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## KPMG in South Africa

*Regulatory Updates for the week ended 22 May, 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.

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### Regulatory Developments

#### **FSCA publishes Draft Conduct Standard and Directive for Exchanges under Financial Markets Act**

The Financial Services Conduct Authority (FSCA) published a notice to inform its stakeholders on the publication of the following documents, that are open for public comments:

- Draft Conduct Standard for Exchanges, under section 106 of Financial Sector Regulation Act, 2017 (Act 9 of 2017) (FSR Act) and section 17(2A) of Financial Markets Act, 2012 (Act 19 of 2012) (FMA)
- Draft Directive for Exchanges to be made in terms of section 6(4)(a) of FMA [Link Link Link](#)

### **FSCA publishes final conduct standards on net asset valuation calculation and management of collective investment scheme**

The FSCA published a notice to inform its stakeholders of the following Conduct Standards and supporting documents, in terms of section 106(1) of FSR Act:

- Conduct Standard: Net asset valuation calculation and pricing for collective investment scheme portfolios (NAV Standard)
- Conduct Standard: Requirements for delegation of administration functions by a manager of a collective investment scheme (Delegation Standard) [Link Link Link Link](#)

### **FSCA publishes exemption under Pension Funds Act, 1956**

The FSCA, under section 7B(1) of Pension Funds Act, 1956 (Act 24 of 1956), read with section 281(3) of FSR Act, exempted some pension funds from the provisions of section 7A(1) of Pension Funds Act, as mentioned in Annexure A of this notice. [Link Link Link](#)

### **FSCA publishes FAQ document on COVID-19 specific queries**

The FSCA published a COVID-19 related frequently asked questions (FAQs), which answers various aspects of financial services and regulation-related queries, including banking, co-operative incentive scheme (CIS) and financial advisory and intermediary services (FAIS). [Link](#)

### **National Treasury publishes second revised COVID-19 Draft Tax Bill and extension of time for public comments on specific 2020 tax proposals**

National Treasury and the South African Revenue Service (SARS) together published the 'Second Revised 2020 Draft Disaster Management Tax Relief Bill' and revised draft notice on 'Expanding Access to Living Annuity Funds'. The notice aims to provide early feedback on issues raised through public comment on the revised COVID-19 Draft Tax Bills, published on 1 May 2020, that are time critical for payroll and other aspects — to be implemented in May 2020. [Link Link Link Link Link](#)

### **Impact of COVID-19 lockdown on credit life insurance claims**

According to the article, credit life insurers in South Africa are experiencing a high volume of claims from their consumers, as more consumers lose their income during the ongoing period of COVID-19 lockdown. [Link Link](#)

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## **Market Developments**

### **International**

#### **Bank of England publishes consolidated market notice on asset purchase facility: Gilt Purchases**

The Bank of England published a market notice on purchases of gilts financed by the central bank reserves, as authorised by the MPC. It consolidates the currently effective provisions of previous market notices, with respect to gilt purchases in the Asset Purchase Facility and replaces all previous market notices which are relevant to such operations. [Link](#)

#### **Bank of England publishes update on COVID-19 corporate financing facility**

The Bank of England and Her Majesty's Treasury (HM Treasury) updated the terms of the COVID-19 corporate financing facility (CCFF). Over 230 businesses are currently eligible to access the CCFF in the UK. The facility has supported about US\$23 billion of lending to 55 businesses and authorised a further US\$47.5 billion of potential lending, including to another 68 businesses that make a significant contribution to the UK economy. The two major updates include:

- Businesses that wish to draw fund from the CCFF for a term extending beyond 19 May 2021, would require to provide a letter addressed to HM Treasury that commits to showing restraint on payment of dividends and other capital distributions and on senior pay, during the period in which their commercial paper is outstanding
- Businesses that have drawn funds under the CCFF will be able to repay their drawings earlier, if they choose to do so [Link Link Link](#)

#### **FCA publishes draft guidance for insurance and premium finance firms**

The Financial Conduct Authority (FCA) published a guidance note, that sets out its expectations for insurance and premium finance firms while dealing with customers of

general insurance and pure protection contracts, who are impacted due to the COVID-19 pandemic. [Link](#)

#### **FCA publishes draft guidance for insurance firms**

The FCA published a guidance note, that sets out its expectations for insurers and insurance intermediaries to consider the value of their products, in light of the circumstances arising from the COVID-19 pandemic. [Link](#)

#### **BCBS published stocktake report on climate-related financial risk initiatives**

The Basel Committee on Banking Supervision (BCBS) published its view on climate-related financial risk initiatives. The report was prepared by the Basel Committee's high-level Task Force on Climate-related Financial Risks (TFRC), which has undertaken the following initiatives on climate-related financial risks:

- A set of analytical reports on climate-related financial risks, including reports on transmission channels of such risks to the banking system and on measurement methodologies
- Development of effective supervisory practices, in order to mitigate climate-related financial risks [Link](#)

#### **BIS bulletin: COVID-19 and corporate sector liquidity**

The Bank for International Settlements (BIS) published an article on possible impact of COVID-19 on corporate sector liquidity. A few highlights include:

- Enormous stress on corporate cash buffers may lead to insufficient cash for firms, to cover their total debt servicing costs over the upcoming financial year
- Sticky operating expenses may lead to firms running operating losses, therefore placing an additional burden on cash buffers [Link Link](#)

#### **BIS publishes bulletins on the US dollar funding markets during COVID-19 pandemic**

The BIS published two articles on the US dollar funding markets during COVID-19. A few highlights include:

- Dislocations in domestic US dollar money markets have impacted the global market, leading to losses incurred in non-US banks on a substantial part of funding from money market funds
- Short-term dollar funding markets have experienced dislocations during the period of March 2020, as funding was diverted from unsecured funding markets to secured funding markets and government money market funds (MMFs) [Link Link Link Link](#)

#### **BIS bulletin: Market assessment on effect of COVID-19 on banking sector**

The BIS published an article on impact of COVID-19 on the banking sector. A few highlights include:

- Performance of banks on equity and debt markets is at par with the 2008 financial crisis, after the collapse of Lehman Brothers
- The subsequent stabilisation, bought about by mandatory policy measures since March 2020, has favoured banks with higher profitability and healthier balance sheets. Less profitable banks have seen their long-term rating outlooks revised to negative and the credit default swap (CDS) spreads of the riskiest banks have continued surging even through the stabilisation phase [Link Link](#)

#### **BIS published ECB member speech on its digital currency**

The BIS published a speech by Mr Yves Mersch, who is a Member of the Executive Board and Vice-Chair of the Supervisory Board of the European Central Bank (ECB). The speech highlights that a recent survey conducted by the BIS on 66 central banks shows that over 80 percent are working on central bank digital currencies (CBDCs) and the ECB is one of them. The speech emphasises on the preparedness of central banks to embrace financial technological innovation, which has the potential to transform payments system and money faster and in a more disruptive manner. [Link Link](#)

#### **APRA publishes FAQ document on market risk capital requirements in response to COVID-19**

The Australian Prudential Regulation Authority (APRA) published a document of frequently

asked questions (FAQs), in order to provide guidance to authorised deposit-taking institutions in determining their capital requirements under Australia Prudential Standard (APS) 116 Capital Adequacy: Market Risk. [Link](#) [Link](#)

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## Accounting standards update

### AGSA releases Directive on Public Audit Act

The Auditor-General of South Africa (AGSA) published the Directive on Public Audit Act, in the Government Gazette – 43326, which flows from the Public Audit Amendment Act which came into effect from 1 April 2019. The directive focuses on audit functions performed in terms of the Act, annual audit, auditing standards and frequency, nature and scope of audits, audits of public entities and other institutions not performed by AGSA, audits for which legislation is not prescriptive in respect of financial statements, timing and submission of information for audit purposes, confidentiality of information and assessment and recognition of the financial reporting frameworks applicable in the public sector. [Link](#)

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