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KPMG in South Africa

Regulatory Updates for the week ended 27 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.

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Regulatory Developments

SARB reappoints Mr Kuben Naidoo as Deputy Governor

The South African Reserve Bank (SARB) welcomes the re-appointment of Mr Kuben Naidoo by President Cyril Ramaphosa as one of the three Deputy Governors of the SARB, for a second term of five years. The re-appointment will be effective from 1 April 2020, until 31 March 2025. [Link Link](#)

SARB publishes further amendments to money market liquidation strategy

The SARB in response to strains witnessed in various funding markets, reviewed the liquidity management strategy and announced amendments, including –

- Implementation of Intraday Overnight Supplementary Repurchase Operations (IOSROs)
- Change in the Standing Facility borrowing and lending rates [Link Link Link](#)

National Treasury sets up COVID-19 email address

National Treasury has set up an email address specifically for COVID-19, where members of the public can send suggestions to the Treasury on how best they can deal with the current situation. [Link](#)

National Treasury publishes extension of comment period for Competitive Financial Markets Paper

National Treasury extended the deadline for public comments on the discussion paper: 'Building Competitive Financial Markets for Innovation and Growth – A Work Programme for Structural Reforms to South Africa's Financial Markets'. The paper includes a number of proposals to reform the regulatory and legislative framework for the domestic financial markets and to create an enabling framework supportive of competitive financial markets and responsive to developments in those markets. It focuses on the gaps in the current Financial Markets Act (19 of 2012). It considers the developments in domestic and international financial markets regulatory framework and the alignment of the domestic regulatory framework to international best practices, given the cross-border nature of financial market activities. [Link](#)

Financial Sector Regulation Act commencement notice amended

National Treasury published an amendment of the notice on commencement of the Financial Sector Regulation Act, 2017 (FSRA). [Link Link](#)

PA publishes guidance note on IFRS 9 in response to COVID-19

The Prudential Authority (PA) of South Africa published a guidance note for banks and branches of foreign institutions and controlling companies, that will provide relief to clients in order to stabilise financial markets and reduce the overall impact of the COVID-19 outbreak on the local economy in SA. The guidance note therefore outlines the expectations of the PA, when the requirements of International Financial Reporting Standard (IFRS) 9 are applied to payment holidays and other relief measures, including government guarantees and other subsidies. [Link](#)

PA publishes proposed directive for comment – related to temporary capital relief

The PA invites comments on the proposed directive issued in terms of section 6(6) under Banks Act, 1990 (Act 94 of 1990). The directive is related to temporary capital relief to alleviate risks posed by the COVID-19 pandemic. [Link Link](#)

PA publishes proposed directive for comment – related to treatment of restructured credit exposures

The PA invites comments on the proposed directive issued in terms of section 6(6) under the Banks Act, 1990 (Act 94 of 1990). The directive is related to treatment of restructured credit exposure due to the coronavirus pandemic. The PA, on account of the present situation in the financial services industry, has decided to amend the requirements specified in Directive 7 of 2015, to provide temporary relief on the minimum capital requirements for banks, controlling companies and branches of foreign institutions related to credit risk. [Link Link](#)

PA publishes proposed directive for comment – related to temporary measures to aid compliance with liquidity coverage ratio

The PA invites comments on the proposed directive issued in terms of section 6(6) under Banks Act, 1990 (Act 94 of 1990). The directive is related to temporary measures to aid compliance with the liquidity coverage ratio (LCR) during the coronavirus pandemic stress period. The PA, on account of the present situation in financial services industry, has decided to amend the minimum requirements related to LCR, to provide temporary liquidity relief to banks, branches of foreign institutions and controlling companies. The directive is in line with the intention of the Basel III LCR framework. [Link Link Link](#)

FSCA publishes Interpretation Ruling 1 of 2020 (RF) on application of Section 37C of Pension Funds Act, 1956

The Financial Sector Conduct Authority (FSCA), under section 142(1) of Financial Sector Regulation Act, 2017 (Act 9 of 2017), publishes FSCA Interpretation Ruling 1 of 2020 (RF) on the application of section 37C of Pension Funds Act, 1956 (Act 24 of 1956). [Link Link](#)

FSCA press release: Licensing and business centre operations during 21-days national lockdown

The FSCA published a circular outlining information on all licensing and business centre operations which will be available to support during the 21-days nation-wide lockdown period in SA. [Link](#)

FSCA statement on possible naked short-selling

The FSCA, on account of the current period of extreme market volatility and therefore increase in settlement failure risk, has been advised that there may have been a number of instances of possible naked short sales of late. The FSCA warns the public against such unauthorised naked short sales and any such engagement will be subject to appropriate regulatory actions, including imposition of administrative penalties. [Link](#)

FSCA updates customers on industry measures taken during COVID-19 crisis

The FSCA published a circular to update customers on industry measures taken during the outbreak of coronavirus. It is working closely with the financial services sector of SA to ensure that the markets continue to work well with minimal disruptions. The primary focus of the FSCA is to ensure that financial institutions treat their customers fairly and minimise any adverse customer outcomes during this uncertain period. [Link](#)

FSCA publishes impact of COVID-19 on RDR discussion documents – feedback dates

The FSCA published an extension of the deadline for submission of stakeholder comments on the following Retail Distribution Review (RDR) discussion documents from 31 March 2020 to 15 May 2020 –

- Adviser Categorisation Discussion Document
- Second Investments Related Matters Discussion Paper [Link](#)

FSCA publishes list of qualifications recognised for financial service providers, key individuals and representatives, 2020

The FSCA published the recognised qualifications under section 24 of Determination of Fit and Proper Requirements for Financial Services Providers, 2017 and deemed to be recognised in terms of section 52(2) of the Determination, for financial services providers, key individuals and representatives as set out in the Schedule. [Link](#)

Competition Commission publishes measures to be taken during COVID-19

The Competition Commission South Africa published the measures to be taken during the period of nation-wide lockdown, as a result of the outbreak of the coronavirus pandemic. The Commission will significantly scale-down its operations and majorly prioritise all COVID-19 complaints and enforcement of the regulations gazetted by the Minister of Trade and Industry. [Link](#)

FIC publishes public compliance communication: Practicing attorneys as accountable institutions

The Financial Intelligence Centre (FIC) issued a public compliance communication, which sets out guidance on the interpretation of Item 1 Schedule 1 to the FIC Act, 2001 (Act 38 of 2001), with respect to changes brought by Legal Practice Act, 2014 (Act 28 of 2014). With replacement of the Attorneys Act by the Legal Practice Act, 2014 (Act 28 of 2014) (Legal Practice Act), the definition of a practitioner under FIC Act requires to be interpreted in line with Interpretation Act, 1957 (Act 33 of 1957) and Legal Practice Act also and includes attorneys, notaries, conveyancers who practices. [Link Link LinkLink](#)

SA insurers have the reserves to withstand COVID-19, ASISA assures

The Association for Savings and Investment South Africa (ASISA) declared that SA's life insurance industry has more than double the legally required reserve buffers in place and is expected to be in a good position to deal with the COVID-19 fallout over the coming months. The lobby group, which has about 130 members across SA's asset management and insurance sectors, mentioned that SA's life insurance industry has free assets of ZAR373 billion — more than double the reserve buffer required by Solvency and Capital Requirement regulations. [Link Link Link](#)

SA banks step up to help customers take coronavirus hit

SA-based banks including Standard Bank, Nedbank and FNB have stepped up to help customers cope financially during the period of coronavirus outbreak. Announcements from Standard Bank, Nedbank and FNB followed a series of engagements between the SARB, President Cyril Ramaphosa, National Treasury and banking executives on the resilience of

the financial system. The SARB announced to slash Bank Rates by 100 basis points along with additional liquidity measures – to ease pressure in the overall financial system. [Link](#)

SA banks to waive ATM penalty fees

South Africa based banks have taken a number of steps to soften the blow of lockdown on customers. A few such initiatives include waiver of Saswitch penalty fees at ATMs and minimising branch closures. [Link](#)

Market Developments

International

Joint statement by FCA, FRC and PRA

The FCA, Financial Reporting Council (FRC) and PRA released joint statement to announce a series of actions and issued a series of statements with respect to COVID-19. The statement intends to –

- Ensure continuous flow of information to investors and supports continued functioning of the UK's capital markets
- Support companies and auditors in preparing and auditing financial statements
- Help market participants and lenders to respond to what is likely to be the new normal in terms of audit report modifications and loan covenant breaches [Link Link Link Link Link](#)

PRA's statement on bank, building society and credit union branches under COVID-19 guidance

The PRA and Bank of England continue to work closely with the FCA, Her Majesty's Treasury (HM Treasury) and other central government bodies, to support the measures to manage the impact of COVID-19. In line with the announcement by the UK government, the PRA advises all banks, building societies and credit unions to keep their branches and contact centres open. [Link Link](#)

PRA publishes on COVID-19 regulatory reporting amendments

The PRA published a statement outlining its approach to regulatory reporting for the UK-based insurers in response to COVID-19 and European Insurance and Occupational Pensions Authority's (EIOPA's) 'Recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosures – coronavirus/ Covid-19', published on 20 March 2020. [Link](#)

Financial policy summary and record – March 2020

The Financial Policy Committee updated a summary document on its overall analysis of the financial industry and relevant actions taken during the period of March 2020. A few such highlights are –

- The FPC has taken action to respond to financial stability risks associated with economic disruption resulting from Covid-19. These actions would reduce pressure on banks to restrict the provision of financial services, including supply of credit and support for market functioning
- Based on the existing capital levels of banks, the FPC analysed that the major UK banks will be able to withstand severe market and economic disruption
- The FPC reduced the UK countercyclical capital buffer (CCyB) rate to zero of banks' exposures to the UK borrowers [Link Link Link](#)

Bank of England maintains bank rate at 0.1 percent – March 2020 update

The Bank of England's Monetary Policy Committee (MPC) unanimously voted to maintain Bank Rate at 0.1 percent. The MPC also voted to continue with the programme of GBP200 billion of the UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by issuance of central bank reserves, to take the total stock of these purchases to GBP645 billion. [Link](#)

FCA publishes impact of coronavirus on firms' LIBOR transition plans

The FCA, Bank of England and members of Working Group on Sterling Risk-Free Reference Rates have discussed the impact of coronavirus on firms' London Interbank Offered Rate (LIBOR) transition plans over the coming months in 2020. According to the

FCA, the transition from LIBOR is essential to strengthen the global financial system. Hence, the regulators would maintain their existing target date for transition from LIBOR to new alternate risk-free rates. [Link](#)

Governors and Heads of Supervision announce deferral of Basel III implementation to increase operational capacity of banks and supervisors to respond to COVID-19

The Basel Committee on Banking Supervision (BCBS) published on endorsement of a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of COVID-19 on global banking system. The Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS) implemented a few changes in the timeline of outstanding Basel III standards, as set out in the press release. [Link](#)

Executive Director for Prudential Authority of Bank of England publishes on ideal post-EU regulatory framework

Victoria Saporta, the Executive Director for Prudential Authority of the Bank of England delivered a speech on post-EU regulatory framework. A few highlights are –

- The PRA has authorised 18 new banks in past five years, with further banks in the pipeline to be authorised
- The systemic negative externalities impact the economy at a larger scale
- Market failures are required to be dealt with in a certain manner that does not introduce frictions, which may hurt innovation, long-term productivity and overall economic growth

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

APRA advises regulatory approach to COVID-19 support

The Australian Prudential Regulation Authority (APRA) confirmed its regulatory approach to the COVID-19 support packages being offered by banks and other lenders to their borrowers during this period. Many Australian banks have announced COVID-19 support packages that allows affected borrowers to defer their repayments for a period of up to six months. Such packages have majorly been offered to small businesses and home loan customers. [Link](#)

Accounting standards update

IRBA shares guidance with auditors on the implications of COVID-19 on audits and auditors

IRBA issued a newsletter with respect to the implications of COVID-19 outbreak on audits and auditors. The newsletter aims to address some implications and considerations with regard to audits and audit-related risks. [Link](#)

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