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KPMG in South Africa

Regulatory Updates till for the week ended 14 June, 2019

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.

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Regulatory Developments

Others

Remarks by Fundi Tshazibana, Adviser to the Governors of the South African Reserve Bank, at the Nedbank 2019 Treasurer's Conference

Fundi Tshazibana, Adviser to the Governors of the South African Reserve Bank, gave a speech at the Nedbank 2019 Treasurer's Conference on 'The role of monetary policy settings in the current conjuncture'. He outlined three major topics:

- Prevailing delicate global and domestic economic conditions;
- Role of SARB in supporting balanced and sustainable growth; and
- Importance of structural reforms and policy certainty to increase investment in the country

He further iterated on the outcomes of inflation and the role of monetary policy He stated that SARB recognises the role of monetary policy and that the current challenges constraining South Africa's economic growth are primarily structural in nature. He stated that the key constraint for macroeconomic policymakers of the country has been low potential growth rate. [Link](#)

Treasury Shines Light on Anti-Dividend Stripping Provisions

National Treasury proposed amendments to address abusive arrangements aimed at avoiding anti-dividend stripping provisions. In terms of anti-dividend stripping provisions, the

proposed amendments are aimed at structures that certain taxpayers have embarked on designed to circumvent the current dividend stripping rules. [Link](#)

A methodology to determine which banks are systemically important within the South African context

The South African Reserve Bank (SARB) published a discussion paper on Systematically Important Financial Institutions(SIFI). The main policy objective of this paper is to develop a methodology to determine which banks are systemically important financial institutions (SIFIs) in the South African context, in line with the requirements set out in the Financial Sector Regulation Act 9 of 2017 (FSR Act). Indicators such as size, interconnectedness and substitutability, global activity and complexity are used to identify potential banking SIFIs in South Africa. [Link](#)

Publication of the initial batch of the draft Taxation Laws Amendment Bill, 2019 for public comment

National Treasury published an initial batch of the 2019 draft Taxation Laws Amendment Bill to cover specific provisions that require additional consultation. This initial batch of the 2019 draft Taxation Laws Amendment Bill is intended to solicit comments on two specific amendments that are more urgent and require further consultation. It also serves as notice to taxpayers of proposals for earlier effective dates for some of the proposed amendments. Some specific amendments include:

- Addressing abusive arrangements aimed at avoiding the anti-dividend stripping provisions; and
- Aligning the effective date of tax neutral transfers between retirement funds with the effective date of retirement reforms, which is 1 March 2021. [Link](#) [Link](#) [Link](#)

Update on the progress made with the implementation of Legal Entity Identifiers (LEIs)

The Financial Stability Board (FSB) published a peer review of implementation of the Legal Entity Identifier (LEI) around the world, which is a global standard to enhance the management of information across legal entities, facilitate a comprehensive assessment of risk exposures at the global consolidated level and improve the speed at which information is available to both legal entities and supervisors. An LEI is a 20-character, alpha-numeric code that was introduced following the financial crisis of 2008 to be adopted globally, to uniquely identify legally distinct entities that engage in financial transactions. The peer review's major findings are:

- Since 2012, over 1.4 million entities uniquely identified by an LEI in more than 200 countries;
 - Most FSB jurisdictions have implemented LEI use in at least one area;
 - Several financial institutions and trade associations have called for the mandating of LEI use, citing the need to increase efficiency and lower costs of customer identification, transaction processing and data aggregation;
 - LEI adoption is concentrated in North America and the European Union (EU); and
 - LEI is too low to effectively support some regulatory uses and encourage voluntary take-up by market participants. [Link](#)
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Market Developments

International

APRA responds to first phase of consultation on revisions to ADI capital framework

The Australian Prudential Regulation Authority (APRA) has released its response to the first round of consultation on proposed changes to the capital framework for authorised deposit-taking institutions (ADIs). ADIs that already meet the 'unquestionably strong' capital targets are not required to raise additional capital to meet these new measures. The measures aim to reinforce the safety and stability of the ADI sector by better aligning capital requirements with underlying risk, especially with regards to residential mortgage lending. The Response Paper details revised capital requirements for residential mortgages, credit risk and operational risk requirements under the standardised approaches, as well as a simplified capital framework for small, less complex ADIs. APRA is proposing to revise some of its initial proposals, including:

- For residential mortgages, some narrowing in the capital difference that applies to lower risk owner-occupied, principal-and-interest mortgages and all other mortgages;
 - More granular risk weight buckets and the recognition of additional types of collateral for SME lending, as recommended by the Productivity Commission in its report on Competition in the Financial System; and
 - Lower risk weights for credit cards and personal loans secured by vehicles. [Link](#)
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