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Regulatory Updates for the month of February 2018

FinWatch – A Monthly Newsletter

Find the inaugural edition of **FinWatch** which provides a pan-Africa view of all regulatory and market developments impacting the financial services industry produced by the South Africa Regulatory CoE.

Pan Africa Updates

Zambia

The Public Finance Management Bill 2017
The Public Finance Management Bill will provide the new institutional and regulatory framework for management of public funds. It is also set to strengthen accountability, oversight, management and control of public funds in the public financial management framework. *ZICA*

PIA embarks on Pension Sensitisation Programmes
The programmes are aimed at raising the importance of saving for retirement through a pension. The sensitisation programmes also aims at educating the public on the opportunities that exist in multi-employer pension schemes and insurance companies which can used to set up individual pension plans. The target group include employers, employees and SMEs. *PIA*

Mauritius

The Fintech and Innovation-driven Financial Services Regulatory Committee meeting
The discussions of the Committee were centred on positioning Mauritius as a regional hub

of sound repute in the field of fintech regulations by:

- Building an open and transparent regulatory regime for Fintech in Mauritius which encourages innovation;
- Exchanging information with other recognised regulatory authorities to contain any kind of illegitimate activities;
- Keeping cognisance of the best technological innovations and ensuring that Mauritius is at pace with the latest technological advancements in the Fintech ecosystem;
- In regulating blockchain-related activities, it will take into account the use of latest technology that will prevent hacking and other kind of frauds;
- Recognising the potential benefits of blockchain technology on the economy and society, and encouraging its development;
- Considering incentives to attract Fintech activities to Mauritius; and
- Reflecting on the possibility of establishing a sovereign fund in Mauritius to provide seed capital for the development of Fintech activities in the region. *FSC*

Zimbabwe

Zimbabwe to get 1.5 billion USD package to boost foreign investment
According to the Reserve Bank of Zimbabwe (RBZ), the African Export-Import Bank (Afreximbank) has promised a financial package of 1.5 billion USD to guarantee foreign investment into the Zimbabwean economy. Of the amount, 1 billion USD will go towards the guarantees while the balance of 500 million USD will go towards liquidity support. As part of the confidence-boosting measures, the RBZ also ring-fenced foreign portfolio investment on the Zimbabwe Stock Exchange (ZSE). *Fin24*

To Top

Global Updates

Australia

APRA begins consultation with ADIs on revisions to capital framework
The key proposed changes to the capital framework include:

- lower risk weights for low LVR mortgage loans, and higher risk weights for interest-only loans and loans for investment purposes, than apply under APRA's current framework;
- amendments to the treatment of exposures to small- to medium-sized enterprises (SME), including those secured by residential property under the standardised and internal ratings-based (IRB) approaches;
- constraints on IRB ADIs' use of their own parameter estimates for particular exposures, and an overall floor on risk weighted assets relative to the standardised approach; and
- a single replacement methodology for the current advanced and standardised approaches to operational risk.

The paper also outlines a proposal to simplify the capital framework for small ADIs, which is intended to reduce regulatory burden without compromising prudential soundness. *APRA*

ASIC welcomes establishment of the Australian Financial Complaints Authority
The establishment of a single scheme for all financial services and superannuation complaints is a very positive development, building on the outcomes achieved over many years by the existing three schemes: the Financial Ombudsman Service (FOS), the Credit and Investments Ombudsman (CIO) and the Superannuation Complaints Tribunal. Higher monetary limits and compensation caps, including for primary production businesses, is expected to give more consumers and small businesses access to a free and independent forum to resolve their complaints. ASIC will work with Government and scheme stakeholders to ensure that the transition to the commencement of AFCA is as smooth as possible. In the interim, ASIC will retain direct oversight of the two ASIC-approved schemes - FOS and CIO - which will continue to provide high levels of service to consumers and firms. Separate arrangements are in place for the ongoing operation of the SCT to enable it to deal with existing complaints. *ASIC*

Information on new professional standards for financial advisers now available on ASIC website
The new requirements are aimed at lifting the education, training and ethical standards in the financial advice sector. ASIC's website now provides an overview of the new

requirements, as well as related information on:

- the scope of the reforms;
- the obligations on advisers;
- the commencement dates of the reforms;
- the Financial Adviser Standards and Ethics Authority;
- compliance schemes for the Code of Ethics; and
- updates to the Financial Advisers Register.

The information is expected to help existing and new financial advisers to be better prepare for the new requirements. *ASIC*

ASIC reports on Credit Rating Agencies

ASIC's main areas of focus were the Credit Rating Agencies (CRA) governance arrangements (including relating to conflicts of interest and their corporate structure), transparency and disclosure. ASIC's report makes a number of observations about CRAs' activities with some leading to recommendations for change in areas such as board reporting, compliance teams and compliance testing, analytical evaluation of ratings and human resources. *ASIC*

IAIS releases interim public consultation paper on an Activities-Based Approach (ABA) to systemic risk

The interim consultation paper is intended to provide an opportunity for stakeholders to provide input into the development of an activities-based approach and feedback on the proposed steps that the IAIS will follow in its work on deriving activities-based policy measures. The paper does not include conclusive proposals on policy measures, as this will be subject of the next phase of work in 2018. *IAIS*

APRA moves to strengthen governance among private health insurers

As part of the package designed to improving governance and decision-making in the private health insurance sector, APRA:

- replaced prudential standard HPS 510 Governance with the more forceful cross-industry equivalent standard, CPS 510, to strengthen governance practices;
- extended cross-industry prudential standard CPS 520 Fit and Proper to the industry to ensure the competency and integrity of anyone exercising material influence over a private health insurer;
- introduced HPS 310 Audit and Related Matters in recognition of the important role auditors can play in supporting prudential soundness; and
- revoked prudential standard HPS 350 Disclosure to APRA to streamline reporting and remove obsolete requirements. *APRA*

Taking action now on bank executive accountability

The Banking Executive Accountability Regime (BEAR) was passed by the Senate on 7 February 2018. It imposes higher standards of behaviour on banking executives, with APRA empowered to seek fines where obligations are not met. BEAR will commence 1 July 2018 for large ADIs and 1 July 2019 for small and medium ADIs. Treasury will consult on a draft instrument defining the size of an ADI in due course. *Treasury, Australia*

APRA releases a paper outlining its policy priorities

APRA's prudential policy priorities for 2018 include updating existing prudential requirements and introducing new components to the framework. Key areas of focus are:

- banking, including Basel III minimum capital requirements for ADIs and BEAR;
- insurance, such as reinsurance and governance, fit and proper and audit for PHIs;
- superannuation, specifically strengthening superannuation member outcomes and post-implementation review; and
- cross-industry initiatives such as information security and the Crisis Management Bill. *APRA*

ASIC Enforcement

ASIC commences civil penalty proceedings against CBA for BBSW conduct

Proceedings have commenced against CBA in the Federal Court for unconscionable conduct and market manipulation concerning CBA's involvement in setting the BBSW rate in 2012. ASIC alleges CBA enter into products priced off the BBSW without disclosing trading practices and CBA's trading created an artificial price and false appearance with respect to the market on some products. *ASIC*

ANZ refunds 10 million AUD for failing to disclose credit card charges

ANZ will refund 10.2 million AUD to business credit card accounts after it failed to properly disclose fees and interest charges for the product. *ASIC*

Update – Westpac remediates credit card customers more than 11 million AUD
Following ASIC's concerns about its credit card limit increase practices, Westpac reviewed its credit limit increases previously provided to affected cardholders where they subsequently faced financial difficulty, leading to Westpac providing approximately 11.3 million AUD remediation to 3,400 credit card customers. *ASIC*

Mandatory Comprehensive Credit Reporting
The government has released draft legislation for consultation on mandatory comprehensive credit reporting regime, proposed to be effective 1 July 2018. It will require the major banks to supply 50% of their credit reporting data to credit reporting bodies by 1 July 2018, increasing to 100% a year later, with a 90-day transitional period. Banks will be required to demonstrate they have met their initial bulk and on-going data supply requirement or face penalties of up to 2.1 million AUD for each non-supply. ASIC will be responsible for the new regime. Submissions are due 23 February 2018. *Treasury*

APRA Key Priorities 2018
Key policy priorities include:

- In early 2018, APRA is expected to commence public consultation on associated changes to its prudential requirements for minimum ADI capital. This will include consultation on the broad set of proposed changes early in 2018, and subsequent individual consultations on specific prudential standards over the course of 2018 and 2019;
- In the second quarter of 2018, APRA intends to finalise its approach to licensing certain new ADIs through a phased approach, as set out in its 2017 discussion paper on Executive Accountability;
- In 2017, APRA finalised the first phase, the application of APRA's cross-industry Prudential Standard CPS 220 Risk Management to PHIs, with an implementation date of 1 April 2018. Over the medium term, APRA expects that changes to the prudential framework for insurance may be needed to address issues with the provision of life insurance in superannuation, as well as potential innovative post-retirement products;
- Over the first half of 2018, APRA will meet with stakeholders and consider submissions in response to the superannuation package, with a view to releasing final requirements mid-2018;
- APRA will continue to work with Treasury to assist with the progression of the Crisis Management Bill through Parliament. *APRA*

The UK

Results of the Semi-Annual FX Turnover Survey in October 2017
In October 2017, 28 financial institutions active in the UK foreign exchange market participated in the twenty-sixth published semi-annual turnover survey for the Foreign Exchange Joint Standing Committee (FXJSC). The results of subsequent surveys will continue to be published at six-monthly intervals. Some of the key findings are as follows:

- Average daily reported UK foreign exchange turnover1 was $2,380 billion per day in October 2017; 1% lower than April 2017, but 9% higher than a year earlier;
- The decrease was more than accounted for by a fall in FX spot turnover, down 4% from six months ago with average daily turnover of $694 billion. FX swap turnover increased 2% to a turnover of $1,183 per day, slightly offsetting the decrease in FX spot turnover. *PRA*

FCA launches call for input on the use of technology to achieve smarter regulatory reporting
The consultation is a result of a proof of concept developed at TechSprint 2017, organised by the FCA and the Bank of England. The proof of concept is capable of making regulatory reporting requirements machine-readable and executable, thus enabling companies to create automated, straight-through processing of regulatory returns. The Call for Input outlines how this 'proof of concept' was developed and asks for views on how the FCA can improve this process. The paper also seeks feedback on some of the broader issues surrounding the role technology can play in regulatory reporting. *FCA*

Operation of the MoU with the Bank of England for market infrastructure
The Bank and FCA held a consultation with Financial Market Infrastructures (FMIs) and reviewed their co-operation regarding market infrastructure in 2017. The authorities

concluded that the MoU's arrangements for co-operation remain effective, with appropriate co-ordination and no material duplication. Industry respondents acknowledged the efforts made on co-operation and emphasised its growing importance given the changing environment. The Bank and FCA remain committed to effective co-operation and staff will work together to take forward those suggested improvements identified by industry through joint industry working groups on issues of shared interest and representation at project boards. *FCA*

FCA publishes report on the supervision of Algorithmic Trading
The report focuses on five key areas within algorithmic trading compliance in wholesale markets:

- Defining Algorithmic Trading
- Development and Testing Process
- Risk Controls
- Governance and Oversight
- Market Conduct

The Prudential Regulation Authority (PRA) has also published a consultation paper on proposed expectations regarding a firm's governance and risk management of algorithmic trading. The PRA publication is a formal consultation on a supervisory statement which sets out expectations for the prudential aspects of risk management and governance of algorithmic trading at PRA regulated firms. *FCA*

FCA and Information Commisioners Office (ICO) publish joint update on GDPR
The FCA and ICO is expected to be review the Memorandum of Understanding in place since 2014. While the ICO will regulate the EU General Data Protection Regulation (GDPR), complying with the GDPR requirements is also something the FCA will consider under their rules, for example, the requirements in the Senior Management Arrangements, Systems and Controls (SYSC) module. The FCA and ICO will continue to collaborate in the coming months to address concerns firms raise and support firms' preparations for the introduction of the GDPR in May 2018. *FCA*

FCA seeks feedback on non-workplace pensions
The Financial Conduct Authority published a Discussion Paper (DP) to gather views on the market for non-workplace pensions. The FCA is seeking feedback though the DP in order to better understand the market for non-workplace pensions, including whether competition is working well and if there are issues that need to be addressed in order to protect consumers. The FCA is looking to understand how the differences and similarities between the workplace and non-workplace markets impact competition and consumer outcomes. The particular areas of focus include:

- Product complexity;
- Factors which reduce consumer motivation and ability to invest time and effort in decisions;
- Whether customers can identify and freely move to more competitive products;
- Fund choice and the use of defaults; and
- If providers are competing on charges and if there are barriers to consumers identifying, and choosing, from more competitive products. *FCA*

The European Money Market Funds (MMF) Regulation
Consultation on changes to FCA Handbook in relation to the European Money Market Funds Regulation, and its approach to FCA fees to meet the cost of authorising and supervising funds under the Regulation. In this paper FCA propose to:

- make certain amendments to the Handbook to ensure that it is consistent with the requirements of the EU Money Market Funds Regulation
- introduce application fees for the authorisation of MMFs under the Regulation and periodic fees to help meet the cost of supervising MMFs' adherence to the Regulation. *FCA*

Building cyber resilience
In his speech, Robin Jones, Head of Technology, Resilience & Cyber at the FCA, highlighted:

- The importance for firms to protect their critical information, detect breach of protective controls and respond quickly and effectively to these breaches;
- Operating in a zero failure environment and adapting defensive controls;
- Building effective cyber capability, implementing effective accountability, and recovery planning; and
- The importance of foundational elements and enabling people to implement effective governance. FCA

FCA publishes update on high-cost credit work
The update follows a Feedback Statement the FCA published in July 2017 which identified key areas of concern with the sector including overdrafts, rent-to-own, home-collected credit and catalogue credit. The update states that work undertaken since July 2017 has demonstrated an emerging picture of the case for intervention in a number of markets but also some limitation on what can be achieved purely through traditional regulatory interventions. FCA

International Updates

BIS and IMF to work more closely together to help strengthen financial supervisory skills around the world
The Bank for International Settlements (BIS) and the International Monetary Fund (IMF) is expected to work closely to help strengthen the expertise and skills of financial regulators and supervisors, particularly in the context of implementing the post-crisis financial reforms and dealing with emerging issues such as financial technology. In this regard, both the organisations have announced the creation of a new joint online course on banking supervision, which will be available to financial supervisory officials worldwide later this year. BIS

BIS's Financial Stability Institute and the International Association of Deposit Insurers host eighth conference on bank resolution, crisis management and deposit insurance
In the various panels, speakers and participants discussed:

- The progress and challenges associated with the implementation of resolution frameworks not only for banks but also for non-bank financial institutions;
- Practical implementation issues related to core elements of the global standards on resolution such as bail-in, total loss-absorbing capacity (TLAC) and valuation;
- The intersection between banking supervision, resolution and deposit insurance through discussions on early supervisory intervention approaches and recovery plans;
- Lessons learned from last year's bank failures; and
- Future challenges and opportunities in the resolution and deposit insurance areas, including the ones arising from the developments in financial technology. BIS

The policy life cycle and capacity-building needs of financial sector authorities
At his keynote address at the BIS-IMF symposium on "Capacity-building in financial sector regulation and supervision", Agustín Carstens, General Manager of the BIS, emphasised the importance for all stakeholders to continuously identify the changing capacity-building needs of financial sector authorities worldwide, and for the various organisations providing capacity-building initiatives to enhance coordination and effectively meet those needs. BIS

Post-crisis bank resolution: what are the main challenges now?
At his keynote address at the 8th FSI-IADI conference, General Manager of the BIS, pointed out the following challenges:

- First of all, bail-in. The goal of the post-2007 reforms was to replace bailouts with bail-ins, and to make bailouts the exception in crisis management. However, this goal has not been reached yet.
- The second major challenge is the resolution of cross-border banks. A precondition is to have resolution plans that are predictable, viable and supported by both home and (key) host authorities. But cross-border banks are inherently complex, so designing their resolution plans is not straightforward. Moreover, there is only an abstract idea of what may work, cross-border resolution still needs to stand the test of a real-life case.

He also spoke about other challenges such as:

- Coordination among supervisors, resolution authorities, central bankers and deposit insurers. For instance, for a number of global systemically important banks (G-SIBs), their home authorities have not yet put in place cooperation agreements
- Provision of liquidity in resolution. Certain resolution solutions, such as open-bank resolution, take longer than a weekend, and even the post-resolution "good bank" may not have access to market funding from the start. *BIS*

Mapping shadow banking in China: structure and dynamics
The study found that banks have been the dominant player in China's shadow banking system. This is why it is sometimes dubbed the "shadow of the banks". In contrast to shadow banking in the United States, securitisation and market-based instruments still play a rather limited role in China. While growth of shadow credit to ultimate borrowers has slowed, the use of shadow saving instruments (eg wealth management products, trust products) has continued to expand at a fast pace. New and more complex structured shadow credit intermediation aimed at reducing banks' regulatory burden has emerged and quickly reached a large scale. However, the bond market has become highly dependent on funding channelled through wealth management products. As a result, Chinese shadow banking is becoming slightly more similar to US shadow banking. *BIS*

To Top

Accounting Standard Updates

IFRS Foundation updates jurisdiction profiles to reflect decision by 17 African countries to adopt IFRS Standards from 2019
Companies listed on a stock exchange and other publicly accountable companies in the 17 West and Central African jurisdictions that are members of the Organisation for the Harmonization of Corporate Law in Africa (OHADA) will begin using IFRS Standards in their consolidated financial statements from 1 January 2019. The requirement for companies to start using IFRS Standards is part of a new Uniform Act on Accounting Law and Financial Reporting adopted by the Council of Ministers of OHADA in 2017. Unlisted companies in OHADA jurisdictions are permitted, but not required, to use the Standards. *IFRS*

First technical discussion of the Transition Resource Group for Insurance Contracts
The Transition Resource Group (TRG) for Insurance Contracts received more than 20 submissions in its first meeting. The technical staff requested further information on four of those submissions, and all the other submissions were considered at the meeting. Topics included questions on coverage units, reinsurance contracts held, contract boundaries and whether insurance components should be separated. TRG members shared their experiences and views, providing helpful input on the topics on the agenda. *IFRS*

To Top

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