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KPMG in South Africa

Regulatory Updates for the week ended 04 September, 2020

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

Regulatory Developments

SARB discussion document: The deposit insurance funding model and the implications for banks

The South African Reserve Bank (SARB) released a discussion paper on the deposit insurance funding model and its implications on SA banks, and is seeking public comments. The document describes the funding model for the proposed deposit insurance scheme for SA's financial services sector and the related implications for banks in terms of the contributions required to make to the deposit insurance fund (DIF) — to be established in terms of the Financial Sector Laws Amendment Bill (FSLAB). *Link Link Link*

SARB publishes monthly release of selected data: August 2020

The SARB published monthly updates on selected data for the period of July–August 2020. The highlights include inputs from banks and mutual banks, capital market etc. [Link]

SARB releases international reserves template: July 2020
The SARB released a template with data on the international reserves and foreign currency liquidity for the period until July 2020. [Link]

SARB publishes historical data on SABOR and Overnight Foreign Exchange Rate for August 2020
The SARB published information related to historical data on South African Benchmark Overnight Rate (SABOR) and Overnight Foreign Exchange (FX) Rate, as updated on August 2020. [Link]

PA publishes directive on matters related to the Prudential Valuation Adjustment Framework
The Prudential Authority (PA) of SA published Directive 5 of 2020, issued under section 6(6) of the Banks Act, 1990 (Act 94 of 1990). The global banking industry is undergoing a process of derivative reform, which is likely to alter the composition and risks of the fair-valued portfolio of most banks. The revised Basel II market risk framework requires formal consideration of unearned credit spreads, closeout uncertainty, operational risks, early termination, investing and funding costs, future administrative costs and model risk valuation adjustments or reserves. In that context, the PA released Directive 5 to calculate the Prudent Valuation Adjustment (PVA) on all positions — in both the trading book and the banking book. [Link] [Link]

FSCA publishes exemption of certain funds from the requirements of section 9A and 16 of the Pension Funds Act, 1956
The Financial Sector Conduct Authority (FSCA), under section 2(5)(a) of the Pension Funds Act, 1956 (Act 24 of 1956), read with section 281(3) of the Financial Sector Regulation Act, 2017 (Act 9 of 2017) (FSR Act), exempted certain funds listed under Annexure A of the notice from the provisions of sections 9A and 16 of the Pension Funds Act — to the extent set out in the schedule. [Link] [Link] [Link]

PA and FSCA jointly releases MoU
The PA and the FSCA have jointly released a media notice on the signing of a Memorandum of Understanding (MoU), under sections 76 and 77 of the FSR Act. The MoU is intended to:

- Strengthen and formalise their relationship in terms of information sharing and appropriate coordination of actions for relevant financial sector laws
- Enable both the parties (i.e., the PA and the FSCA) to reach a common understanding on areas related to common regulatory supervision objectives and responsibility overlap
- Identify matters on required areas of concurrence between the parties
- Provide for delegations of authority between the parties [Link] [Link] [Link] [Link]

Instant insurance: Less hassle or more trouble?
The Ombudsman for Short-Term Insurance (OSTI) highlighted a news article on car insurance cover and recent technological developments in the insurance sector in terms of premium calculations and payments, during the COVID-19 pandemic. [Link] [Link]

Market Developments

International

Bank of England staff working paper: The link between bank competition and risk in the UK — two views for policymaking
The Bank of England published a staff working paper to identify the link between bank competition and risk in the UK. It has used quantile regression to examine the links between competition and firm-level solvency risk for all banks and building societies during 1994–2013. Quantile regression was used as it provides a finer picture of the relationship across institutions ranked with respect to their insolvency, as compared to the standard regression techniques. [Link] [Link]

Bank of England releases notice on congoing webinar series of the UK Finance

The Bank of England published media notice to update viewers on an ongoing webinar series on the UK's regulatory roadmap, organised by the UK Finance. Link Link

Bank of England publishes Gertjan Vlieghe's annual report for the Treasury Select Committee
The Bank of England published media notice on the release of the Member of the Monetary Policy Committee — Gertjan Vlieghe's annual report for the Treasury Select Committee. Link Link Link

Bank of England highlights Ben Broadbent's speech at the 2020 Annual Meeting of the Central Bank Research Association
Ben Broadbent, the Deputy Governor of Monetary Policy of the Bank of England delivered a speech on government debt and inflation at the 2020 Annual Meeting of the Central Bank Research Association. In the meeting he has discussed various aspects of monetary finance. Link Link Link

Bank of England highlights Andrew Bailey's speech on automation in digital currencies
Andrew Bailey, the Governor of the Bank of England, recently delivered a virtual speech at the Brookings Institution on innovations in payments and associated challenges. He has examined the benefits and risks of 'stablecoins' and explored the implications of the Financial Policy Committee's recent expectations for payments and stablecoin regulation. He has also discussed the possible alternatives of stablecoins, i.e., the central bank digital currencies (CBDCs), to counter the potential risks. Link Link Link Link

PRA publishes letter from Sam Woods on temporary permission regime
The Prudential Regulation Authority (PRA) highlighted the letter from Sam Woods, the Deputy Governor of the Bank of England, to all chief executive officers (CEOs) of PRA-regulated firms on preparation of the transition period to enter the Temporary Permissions Regime (TPR) to meet the current regulatory requirements for operational readiness. Link Link

PRA publishes supervisory statement on Solvency II: Data collection of market risk sensitivities
PRA published a supervisory statement (SS 7/17), that has set out its expectations on reporting of sensitivities of solvency position to various changes in market conditions. The insurers or reinsurers that are most exposed to market risks are primarily categorised under two sections in the life sector and other category life firm or general insurance firm or composite insurance firm that demonstrates material market risk exposures. The PRA expects firms in scope to report sensitivities to various changes in market risks half-yearly, four weeks after the formal submission of solo quarterly Quantitative Reporting Templates for end-June 2020 and end-December 2020. Link

PRA's approach in supervising liquidity and funding risks
PRA published a supervisory statement (SS 24/15) on supervising liquidity and funding risks, which is relevant to UK banks, building societies, PRA UK-designated investment firms, third-country firms that are banks or designated investment firms and European Economic Area (EEA) credit institutions having branches in the UK. It sets out PRA's approach to supervising liquidity and funding risks and covers its expectations with respect to:

- The internal liquidity adequacy assessment process
- The liquidity supervisory review and evaluation process
- Drawing down liquid asset buffers
- Collateral placed at the Bank of England
- Daily reporting under stress Link

BIS working paper: Inflation at risk in advanced and emerging market economies
The Bank for International Settlements (BIS) published a working paper, where it has investigated inflation risks and their drivers in a large sample of advanced and emerging market economies. A few highlights on the examinations include:

- Quantile regressions show a general decline in upside inflation risks over time, reflecting successful disinflationary processes and the adoption of inflation targeting regimes
- In advanced economies, the zero lower bound represents a prominent source

of downside inflation risk

- In emerging market economies (EMEs), the exchange rate remains a powerful source of nonlinearity, with large exchange rate depreciations associated with upside inflation risks *Link Link*

FSI insights: AML/CFT supervision of correspondent banking
The Financial Stability Institute (FSI) published an article on anti-money laundering and combatting the financing of terrorism (AML/CFT) supervision of correspondent banking, to address the decline in banking relationships, for:

- Financial inclusion and financial stability
- Clarifying regulatory expectations
- Supporting domestic capacity-building in jurisdictions that are home to affected respondent banks
- Strengthening tools to ensure proper due diligence *Link Link*

BIS working paper: Rise of the central bank digital currencies — drivers, approaches and technologies
BIS published working paper on rise of the central bank digital currencies (CBDCs), where it has looked at the economic and institutional motives behind current CBDC projects and has sought for ways to shape the design of such currencies. *Link Link*

FSI insights: Regulating fintech financing — digital banks and fintech platforms
The FSI published an article on regulation of fintech financing in digital banks and other fintech platforms. The paper explores how financing on these platforms are regulated and provides a cross-country overview of the regulatory requirements for fintech activities across 30 jurisdictions. *Link Link*

BIS publishes article on new correspondent banking data
The Committee on Payments and Market Infrastructures (CPMI) of BIS published an article on growth of cross-border payments in last eight years, suggesting a higher concentration in payment flows. Correspondent banking is a crucial part in the enhancement process of cross-border payments. To settle such payments, most payment service providers rely on correspondent banking network, which is shrinking and becoming more concentrated day-by-day. Thus, monitoring such trends is important for the international payments community. On this account, the CPMI has planned to publish an annual quantitative review based on payment message data for next three years. The review would include key trends, a chartpack and the underlying data. *Link Link*

ASIC's update on compensation for financial advice-related misconduct
The Australian Securities and Investments Commission (ASIC) published a media release mentioning that as of 30 June 2020, six Australian largest banking and financial services institutions have paid or offered about US$1 billion (about ZAR16.6 billion) in compensation to customers who have suffered loss or detriment due to fees for no service (FFNS) misconduct or non-compliant advice. Banks including AMP, ANZ, CBA, Macquarie, NAB and Westpac have undertaken ASIC's review and remediation programs to compensate such affected customers. *Link*

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