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KPMG in South Africa

Regulatory Updates for the week ended 13 September 2024

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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FSCA Communication 30 of 2024
The Financial Sector Conduct Authority (FSCA) has issued a Draft Determination on Foreign Collective Investment Schemes (CIS) for public review. The documents, including the determination, a supporting statement, and a comments template, are available for feedback until 11 October 2024. This review aims to update the existing approval process for foreign CISs in line with international best practices. *Link*

SARB Payments Study Report Launch
The South African Reserve Bank (SARB) published SARB Payments Study Report 2023, which examines the evolving landscape of payment systems in South Africa. It highlights trends such as the increasing adoption of digital payments, the impact of fintech innovations, and the importance of regulatory frameworks. The report emphasizes the need for enhanced security measures and consumer education to foster trust in digital transactions. Overall, it underscores the significance of adapting to technological advancements to improve efficiency and accessibility in the payment ecosystem. *Link*

NFO highlights important obligations of insurance clients
The National Financial Ombud (NFO) scheme emphasized critical obligations for insurance clients. Key points include the necessity of understanding policy exclusions, seeking clarification on ambiguous terms, recognizing who is insured, and ensuring that contract terms are clear. *Link*

ASISA appoints a new CEO
The Association for Savings and Investment South Africa (ASISA) has appointed Kaizer Moyane as CEO, effective 1 November 2024, succeeding Adrian Burke, who served temporarily. Moyane, an attorney, has a strong background in financial services and transformation. *Link*

IR presents developments on high-level PAIA cases, non-compliance by public bodies and progress on POPIA matters
The Information Regulator (IR) will hold a press briefing to discuss recent developments in high-profile cases under the Promotion of Access to Information Act (PAIA) and issues related to the Protection of Personal Information Act (POPIA). Key topics include compliance by public bodies and investigations into major tech companies. *Link*

SA on track to exit grey list in 2025 if there's no surprises
According to the article, South Africa is on track to exit the Financial Action Task Force's grey list by 2025, assuming there are no unforeseen setbacks, according to the National Treasury. The country has made significant progress in addressing deficiencies in its anti-money laundering and counter-terrorism financing frameworks. Treasury officials highlighted ongoing reforms and collaborative efforts with international bodies to enhance compliance. However, it cautioned that continued vigilance and implementation of measures are crucial to meet the necessary standards and ensure successful removal from the list. *Link*

Calls for another tax and exchange control amnesty to help close tax gap
According to the article, South Africa's National Treasury is considering another tax and exchange control amnesty to combat the country's widening tax gap. This move aims to encourage taxpayers to declare previously unreported assets and income. The proposal faces opposition from some lawmakers who fear it may not be effective in closing the tax gap. *Link*

SA banks prepare for 'Flac'
According to the article, South African banks are exploring unsecured loans as part of loss-absorbing capital requirements. This move aims to strengthen financial stability and reduce reliance on government bailouts. Banks may offer higher interest rates on these loans to compensate for the lack of collateral. Regulators are considering implementing stricter rules for unsecured lending to protect consumers. The shift towards unsecured loans could impact consumer credit markets and potentially increase borrowing costs for individuals. *Link*

SARS says withdrawals from retirement savings have mounted to ZAR4 billion
According to the article, SARS reported that withdrawals from retirement savings under the two-pot system have reached ZAR4 billion in just over a week. This surge includes 161,607 tax directive applications processed between 1-10 September 2024, with nearly 18,000 applications per day. Over 98 percent of these were for savings component withdrawals, capped at ZAR30,000. The article notes that taxpayers should be aware that tax debts owed to SARS will be added to the withdrawal tax burden unless payment arrangements are in place. *Link*

Preparations towards the transition from JIBAR to ZARONIA
The Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA) published a joint communication outlining the key aspects for financial institutions to prepare for ZARONIA transition. Institutions need to prepare by assessing their JIBAR exposure and developing a comprehensive transition strategy, which includes creating ZARONIA-based products, addressing technological changes, and understanding financial implications. Ongoing collaboration and commitment to new market structures are crucial for a successful transition. *Link*

Request for information on administration fees relating to the two-component system
The Financial Sector Conduct Authority (FSCA) is requesting information from pension fund administrators about fees associated with this new system, specifically for withdrawals from the savings component. The request aims to gather data on fee structures and calculations for publication in an upcoming report. *Link*

Other Southern Africa

Bank of Mauritius launches its Innovation Hub
The Bank of Mauritius has launched the Innov8, an Innovation Hub aimed at transforming the banking and fintech sectors in Mauritius and the region. It features co-working spaces and a sandbox for testing technologies. The hub, backed by seven regional central banks, aims to drive economic growth and develop impactful financial solutions for citizens. *Link*

BoN urges readiness for September 2024 EFT Regulations
The Bank of Namibia (BoN) announced new regulations for electronic fund transfers (EFT) will take effect on 30 September 2024. These rules mandate that domestic EFTs be processed within Namibia, while cross-border transactions will be treated as international. Key changes include using the SWIFT network and discontinuing debit orders with South Africa. *Link*

International

ASIC enforcement and regulatory update: January to June 2024
The Australian Securities and Investments Commission (ASIC) has enforcement and regulatory update for January to June 2024 reveals a 95 percent success rate in civil and criminal prosecutions, resulting in ZAR382.8 million (AU$32.2 million) in penalties and nine criminal convictions. The agency launched 63 new investigations and completed 550 surveillances. Key highlights include a review of how major home lenders supported customers in financial hardship and ongoing investigations into superannuation trustees' performance. *Link*

ASIC REP 795 Design and distribution obligations: Compliance with the reasonable steps obligation
The Australian Securities and Investments Commission (ASIC) provides an overview of ASIC's regulatory actions and priorities. It emphasizes the importance of ensuring compliance within the financial sector, particularly focusing on financial reporting and audit quality with ethical standards. The report outlines enforcement measures taken against non-compliant entities and highlights ASIC's initiatives to enhance oversight and support for businesses. *Link*

ASIC calls on product issuers to review distribution practices for DDO

compliance
The Australian Securities and Investments (ASIC) has urged product issuers to reassess their distribution practices for compliance with the Design and Distribution Obligations (DDO). The regulator found that many issuers rely on inadequate retail client questionnaires, which fails to meet their obligations. ASIC's review aims to enhance consumer protection and ensure financial products are appropriately targeted to retail clients. The commission emphasizes the importance of a consumer-centric approach throughout the lifecycle of financial products, reinforcing its commitment to regulatory enforcement and adherence to the DDO. *Link*

APRA proposes update to bank capital framework to strengthen crisis preparedness
The Australian Prudential Regulation Authority (APRA) has proposed updates to the bank capital framework to enhance crisis preparedness. These changes aim to simplify and improve the effectiveness of capital, particularly concerning hybrid instruments. While the total regulatory capital requirement remains unchanged, the adjustments are informed by lessons from recent global banking turmoil. The goal is to ensure that banks maintain strong capital levels to withstand future economic stresses and protect depositors. *Link*

Simplified capital regime for Small Domestic Deposit Takers (SDDTs)
The Bank of England (BoE) proposes a simplified capital regime for Small Domestic Deposit Takers (SDDTs). Key changes include a streamlined Pillar 1 framework, simplified Pillar 2A methodologies, and a new Single Capital Buffer framework. The proposal aims to reduce complexity and costs while maintaining adequacy. It replaces the Interim Capital Regime and introduces a non-cyclical stress testing framework. The regime operates on an opt-in basis, allowing eligible firms to consent to becoming an SDDT. *Link*

Credit risk internal ratings based approach
The Bank of England published a supervisory statement on credit risk internal ratings-based approach. It outlines the regulator's expectations for banks' credit risk models and assessments. The document aims to ensure consistent application of regulatory requirements across institutions. It covers model governance, validation processes, and disclosure obligations. The statement emphasizes the importance of robust risk assessment methods to maintain financial stability. *Link*

Credit risk definition of default
The Bank of England has issued a supervisory statement defining default for credit risk purposes. It applies to authorized banks, building societies, and investment firms. The statement outlines criteria for identifying default, including past-due payments and indicators of unlikelihood to pay. It covers external data applications, returning to non-defaulted status, and consistency in default definitions. The document emphasizes proper documentation and risk management processes for implementing these guidelines. *Link*

Streamlining the Pillar 2A capital framework and the capital communications process
The consultation paper proposes streamlining the Pillar 2A capital framework and communication process for UK financial institutions. It aims to retire the "refined methodology" for Pillar 2A and simplify firm-specific capital communications. The changes will apply to banks, building societies, investment firms, and holding companies regulated by the Prudential Regulation Authority. Implementation dates range from March 2025 to January 2027, depending on the type of institution. The proposals aim to reduce complexity and promote consistency in capital requirements. *Link*

Definition of Capital: restatement of CRR requirements in PRA Rulebook
The Prudential Regulation Authority (PRA) is consulting on proposals to restatement Capital Requirements Regulation (CRR) requirements related to the definition of capital in the PRA Rulebook. The main proposals include restating current requirements with minimal changes, adjusting certain elements for better proportionality and transparency, and creating new rules to replace relevant CRR provisions. The consultation aims to modernize the regulatory framework for defining capital while maintaining its core principles and objectives. *Link*

Implementation of the Basel 3.1 standards near-final part 2
The policy statement implements the Basel 3.1 standards for banks in the UK. It covers credit risk, market risk, operational risk, and capital requirements. The PRA proposes updating disclosure and reporting requirements to align with Basel 3.1. An interim capital regime will apply to small domestic deposit takers until permanent rules are implemented. The implementation date is now set for 1 January 2026, with a four-year transition period. *Link*

Market developments

South Africa

FirstRand profit slows amid ZAR3.3 billion provision for UK auto-loan unit
According to the article, Firstrand's profit has slowed due to higher provisions at its UK auto loan unit. The bank reported a decline in earnings per share and attributed it to increased bad debt provisions related to car loans in the UK market. *Link*

Sanlam to acquire 25 percent interest in ARC FSH
The article states that Sanlam Life plans to acquire a 25 percent stake in African Rainbow Capital Financial Services Holdings (ARC FSH) for ZAR2.4 billion. This deal involves Sanlam subscribing for ordinary shares in ARC FSH while also selling its existing 25 percent interest in ARC Financial Services Investments (ARC FSI) valued at ZAR1.49 billion to ARC FSH. In return, ARC FSH will issue ordinary shares to Sanlam equivalent to that value. *Link*

Standard Bank's ZAR11 billion tech investment push
According to the article, Standard Bank is investing ZAR11 billion in technology, focusing on AI and cloud computing to enhance digital transformation. This strategy led to a 28 percent increase in digital transactions while managing costs effectively. *Link*

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