering a strong interplay between policy, leveraging on technology to do business and risk management; and
- Maintenance of public trust and confidence in the financial system. [CBK](#)

CMA published a consultative paper on policy framework for implementation of a regulatory sandbox (Kenya)

The Capital Markets Authority (CMA) is in the process of developing a framework to create a Regulatory Sandbox in which businesses can test innovative Financial

Technology (FinTech) products, services, business models and delivery mechanisms for capital markets in a live environment, without incurring normal regulatory consequences of engaging in the Fintech activity. [CMA](#)

International

Handbook changes to reflect the application of the EU Benchmarks Regulation

The Financial Conduct Authority (FCA) published a consultation paper which includes their proposals that would help them ensure that the handbook is consistent with directly-applicable EU Benchmarks Regulation (BMR). The FCA has proposed to change the following:

- Approved Persons Regime (APR) and Senior Managers Regime (SMR);
- Prudential requirements;
- Notification of suspected manipulation;
- Right to make representations about a compulsion decision; and
- Third country contributors. [FCA](#)

Proposed changes to advice on pension transfers (UK)

The Financial Conduct Authority (FCA) has published new proposals on advice relating to pension transfers where consumers have safeguarded benefits, primarily for transfers from defined benefit to defined contribution pension schemes. The proposed changes include requiring transfer advice to be provided as a personal recommendation, and replacing the current transfer value analysis with a comparison to show the value of the benefits being given up. Taken together as a package, the proposals will ensure that advice fully takes account of an individual's circumstances so that consumers make the right decision for them. [FCA](#)

Consultation paper on recovery planning (UK)

The Prudential Regulatory Authority (PRA) published a consultation paper on recovery planning. In this consultation paper (CP), the PRA proposed a new supervisory statement (SS) on recovery planning that would supercede the previous SS on Recovery Planning and that sets out additional expectations of firms. This CP also includes a proposal to clarify the PRA's expectations on the approach to recovery planning for groups containing a Ring-Fenced Body (RFB), through a proposed update to the supervisory statement on Ring-fenced Bodies (RFBs). [PRA](#)

Compliance with the EBA's guidelines on disclosure (UK)

The PRA published a Consultation Paper (CP) on Composition of collateral for exposures to counterparty credit risk which is in compliance with EBA's guidelines on disclosure. In this CP, the Prudential Regulation Authority (PRA) has set out a proposal for the threshold for, and objective criteria to waive the requirement to disclose the template "Composition of collateral for exposures to CCR" of the European Banking Authority's (EBA's) Guidelines on disclosure requirements. This CP also sets out a proposal to remove Supervisory Statement on compliance with the European Banking Authority's Guidelines on disclosure of encumbered and unencumbered assets, to align with new EBA Regulatory Technical Standards (RTS). [PRA](#)

PRA published a policy statement on residential mortgage risk weights (UK)

The policy statement published by Prudential Regulatory Authority (PRA) provides feedback on the consultation paper on residential mortgage risk weights. This policy statement is relevant to banks and building societies that use the Internal Ratings Based (IRB) approach to calculate credit risk capital requirements for residential mortgages. [PRA](#)

Regulatory guide on communicating findings from audit files (Australia)

The Australian Securities and Investments Commission (ASIC) released a regulatory guide on communicating findings from audit files to directors, audit committees or senior managers. The guide provides transparency on the criteria and process for communicating financial reporting and audit findings from review of audit files to directors and audit committees. The regulatory guide will help assist directors in meeting their financial reporting obligations and supporting audit quality. [ASIC](#)

Japan and Australia cooperate on fintech (Australia)

The Japan Financial Services Agency (JFSA) and Australian Securities and Investments Commission (ASIC) signed a cooperation framework. The framework provides co-operation to promote innovation in financial services in Japan and Australia. The fintech cooperation will enable the two regulators to share information and support the entry of innovative fintech businesses into each other's markets. [ASIC](#)

ASIC released a report on decision to cut red tape (Australia)

The report highlights Australian Securities and Investments Commission (ASIC)'s efforts to reduce red-tape and achieve a practical, positive outcome for companies seeking some regulatory flexibility. The granting of relief which has a net regulatory benefit, or which facilitates business or cuts red tape without harming stakeholders, is an important part of ASIC's regulatory function. The report has summarized examples of situations where ASIC has exercised, or refused to exercise, its exemption and modification powers under the Corporations Act and the licensing and responsible lending provisions of the National Credit Act. The report also highlighted instances where ASIC has considered adopting a no-action position regarding specified non-compliance with statutory provisions. [ASIC](#)

Regulatory developments in asset management (Australia)

The Chairman of the Australian Securities and Investment Commission (ASIC) spoke about the regulatory developments in asset management at the Bloomberg Buyside Forum. The regulatory developments in asset management domestic initiatives are:

- Release of Regulatory Guide 259 on Risk management systems of responsible entities (RG 259)
- New corporate collective investment vehicle regime
- Asia Region Funds Passport. [ASIC](#)

ASIC seeks better compliance with asset-holding requirements in funds management and custodial services (Australia)

The Australian Securities and Investments Commission (ASIC) published a report on review of compliance with asset management holding requirements. The report outlines ASIC's findings followed by an extensive review of compliance by custodians and responsible entities of managed investment schemes with the asset holding requirements. ASIC has required a significant number of the entities to undertake corrective action to address these concerns. Furthermore several entities reviewed will now be subject to separate surveillance. [ASIC](#)

ASIC commences consultation on proposed guidance on crowd-sourced funding (Australia)

The Australian Securities and Investments Commission (ASIC) released two consultation papers proposing guidance for public companies and intermediaries (crowd funding platform operators) to assist them in using the new Crowd-Sourced Funding (CSF) regime. The new regime will commence in September 2017. Under the CSF regime, eligible public companies will be able to make offers of ordinary shares to a large number of investors, via an online platform of an Australian financial services licensed intermediary. The proposals in the consultation paper aim to assist companies seeking to raise funds through CSF to navigate the new regime and to understand and comply with their obligations, particularly given many of these companies will not have experience in making public offers of their shares. [ASIC](#)

Market Integrity update published by ASIC (Australia)

In the June 2017 update, the Australian Securities and Investments Commission (ASIC) included a reminder to market participants to be alert to unusual trading that can affect share price valuations and end of financial year performance figures. Window dressing, as it is known, is a form of market manipulation conducted by parties who have a financial incentive to influence share prices around key reporting dates. These parties include directors, large shareholders and fund managers who periodically report to clients about investment performance. [ASIC](#)

ASIC Chairman opening statement at the Parliamentary Joint Committee (Australia)

In his speech, the Chairman spoke about how Australian Securities and Investments Commission (ASIC) plans to initiate sophisticated data analysis, identify high risk trends and willingness to prioritize its resources towards the highest risk issues. In order to achieve the following ASIC plans to:

- Improve data governance;

- Enhance data quality;
- Expand digitization; and
- Ensure the data is integrated, catalogued and accessible. [ASIC](#)

Implementing the countercyclical capital buffer (International)

The Basel Committee on Banking Supervision published a document which includes a range of practices in implementing the countercyclical capital buffer policy. This document examines how a range of jurisdictions have implemented their countercyclical capital buffer (CCyB) policies. The Committee's review mentioned in the document highlights the importance of the implementation imperative of the Basel standards and helps to clarify implementation of domestic CCyB policies. It documents that CCyB policy frameworks differ markedly with respect to:

- Governance structures;
- Number of indicators used to identify periods of excess credit and systemic risk;
- Degree of reliance on formal versus judgmental approaches in making CCyB decisions; and
- Communication and reciprocity practices. [BIS](#)

FSB releases consultation on the use of compensation tools to address misconduct (International)

The Financial Stability Board published draft supplementary guidance to the FSB Principles and Standards on Sound Compensation Practices on the use of compensation tools to address misconduct. Once finalised, the guidance will provide firms with a framework to consider how compensation practices and tools, such as in-year bonus adjustments, malus and clawback, can be used to reduce misconduct risk and address misconduct incidents. [FSB](#)

IOSCO issues report on order routing incentives as part of effort to protect investors (International)

IOSCO published its final report on Order Routing Incentives which provides an overview of the practices used by market regulators regarding incentives for order routing that may influence how intermediaries treat their clients. It also examines the regulatory conduct requirements for brokers or firms to manage conflicts of interest associated with routing orders and obtaining best execution. [IOSCO](#)

[To Top](#)

Accounting/ Auditing Updates

Mandatory Rotation of Auditors and Transformation of the Auditing Profession briefing at Parliament

The domination of the auditing landscape by four major auditing firms was closely examined during the Mandatory Rotation of Auditors and Transformation of the Auditing Profession briefing at the Parliament. The Chairperson of the Standing Committee on Finance asked the government to ensure that through the Mandatory Audit Firm Rotation (MAFR) framework there is an increase in the use of black firms for auditing in both public and private sector. [Parliament, South Africa](#)

Additional measures required to promote transformation of audit profession

The Independent Regulatory Board of Auditors (IRBA) at the Parliamentary Hearing of the Standing Committee of Finance suggested that additional measures apart from the Mandatory Audit Firm Rotation (MAFR) are required to drive transformation and de-concentration of the audit profession. According to IRBA, the following measures are needed to transform audit profession:

- Increasing the number of qualification routes to registered auditing by increasing the number of accredited professional bodies;
- Enhancing long term career prospects of black accountants in the audit profession;
- Improving the attraction, retention and progression approach for black auditors and ensuring equitable opportunity and access on par with white counterparts;
- Advancing the number of black partners in senior and executive roles;
- Increasing the number of black partners with equity ownership in the audit firms;
- Cracking down on discriminatory recruitment practices that limit opportunities and career path possibilities for black accountants;
- Creating access to markets for black-owned firms and including these in mainstream auditing; and

- Holding broader governance structures accountable for transformation targets and goals through comprehensive regulation of the broader accounting environment. [IRBA](#)

[To Top](#)

The Inside Edge

US Treasury releases first report on proposed changes to financial services regulation

The U.S. Department of the Treasury (Treasury) has released its first in a series of reports setting out recommendations to “simplify and reduce regulatory costs and burdens” in the financial services industry.

This [first report](#) is directed toward depository institutions; three additional reports, expected to be released in the fall, will focus on recommendations for capital markets, asset management, insurance, retail and institutional investment products and vehicles, nonbank financial institutions, financial technology, and financial innovation

[To Top](#)

Please [click here](#) to access the previous issues of the External edition of FinWatch

Nicky Kingwill
Associate Director, Africa Regulatory CoE
Email ID: nicky.kingwill@kpmg.co.za

[Unsubscribe](#) | [Privacy](#) | [Legal](#)

You have received this message from KPMG in South Africa.

© 2017 KPMG Services Proprietary Limited, a South African company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity. All rights reserved.

kpmg.com/socialmedia



kpmg.com/app

