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KPMG in South Africa

Regulatory Updates for the week ended 20 March, 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

FSCA published on exemption of independent intermediaries under STIA and LTIA
The Financial Sector Conduct Authority (FSCA) under Regulation 4.4 of the Short-term Insurance Act, 1998 (STIA), read with section 281(3) of the Financial Sector Regulation Act, 2017, proposed to exempt certain entities from the requirements of Regulation 4.2(3) of the STIA. Also, under Regulation 8.4 of Long-Term Insurance Act, 1998 (LTIA), the FSCA proposed to exempt certain entities from the requirements of Regulation 8.2(2) of the LTIA. *Link Link Link Link*

PA publishes circular 1/2020 issued in terms of section 6(4) of Banks Act, 1990
The Prudential Authority (PA) of South Africa published a circular to inform all banks (including their branches of foreign institutions), controlling companies, eligible institutions and auditors of banks or controlling companies regarding the list of effective circulars and directives issued. *Link Link*

PA publishes guidance note 1/2020 issued in terms of section 45(e) of the Co-

operative Banks Act, 2007

The PA published prudential standard TCFI-01: Transitional arrangements for co-operative financial institutions, which specifies the requirements for registration of cooperative financial institutions with the PA in terms of the provisions of Co-operative Banks Act, 2007 (Act No 40 of 2007). Section 13 of the Act stipulates requirements for the constitution of a co-operative bank. The guidance note is issued to assist prospective co-operative financial institutions and co-operative banks in application process for registration with the PA, by providing a model constitution upon which such entities can design their respective constitutions. *Link*

National Treasury published consultation paper: Building Competitive Financial Markets for Innovation and Growth – A Work Programme for Structural Reforms to South Africa's Financial Markets

National Treasury published a discussion paper: Building Competitive Financial Markets for Innovation and Growth – A Work Programme for Structural Reforms to South Africa's Financial Markets. The paper made proposals to reform the regulatory and legislative framework for domestic financial markets, to create a framework to support competitive financial markets and continuous market developments. It also analysed gaps in the current Financial Markets Act (Act No 19 of 2012) and checked for alignment of the domestic regulatory framework to international best practices, given the cross-border nature of financial market activities. *Link*

KPMG SA publishes report on Ten Key Regulatory Challenges of 2020

KPMG South Africa published 'Ten Key Regulatory Challenges of 2020', which highlights the key drivers and actions for financial services firms in 10 major areas of regulatory challenges, including data management, cybersecurity, privacy, Retail Distribution Review (RDR), Credit quality, capital and liquidity, RegTech, financial crime, customer trust and ethical conduct. *Link Link*

Ninety One debuts on the JSE

South Africa based asset management company Ninety One – former Investec Asset Management, debuts its trading on the Johannesburg Stock Exchange (JSE) after splitting from the Investec Group. The share debuted on the JSE at ZAR55 and briefly peaked at ZAR60, before slumping to ZAR49.90 again. *Link*

Market Developments

International

Solvency II: Adjusting for the reduction of loss absorbency where own fund instruments are taxed on conversion

The Prudential Regulation Authority (PRA) published consultation paper 'Solvency II: Adjusting for the reduction of loss absorbency where own fund instruments are taxed on conversion', which also includes the PRA's final policy in an updated supervisory statement (SS) on 'Solvency II: The quality of capital instruments'. The PRA policy statement (PS) is relevant to the UK-based insurance firms within the purview of Solvency II, the Society of Lloyd's and firms that are part of a Solvency II group, that will determine and classify capital instruments under the Solvency II own funds regime, together with their advisors. *Link Link Link*

OPBAS publishes report on progress and themes from 2019

The Office for Professional Body Anti-Money Laundering Supervision (OPBAS) of the Financial Conduct Authority (FCA) published a report on progress made in tackling money laundering over the last year. The highlights from OPBAS' report on areas of improvement are –

- Requirement of more enforcement action where appropriate, observing 41 percent of relevant professional body supervisors (PBSs) not taking any enforcement action for anti-money laundering (AML) non-compliance
- Need for better information and intelligence sharing, as 40 percent of PBSs were observed to be non-members of established intelligence sharing systems
- Need for quality assurance of supervisory decision-making, as 32 percent of PBSs has been observed of lacking formal procedures
- Requisite of better internal staff training, with 8 percent of PBSs in need of structured

training *Link Link*

FCA publishes policy statement: Amendment of COBS 21.3 permitted link rules
The FCA policy statement (PS) sets out the response of the FCA to the feedback received on the consultation paper: Consultation on proposed amendment of conduct of business (COBS) 21.3 permitted links rules in COBS sourcebook. The PS is applicable to those who have interest in investing in illiquid or higher risk assets via unit-linked funds, such as –

- Pension scheme operators and trustees
- Operators and investment managers of unit-linked funds
- Life assurance companies with exposure to illiquid assets such as property, either by direct investment or through holdings in investment funds
- Intermediaries, such as platform service providers, wealth managers or financial advisers, whose retail clients invest in funds holding illiquid assets *Link Link*

BIS working paper: Implications of negative interest rates for the net interest margin and lending of euro area banks
The Bank of International Settlements (BIS) published a working paper: 'Implications of negative interest rates for the net interest margin and lending of euro area banks', which discusses on the relationship between short-term market rate and euro area banks' net interest margin (NIM). Two proprietary bank-level data sets have been used to analyse the impact of negative interest rate policy (NIRP) in the euro area on banks' NIM. The short-term market rate is found to be positively related to euro area banks' NIM, but only up to an interest rate level of about 2 percent. *Link Link*

FSI paper: Bank boards – a review of post-crisis regulatory approaches
The Financial Stability Institute (FSI) published a report on 'Bank boards – a review of post-crisis regulatory approaches'. Prudential authorities regulate the quality of individuals that serve on bank boards through their fit and proper (F&P) assessment process. However, failures in bank governance were a root cause of the Great Financial Crisis, which subsequently led standard setters to tighten governance requirements. The paper surveyed 19 jurisdictions and reviewed their post-crisis F&P assessment criteria for bank directors and related guidance on board composition and structure. *Link Link*

Basel Committee assesses members' implementation of Net Stable Funding Ratio and large exposures framework
The Basel Committee on Banking Supervision (BCBS) published assessment reports on the implementation of Net Stable Funding Ratio (NSFR) and large exposures framework (LEX) in Hong Kong, Singapore and Singapore. The assessments were conducted to ensure whether NSFR and LEX regulations in each of these jurisdictions are compliant with the Basel Committee's global standards. *Link Link Link Link Link Link*

ASIC takes steps to ensure equity market resiliency
The Australian Securities and Investments Commission (ASIC) has initiated steps to reduce the impact of coronavirus on Australian equity markets. The equity markets have witnessed record trading volumes in the last two weeks and the ASIC and other Council of Financial Regulators agencies have been closely monitoring the financial markets to ensure seamless operations.The ASIC will continue to closely monitor market conditions and take relevant actions to ensure markets remains fair and orderly. *Link*

APRA adjusts bank capital expectations
The Australian Prudential Regulation Authority (APRA) announced temporary alterations to its expectations regarding bank capital ratios, to ensure banks are well positioned to provide credit to the economy in the current challenging environment. *Link*

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