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KPMG in South Africa

Regulatory Updates for the week ended 21 May, 2021

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

Capital Framework for South Africa based on the Basel III framework

The Prudential Authority (PA) issued a directive in terms of Section 6(6) of the Banks Act 94 of 1990. This directive serves to inform all relevant persons of matters related to the prescribed minimum required capital ratios as well as the application of various components of the said capital requirements such as the systemic risk capital requirement (Pillar 2A), the domestic systemically important bank (D-SIB) capital requirement, the countercyclical buffer range and the capital conservation buffer range. This directive replaces Directive 2/2020, issued in April 2020, and Directive 4/2020, issued in August 2020.

Further, it states that excluding both bank-specific ICR and the countercyclical buffer requirement, the highest minimum total capital adequacy requirement to be met by any bank or banking group conducting business within South Africa receiving the highest possible HLA requirement for a D-SIB will not exceed 14 percent. Banks are required to publicly disclose their D-SIB capital add-on as part of their composition of regulatory capital disclosure. [Link](#)
[Link](#)

Flac discussion paper for publication

The South African Reserve Bank (SARB) has published, for public comment, a discussion document titled Proposed Principles and Requirements for Flac Instruments. The discussion paper sets out the SARB's proposals on the characteristics, calibration and implementation period for Flac instruments. The proposals set out in the discussion papers will be adopted into regulatory instruments upon conclusion of the consultative process and after promulgation of the Financial Sector Laws Amendment Bill (FSLAB). The comments are invited until 30 June 2021. [Link](#) [Link](#) [Link](#)

Ombudsman for Long-Term Insurance published Annual Report 2020

The Ombudsman for Long-Term Insurance (OLTI) published its 2020 Annual Report. A few highlights from the report are as follows:

- Total requests for assistance received by the OLTI over the financial year is 14,198
- Total number of chargeable complaints received are 6,756
- About 31.7 percent of cases has been resolved wholly or partially in favour of complainants
[Link](#) [Link](#) [Link](#)

Ombudsman for Short-Term Insurance publishes Annual Report 2020

The Ombudsman for Short-Term Insurance (OSTI) has published its 2020 Annual Report. A few highlights include:

- OSTI received about 11,095 formal complaints throughout the financial year, with a record of 10,805 closed complaints and 136 days of average turnaround time
- Total amount recovered is about ZAR177.9 million
- OSTI has recorded a revenue of ZAR48 million in 2020, an increase of 6 percent as compared to 2019 (ZAR45.2 million) [Link](#) [Link](#)

Market Developments

International

FCA proposes stronger protection for consumers in financial markets

The Financial Conduct Authority (FCA) is planning to expand its existing rules and principles to ensure firms provide a higher level of consumer protection consistently which will enable consumers to get good outcomes. The new duty is expected to drive a shift in culture and behaviour for firms, meaning that consumers always get products and services that are fit for purpose. This will help, rather than hinder, consumers to make good choices and be confident that they will receive good customer service. [Link](#)

FCA announces plans to stop CMC phoenixing

The FCA has announced proposals to stop the practice of claims management phoenixing, by banning Claims Management Companies (CMCs) from managing Financial Services Compensation Scheme (FSCS) claims where they have a relevant connection to the claim. Claims management phoenixing occurs when individuals from financial services firms go out of business, but later reappear in connection with CMCs and charge consumers for seeking compensation against their former firm's poor conduct by bringing claims to the FSCS. The new rules being proposed are expected to put a stop to claims management phoenixing across the market. [Link](#)

Deadline extension for Strong Customer Authentication

FCA has extended the deadline for implementing Strong Customer Authentication (SCA) for e-commerce transactions to 14 March 2022. This further 6-month extension is to ensure minimal disruption to merchants and consumers, and recognises ongoing challenges faced by the industry to be ready by the previous 14 September 2021 deadline. [Link](#)

PRA statement on supervisory benchmarking exercise relating to capital internal models - May 2021

The Prudential Regulation Authority (PRA) released a statement, stating that supervisory benchmarking exercise for capital internal models has enabled PRA to carry out assessments of firms' internal approaches for calculating own funds requirements. The reporting requirements for the exercise should be updated annually to ensure that the information collected remains relevant for supervisors. Further, firms will not be required or expected to submit any data for the 2022 and 2023 benchmarking exercise. This includes credit risk, market risk and IFRS 9 data. [Link](#)

FCA consults on use of new powers to support orderly wind down of critical benchmarks

FCA has published a consultation on its proposed policy framework for exercising two of its new powers under the Benchmarks Regulation (BMR), which will be introduced by the Financial Services Act 2021. This power will be particularly relevant to US dollar LIBOR, given most settings will continue in their current form until mid-2023. [Link](#)

BIS: The digitalisation of money

The working paper published by BIS discusses the key questions and economic implications of digital currencies. It debates how digital currencies could unbundle the traditional roles of money, lead to digital currency areas that cover multiple countries, and move payments away from banks' credit provision towards digital platforms. It highlights that these changes could influence the transmission of monetary policy and necessitate the introduction of central bank digital currencies (CBDCs). [Link](#)

ASIC consults on updates to the ePayments Code

ASIC has released a consultation paper (CP 341) seeking feedback on proposed updates to the ePayments Code. The updates are designed to ensure the Code continues to be effective and relevant to consumers and subscribers. ASIC's proposed updates primarily relate to the following areas of the Code:

- compliance monitoring and data reporting
- mistaken internet payments
- small business protections
- unauthorised transactions
- complaints handling

The review also considers options for modernising the Code, to reflect changes in the field of electronic payments since the Code's last review and the comments are invited till 2 July 2021. [Link](#)

Unlocking the power of Regtech

Recognising the growing importance of Regtech, the HKMA has been engaging with the banking industry and technology community in Hong Kong to facilitate Regtech adoption since 2018. "Unlocking the Power of Regtech" is the HKMA's flagship Regtech event scheduled for 30 June and comprises panel discussions, experience sharing sessions, and demonstrations, designed to encourage discussion and networking. The virtual event will be conducted in English and there is no charge for [registration](#). [Link](#)

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