



# KPMG Regulatory Centre of Excellence

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## KPMG in South Africa

*Regulatory Updates till for the week ended 28 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.

- [Regulatory Developments](#)
- [Market Developments](#)
- [Accounting / Auditing updates](#)

## Regulatory Developments

### Others

#### **SARB annual report 2018-19**

The South African Reserve Bank (SARB) published its annual report for the year ended 31 March 2019. The report provides an overview of the SARB's strategy, performance and impact on society, focusing on material financial and non-financial information. It outlines:

- The mandate of SARB;
- SARB's 2020 strategic plan;
- Overview of SARB's financial performance;
- Governance and risk management;
- Report on matters such as financial stability, monetary policy, human resources report, stakeholder engagement report; and
- A financial information report including the Prudential Authority's annual financial statement. [Link](#)

#### **Prudential Authority annual report 2018-19**

The Prudential Authority published its annual report for the year ended 31 March 2019. The report outlines:

- The governance structure of the prudential committee;
- Review of the PA's performance and its regulatory focus;

- Key international developments and focus areas;
- Overview of supervisory activities; and
- Financial overview of the authority. [Link](#)

### **Reserve Bank deputy governor Daniel Mminele steps down**

The SA Reserve Bank's Deputy Governor, Daniel Mminele, will retire when his second five-year term as Deputy Governor expires on June 30. Mminele joined the Bank in 1999 and became Deputy Governor later. He also serves as SA's Group of 20 and Brics Central Bank Deputy, and as Chair of the IMFC deputies of the IMF. In the interim, Kganyago will take over responsibility for the authority's international economic relations and policy unit and the legal services department. [Link](#)

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## **Market Developments**

### **International**

#### **Joint statement on opportunistic strategies in the credit derivatives markets**

The Financial Conduct Authority issued a joint statement, along with US Commodity Futures Trading Commission (CFTC) and US Securities and Exchange Commission (SEC) on opportunistic strategies in the credit derivative markets. It outlines respective agencies concerns and the commencement of collaborative efforts to address these concerns. The statement read that "*The continued pursuit of various opportunistic strategies in the credit derivatives markets, including but not limited to those that have been referred to as 'manufactured credit events,' may adversely affect the integrity, confidence and reputation of the credit derivatives markets, as well as markets more generally. These opportunistic strategies raise various issues under securities, derivatives, conduct and antifraud laws, as well as public policy concerns.*" The agencies announced that they will make efforts to prioritise exploring concern areas such as industry input and foster transparency, accountability, integrity, good conduct and investor protection in these markets. [Link](#)

#### **Pillar 2 liquidity: PRA110 reporting frequency threshold**

The Prudential Regulatory Authority (PRA) published a consultation paper which proposed to amend the reporting frequency of the PRA110 reporting template (PRA110), when a firm is in stress. The proposed rule would introduce a further threshold of total assets of GBP5 billion or above, and the firms above the threshold would report on every business day if (and for as long as) there is a specific liquidity stress, or market liquidity stress in relation to the firm, branch, or group in question. [Link](#)

#### **Overview of Pillar 2 supervisory review practices and approaches**

The Basel Committee published a report 'Overview of Pillar 2 supervisory review practices and approaches' describing key concepts of Pillar 2 and supervisory review practices in use across Basel Committee member jurisdictions. The report covers:

- Key areas of the Pillar 2 supervisory review process, including the risk assessment process, risk appetites, board and senior management roles and supervisory practices adopted to enhance transparency, and bank disclosure practices

- Various selected Pillar 2 risks, including business risk and interest rate risk in the banking book
- Range of actions that are taken under Pillar 2. [Link](#)

### **Big tech in finance: opportunities and risks**

The Bank for International Settlements (BIS) published its annual economic report, 'Big tech in finance: opportunities and risks'. The report states:

- Efficiency gains and enhanced financial inclusion can be facilitated by the entry of large technology firms into financial services;
- Need for regulators to ensure a level playing field between big techs and banks;
- New and complex trade-offs between financial stability, competition and data protection presented by the large technology firms are to be monitored. [Link](#)

### **APRA finalises updated guidance on information security**

Australian Prudential Regulation Authority (APRA) has released updated prudential guidance to all APRA-regulated entities on managing information security risks, including cyber-crime. The authority has also published a letter to industry re-emphasising the need to maintain appropriate oversight of all third parties that manage information security on an entity's behalf, including entities subject to existing regulatory oversight and service providers engaged by third party entities. [Link](#)

### **Basel Committee finalises revisions to leverage ratio treatment of client cleared derivatives and disclosure requirements to address window-dressing**

The Basel Committee on Banking Supervision released a revised treatment of client cleared derivatives for purposes of the leverage ratio. It sets out a targeted revision of the leverage ratio measurement of client cleared derivatives to align it with the standardised approach to measuring counterparty credit risk exposures. The treatment permits both cash and non-cash forms of segregated initial margin and cash and non-cash variation margin received from a client to offset the replacement cost and potential future exposure for client cleared derivatives only. [Link](#)

### **APRA and ASIC publish latest data on life insurance claims and disputes**

The Australian Prudential Regulation Authority (APRA) has released Life Insurance Claims and Disputes Statistics publication from 1 January 2018 to 31 December 2018, as a joint project between APRA and the Australian Securities and Investments Commission (ASIC). The project aims at making it easier to compare life insurers' performance in handling claims and disputes. [Link](#)

### **ASIC consults on new product intervention power use**

ASIC initiated consultation on the proposed administration of its new product intervention power. The product intervention power allows ASIC to intervene and take temporary action where financial and credit products have resulted in significant consumer detriment. ASIC's principles-based approach to the regulatory guidance, reflects the product intervention power being a broad and flexible tool for ASIC to use. ASIC can take a range of temporary actions including banning a product or product feature, imposing sale restrictions, amending product information or choice architecture. [Link](#)

### **ASIC consults on proposed market integrity rules for technological and operational resilience**

ASIC has released a consultation paper proposing new market integrity rules for securities and futures market operators and participants that promote technological and operational resilience of their critical systems. The proposals addresses:

- Change management in relation to critical systems;
- Outsourcing of critical systems;
- Risk management, and data and cyber security;
- Incident management and business continuity planning;
- Governance and resourcing; and
- Fair access to markets and trading controls. [Link](#)

### **FCA confirms recognition of the FX Global and UK Money Markets Codes**

The Financial Conduct Authority (FCA) confirmed the recognition of the voluntary market codes of best practice under its codes recognition scheme:

- FX Global Code: This Code sets global principles of good practice standards in the foreign exchange (FX) market, promoting the integrity and effective functioning of the wholesale FX market and is maintained and updated by the Global Foreign Exchange Committee
- UK Money Markets Code: The code sets standards and best practice expected from participants in the deposit, repo and securities lending markets in the United Kingdom, is maintained and updated by the Money Markets Committee

Individuals subject to the Senior Managers and Certification Regime (SM&CR) need to meet the requirements for market conduct, for both regulated and unregulated activities, such that a person subject to the SM&CR is required to meet these obligation to observe proper standards of market conduct. [Link](#)

### **APRA consults on its proposed approach to product responsibility under the Banking Executive Accountability Regime**

Australian Prudential Regulation Authority (APRA) has outlined its proposed approach to implementing the Royal Commission recommendation on product responsibility for authorized deposit-taking institutions (ADIs) under the Banking Executive Accountability Regime (BEAR). Previously, APRA was recommended to determine an end-to-end product responsibility for each ADI subject to the BEAR with the aim of improving customer experience and outcomes. Consequently, APRA released a letter to ADIs detailing how it intends to achieve heightened and clarified product accountability among senior executives and proposes ADIs to identify and register an accountable person to hold end-to-end product responsibility for each product the ADI offers to its customers, including retail, business and institutional customers. [Link](#)

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## **Accounting Updates**

### **IFRS Foundation publishes 2018 Annual Report**

The IFRS Foundation published its annual report for the year ended 31 December 2018. The report focuses on the importance of collaboration in achieving the Foundation's mission. It

showcases the role staff play in supporting international collaboration and illustrates some arrangements in place to facilitate stakeholder engagement. [Link](#)

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