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KPMG in South Africa

Regulatory Updates till for the week ended 14 February, 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](#)
- [Accounting standard updates](#)

Regulatory Developments

FSCA publishes notice on penalty for failure to furnish information under LTIA, 1998

The Financial Sector Conduct Authority (FSCA) published information on penalties for failure to furnish the FSCA with returns and related information in the government gazette.

[Link](#) [Link](#)

FSCA publishes notice on penalty for failure to furnish information under STIA, 1998

The FSCA published information on penalties for failure to furnish the FSCA with returns and related information in the government gazette. [Link](#) [Link](#)

SARB to sell off its stakes at African Bank

The South African Reserve Bank (SARB) announced its decision to sell off its stake in African Bank. SARB estimates that the sale will be completed within 18-24 months post finding a suitable buyer. [Link](#)

Auditing Profession Amendment Bill to head to Parliament

National Treasury published the Draft Auditing Profession Amendment Bill, which will be tabled in Parliament in February 2020. The bill provides for, amongst others –

- Establishment of Independent Regulatory Board for Auditors (IRBA)
- Education, training and professional development of registered auditors and registered candidate auditors
- Regulation of conduct of registered auditors and registered candidate auditors

- Protection of personal information in possession of IRBA [Link Link](#)

Auditing Profession Amendment Bill to be tabled soon

National Treasury published an explanatory summary for the Draft Auditing Profession Amendment Bill in the government gazette. The first publication was posted on 7 February 2020, followed by this publication which provides details on the aim and objective of the draft Bill. Highlights from the draft amendment bill are –

- Amendments to strengthen governance of IRBA
- Amendments to strengthen investigating and disciplinary processes
- Power to enter and search premises and to subpoena persons with information required for an investigation or disciplinary process
- Power to issue a warrant for purposes of entering and searching of premises
- Processes to be followed post investigation
- Duty to disclose required information
- Provision for sanctions in admission of guilty process and following disciplinary hearing
- Provision for offences related to investigation and disciplinary process
- Provision for protection of personal information [Link](#)

ABSA completes renaming process

South Africa based ABSA Group Limited formerly known as Barclays Africa Group under international group Barclays Plc, has officially renamed all its subsidiaries across the continent in which ABSA operates, including Botswana, Kenya, Ghana, Mauritius, Seychelles, Tanzania and Zambia. [Link Link Link](#)

Shareholders vote in favour of Investec demerger

The South Africa based Asset Management group Investec stated that its shareholders voted in favour of the proposed separation and listing of its asset management unit – Ninety One (now Investec Asset Management). Investec will break away into 'Investec Bank and Wealth' and 'Investec Asset Management', where the latter will become Ninety One. [Link](#)

Updates from other parts of Africa

FSC Mauritius issues AML/CFT Handbook

The Financial Services Commission (FSC) Mauritius published its Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Handbook to assist financial institutions in applying national measures to combat money laundering and terrorist financing. The handbook aims to assist financial institutions with complying with the requirements of the Financial Intelligence and Anti-Money Laundering Act, 2002 (FIAMLA) and Financial Intelligence and Anti-Money Laundering Regulations 2018. It consolidates the FSC's guidance on anti-money laundering, financing of terrorism and financing of proliferation of weapons of mass destruction. [Link Link](#)

ZICA signs MoU with Bank of Zambia

Zambia Institute of Chartered Accountants (ZICA) signed Memorandum of Understanding (MoU) with bank of Zambia (BoZ). The collaboration aims to provide an effective regulatory framework with respect to financial reporting requirements, which impact financial services industry. It also aims to strengthen and formalise exchange of information between ZICA and BoZ. The MoU will also provide mechanisms to provide specialist capacity building interventions to key stakeholders of ZICA and BoZ. [Link Link](#)

Market Developments

International

Staff working paper: Bank funding costs and solvency

The Bank of England published a staff working paper on bank funding costs and solvency. This investigates the relationship between bank funding costs and solvency for a large sample of euro area banks using two proprietary European Central Bank (ECB) datasets for both wholesale funding costs and deposit rates. The paper focuses on the connect between bank solvency on one end and senior bond yields, term deposit rates and

overnight deposit rates on the other. A few findings from the analysis are –

- It shows a significantly negative relationship between bank solvency and different types of funding costs
- Non-linear relationship is observed between the components, such as convex relationship is observed between senior bond yields and term deposit rates
- Identified senior bond yields to be more sensitive due to change in solvency than deposit rates [Link Link](#)

FCA appoints interim Chief Executive for Strategy and Competition

The Financial Conduct Authority (FCA) announced the appointment of Sheldon Mills as Executive Director of Strategy and Competition at the FCA. The appointment will be effective from 16 March 2020. [Link](#)

FCA Executive Director delivers speech on penalties, remediation and General Principles

The FCA's Executive Director of Enforcement and Market Oversight, Mark Steward delivered a speech on penalties, remediation and General Principles during an event at City and Financial Global Ltd, in London. A few highlights from his speech are –

- The FCA aims to reduce misconduct from financial services firms and charges penalties to discourage them. A total of GBP310 million was charged to financial institutions in 2019
- Most of the financial penalty cases involved serious breaches of General Principles. Firms seemed to be reluctant to consider norms under General Principles while planning and strategising their businesses
- All firms are required to consider General Principles while undertaking regulated activities [Link](#)

BIS working paper: Do credit card companies screen for behavioural biases

The Bank of International Settlements (BIS) published a working paper to identify whether credit card companies screen for behavioural biases. The paper aims to identify whether the US based firms are exploiting their customers' biases, such as limited attention to detail and/or short-termism. Some key findings are –

- Issuers seek to exploit behavioural biases by highlighting more attractive front-loaded features to customers. Such behaviour of credit card companies can increase credit risk due to wrong-selling of products to customers
- However, the analysis reveals that credit issuers generally send shrouded offers post reviewing customers' credit risk profile in order to mitigate risks [Link Link](#)

BIS working paper: On fintech and financial inclusion

The BIS published a working paper on fintech and financial inclusion identifying the major challenges associated with the rise of FinTech's. The paper investigates whether the rise of FinTech's pushed down unit cost of financial intermediation. [Link Link](#)

Operational and cyber risks in financial sector

The BIS published a working paper on operational and cyber risks in the financial sector. Operational risks are related to losses resulting from inadequate or failed internal processes, improper business practices, system failures and external events. Measuring and understanding operational risks, including cyber risks is critical for both banks and public authorities. [Link Link](#)

ASIC updates on compensation for financial advice related misconduct

ASIC updated information on penalties charged to Australia's six largest banking and financial services institutions due to non-compliance, as of 31 December 2019. AMP, ANZ, CBA, Macquarie, NAB and Westpac are six financial institutions who undertook ASIC's review and remediation programmes to compensate affected customers. ASIC's review includes –

- Effectiveness of financial institutions to supervise their financial advisers, to identify and deal with non-compliant advice
- Extent of failure by financial institutions to deliver ongoing advice services to their financial advice customers [Link](#)

APRA proposes to uplift transparency in general and life insurance data

The Australian Prudential Regulation Authority (APRA) is to publish a greater breadth of industry-aggregate data for general and life insurance sectors. To promote more transparency, APRA will determine all class of business data for general insurance (GI) and all product group data for life insurance (LI) as non-confidential, unless any sensitive commercial reasons are determined. With this initiative, APRA aims to promote –

- Competition, contestability and efficiency in financial system
- Innovative data usage
- Greater consumer understanding and more informed public discussion in insurance related matters
- Informed decision-making for all market participants, consultants, analysts and other users of GI and LI statistical publications [Link](#)

Accounting standards update

FASB to host online training forum for Continuing Professional Education (CPE) providers

The Financial Accounting Standards Board (FASB) will host its semiannual online training forum for professionals and companies offering accounting CPE on 16 March 2020 from 12:30pm to 2:30pm. [Link](#)

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