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## KPMG in South Africa

*Regulatory Updates till for the week ended 06 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](#)
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### Regulatory Developments

#### **FSCA publishes Financial Markets Review Report 2020**

The Financial Sector Conduct Authority (FSCA), National Treasury (NT) and South African Reserve Bank (SARB) released the final report of the Financial Markets Review 2020, which provides recommendations for conduct practices in domestic over-the-counter (OTC) fixed income, currency, commodities and derivatives financial markets. This report follows an intensive consultation period, initiated in September 2018. The report made 42 recommendations to improve conduct in financial markets sector, including –

- Governance requirements, including corporate and risk governance requirements for market participants
- Enhancing the market conduct framework, including establishment of equivalent standards for market practices and discipline, addressing conflicts of interest, extending market abuse regulatory scope and enhancing overall monitoring and surveillance
- Developing a regulatory regime and standards for alternative trading venues or

algorithmic trading activities and supporting technology innovation [Link Link Link](#)

### **FSCA publishes update on recommendations from World Bank Retail Banking Diagnostic Report**

The FSCA published a notice to update its stakeholders on the progress of recommendations made in the Retail Banking Diagnostic Report. Annexure A of this communication provides a detailed update on FSCA's progress with respect to the individual recommendations made in the Retail Banking Diagnostic Report. [Link](#)

### **FSCA publishes notice on exemption of large funds from certain prescribed formats for preparing financial statements under Pension Funds Act, 1956**

The FSCA under section 281(1) of Financial Sector Regulation Act, 2017 (Act No 9 of 2017) exempted certain pension funds from using certain formats under paragraph 3(2)(a) of Board Notice 77 of Government Gazette. [Link Link Link](#)

### **PA publishes on Draft Financial Conglomerate Prudential Standards**

The Financial Sector Regulation Act, 2017 (Act No 9 of 2017) empowered the Prudential Authority (PA) to designate a group of companies as a financial conglomerate and to regulate and supervise them. The PA is empowered to issue prudential standards for financial conglomerates and these have been published for informal consultation –

- Prudential Standard FC01: Capital requirements for financial conglomerates – Technical
- Prudential Standard FC01: Capital requirements for financial conglomerates – Principle-based
- Prudential Standard FC02: Intragroup transactions and exposures for financial conglomerate
- Prudential Standard FC03: Auditor requirements for financial conglomerates
- Prudential Standard FC04: Governance and risk management for financial conglomerates
- Prudential Standard FC05: Risk concentrations for financial conglomerates [Link Link](#)

### **PA publishes Guidance Note on list of effective guidance notes for the year**

The PA published the Banks Act Guidance Note to provide the status of previously issued guidance notes. This includes banks – along with branches of foreign institutions, controlling companies and auditors of bank or controlling company. [Link](#)

### **PA publishes Guidance Note on board meetings to be held during 2020**

The PA published a Banks Act Guidance Note issued to provide information on board meetings to be held in 2020 with board of directors of banks and controlling companies. The discussions will include topics related to Artificial Intelligence (AI), Machine Learning (ML), Distributed Ledger Technology (DLT), Robotics, Internet of Things (IoT) and Big Data. [Link](#)

### **2020 Draft Rates and Monetary Amounts Bill released for comment**

National Treasury published information on the 2020 Draft Rates and Monetary Amounts Bill and seeks public comment until 30 March 2020. The draft bill contains tax announcements made in 2020 Budget update. A few highlights on the bill includes –

- Fixing the rates of normal tax
- Amending Transfer Duty Act, 1949 with respect to transfer duty monetary thresholds
- Amending Income Tax Act, 1962 with respect to rates of tax and monetary amounts
- Inserting new tariff items
- Inserting rebate items [Link](#)

### **FIC publishes draft Public Compliance Communication on issues pertaining to life insurance providers**

The FIC published draft Public Compliance Communication (PCC) on issues related to life insurers and invites comments from accountable and reporting institutions, supervisory bodies and other persons until 27 March 2020. The draft PCC provides guidance on compliance obligations in line with the FIC Act to life insurance providers. These include issues related to money laundering and terrorist financing risks and the conducting of customer due diligence prior to receipt and pay-out of money. [Link Link](#)

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## Market Developments

### International

#### **PRA publishes consultation paper: Liquidity – The PRA’s approach to supervising liquidity and finding risks**

The Policy Statement (PS) by the Prudential Regulation Authority (PRA) provided feedback to responses to consultation paper (CP) on 'Liquidity: The PRA's approach to supervising liquidity and finding risks'. The PS is relevant to the UK based banks, building societies and PRA-designated UK-based investment firms. The following are proposed by PRA in this CP

- All firms are expected to use their own judgement to apply for and use Bank of England's liquidity facilities, including Discount Window Facility (DWF)
- The proposals set out in both consultation papers on recovery planning and liquidity suggests that recovery options should be credible, including the cases which involve usage of central bank facilities [Link Link Link](#)

#### **BIS working paper: Foreign banks, liquidity shocks and credit stability**

The Bank for International Settlements (BIS) published a working paper on foreign banks, liquidity shocks and credit stability, which focuses on the syndicated loan portfolio of banks in the US. The report checks whether these banks reacted differently to the regulatory change for deposit insurance in 2011. The increase in insurance fees levied on banks to fund Federal Deposit Insurance Corporation's (FDIC) fund had varying effects among the US-based banks, increasing the cost of wholesale funding for insured domestic banks and reducing it for uninsured foreign bank branches. With such regulatory changes, BIS anticipates an effect on credit supply of insured banks and uninsured foreign banks in differing ways. [Link Link](#)

#### **BIS working paper: Financial Crisis and Innovation**

BIS published a working paper on Financial Crisis and Innovation, which examines the impact on financial crisis on innovation. BIS studies patent data from a broad sample of nations and financial crises and considers impact up to 10 years post any crisis. BIS utilises cross-country panel data on patenting at industry-level and identifies financial channel where disruptions in financial markets impact patenting activity. In this report, BIS studies reflected a strong positive correlation between decrease in patent with respect to increase in bank crisis for industries that are more dependent on external finance. [Link Link](#)

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