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Regulatory Updates for the week ended 02 March, 2018

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

Insurance

Penalty for insurance sector returns increased

The Deputy Executive Officer of Long-term and Short-term Insurance adjusted the penalty for failure to furnish the Registrar with returns and other prescribed documents. The notice was published in Government Gazette in terms of the Long-Term Insurance Act. The amount now stands at 6200 ZAR. The adjustment applies from 28 February 2018. *Sabinet*
For more information, please contact Derek Vice.

Others

SAIPA boosts gender transformation in the Accountancy Profession

Since its inception in 2015, Project Achiever, an initiativeip between South African Institute of Professional Accountants (SAIPA) and Finance and Accounting Services Sector Education and Training Authority (FASSET Seta), has produced 556 Professional Accountants (SA), of which 62% are women. The top three 2017 candidates, who are all women, from the November sitting of the Professional Evaluation Exam are also from the Project Achiever initiative. *skillsportal*

ASISA meets with the FSB on the future impact of regulation

In the workshop, the Association for Savings and Investment SA (ASISA) and the Financial Services Board (FSB) discussed a proposal to clearly define the activity of investment management within the context of Retail Distribution Review. Other topics that ASISA sought clarity on was the extent to which investment management may need to be demarcated from other forms of discretionary investment mandates including so-called white labelled portfolios and model portfolios. The workshop also dealt with the nature of the legal and business relationships between different types of discretionary investment managers. These include collective investment schemes (CIS) management companies, linked investment service providers (LISPs) and investment advisers. *FA News* For more information please contact Michelle Dubois.

Other African countries

IOSCO puts the spotlights on virtual currencies (Nigeria)
The Board of the International Organisation of Securities Commissions (IOSCO), met for a two day meeting to focus on cryptocurrencies, bitcoins and other forms of electronic currencies. In the course of the meeting, two task forces, on the very significant topics of data privacy and asset management, also presented updates and received relevant guidance and directions from the Board. A focus on these and other important issues will dominate discussions for some time to come. Some of the other issues discussed at the meeting included cyber security, innovation and fintech, artificial intelligence and machine learning, among others. *SEC*

Market Developments

International

FCA value measures pilot having a positive impact (UK)
The Financial Conduct Authority (FCA) has published the second set of data in their general insurance value measures pilot. The second set of data relates to 36 insurers and covers the year ended 31 August 2017. The data collected is part of a pilot designed to allow the FCA to further develop the measures and collect evidence of their impact. This evidence will inform a decision on whether to publish a consultation on new rules for firms to report value measures data. *FCA*

New credit card rules introduced by the FCA (UK)
The Financial Conduct Authority (FCA) published its final policy statement on new rules for the credit card market. The FCA estimates the changes will save consumers between 310 million GBP and 1.3 billion GBP a year in lower interest charges. The new rules come into force on 1 March 2018, but firms have until 1 September 2018 to comply. The changes will provide more protection for credit card customers in persistent debt or at risk of financial difficulties. The changes are being introduced following a comprehensive study of the credit card market. The study analysed the accounts of 34 million credit card customers over a period of five years, and surveyed almost 40,000 consumer. *FCA*

The FCA fines credit card lender 1,976,000 GBP and orders the firm to pay compensation to customers (UK)
FCA investigations found that the credit card lender failed to disclose the full price of an add-on product, called Repayment Option Plan (ROP). The firm will also repay an estimated 168 million GBP in compensation which constitutes the amount of the charges not disclosed to customers when they bought the ROP. *FCA*

FCA statement on proposals to introduce a public register (UK)
In July 2017, the FCA published proposals to extend the Senior Managers and Certification Regime (SM&CR) to almost all regulated firms. Under these proposals, the FCA will only approve the most senior individuals within firms. This means that only Senior Managers will appear on the FS Register. Firms are responsible for assessing the fitness and propriety of their employees and ‘certifying’ certain individuals who are not Senior Managers, but whose jobs mean they can still have a significant impact on customers, firms and market integrity. In response to these proposals, the FCA received substantial feedback on the public value of the FCA maintaining a central public record of certification employees and other important individuals in firms regulated by the FCA who will no longer appear on the FS Register. This includes non-executive directors, financial advisers, traders and portfolio managers. The FCA in response to these feedback, will hold a consultation by summer 2018 on policy proposals to address this feedback. In addition, the FCA plans to issue an update shortly on its work to improve the usability of the FS register, which incorporates

feedback from the Work and Pensions Select Committee. FCA

The Consumer Credit landscape today (UK)
In his speech at the Finance & Leasing Association, the Chief Executive of the FCA stated that:

- The FCA has been regulating consumer credit for almost four years and it continues to be a key sector for the FCA;
- The regulator is keeping a close eye on the developments in consumer credit to ensure that lending is affordable and sustainable;
- The FCA recognises that consumer credit is a dynamic market and are therefore intervening on specific products including credit cards, overdrafts and rent-to-own. FCA

ASIC reports on corporate finance regulation – July to December 2017 (Australia)
The report provides statistical data, highlights key focus areas, and includes relevant guidance about ASIC's regulation of:

- fundraising transactions;
- mergers and acquisitions;
- corporate governance issues;
- related party transactions; and
- financial reporting.

It details the approach ASIC takes in these areas, including the types of issues that have caused ASIC to intervene and responses to novel issues seen in transactions during the period. The report also sets out information on ASIC's ongoing engagement with Independent Experts, and an update on the implementation of the industry funding model for ASIC. It also provides information on the new regime for crowd-sourced funding by public companies and highlights ASIC's regulatory initiatives regarding emerging market issuers. ASIC

ASIC's latest enforcement report highlights outcomes from the second half of 2017 (Australia)
The report presents a number of key outcomes over the last six months, across the areas that ASIC enforces: corporate governance, financial services, market integrity and small business. Some of the enforcement outcomes over that six-month period include

- 63 investigation commenced;
- 34 infringment notics issued;
- 21.7 million AUD in civil penalties; and
- 94.4 million AUD in compensation and remediation for investors and consumers. ASIC

FASB proposes improvements to accounting for costs of implementation activities performed in certain cloud computing arrangements (International)
The Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU) that would clarify the accounting for implementation costs related to a cloud computing arrangement that is a service contract. The proposed ASU also would enhance disclosures around implementation costs for internal-use software and cloud computing arrangements. Stakeholders are encouraged to review and provide comment on the proposal by April 30, 2018. FASB

Pillar 3 disclosure requirements - updated framework (International)
Pillar 3 of the Basel framework seeks to promote market discipline through regulatory disclosure requirements. Many of the proposed disclosure requirements published today are related to the finalisation of the Basel III post-crisis regulatory reforms in December 2017 and include new or revised requirements:

- for credit risk (including provisions for prudential treatment of assets), operational risk, the leverage ratio and credit valuation adjustment (CVA);
- that would benchmark a bank's risk-weighted assets (RWA) as calculated by its internal models with RWA calculated according to the standardised approaches; and
- that provide an overview of risk management, key prudential metrics and RWA. BIS

Overview of the revised credit risk framework - Executive Summary (International)
The Basel Committee on Banking Supervision (BCBS) has revised the credit risk framework as part of the Basel III reform package. The revisions seek to restore the credibility in the calculation of risk-weighted assets (RWAs) and improve the comparability of banks' capital ratios. As under Basel II, the revised credit risk framework provides two

main approaches for calculating credit RWAs:

- Standardised approach (SA) - Under the SA, banks use a prescribed risk weight schedule for calculating RWAs. Similarly to Basel II, the risk weights depend on asset class and are generally linked to external ratings, but enhancements have been introduced;
- Internal ratings-based (IRB) approach - Under the IRB approach, banks can use their internal rating systems for credit risk, subject to the explicit approval of their respective supervisors. Similarly to Basel II, banks can use either the advanced IRB approach (ie use their internal estimates of risk parameters such as probability of default (PD), loss-given-default (LGD) and exposure-at-default (EAD)) or the foundation IRB approach (ie use only their internal estimates of PD). However, enhancements to and constraints on the application of IRB approaches for certain asset classes have been introduced under Basel III. *BIS*

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