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KPMG in South Africa

Regulatory Updates for the week ended 16 March, 2018

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

Insurance

Notice on long term insurance fee

Though this notice the FSB has repealed the Long Term Insurance Notice 7 of 2017 and prescribed the new fees schedule. The notice will come into operation on April 1, 2018.

[FSB](#)

Notice on short term insurance fee

Though this notice the FSB has repealed the Short Term Insurance Notice 7 of 2017 and prescribed the new fees schedule. The notice will come into operation on April 1, 2018.

[FSB](#)

Others

National Credit Amendment Bill under spotlight

Treasury recently sought a legal opinion on the constitutionality of the proposed legislation. The opinion looked at the proposed provisions which create a debt intervention mechanism, and in particular the permanent extinguishing of a debt, and those which give the Minister of Trade and Industry the power to prescribe by regulation a debt intervention measure. Legal opinion concluded that the Draft Bill's provisions allow for a deprivation of property. This was, however, not seen as expropriation of property. Treasury proposed that

the Draft Bill clearly lay down the right of credit providers to be heard before the tribunal. [Sabinet](#)

Launch of National Payment System's Vision 2025

The Vision 2025 publication maps out an overarching vision for the industry and also sets out the following nine goals:

- A clear and transparent regulatory and governance framework;
- Transparency and public accountability;
- Financial stability and security;
- Promoting competition and innovation;
- Cost-effectiveness;
- Interoperability;
- Flexibility and adaptability;
- Regional integration; and
- Financial inclusion. [SARB](#)

Terms of Reference of the South African Foreign Exchange Committee

The terms of reference contain detail regarding:

- Establishment of the Committee
- Purpose of the Committee
- Composition of the Committee
- Quorum and frequency of meetings
- Functions of the Committee
- Administrations of the Committee
- Confidentiality
- Conflict of Interest

Approval and review of the terms of reference. [SARB](#)

Public Audit Act Amendment Draft Bill: public hearings day 2

The Standing Committee of the Auditor General held public hearings on the Draft Public Audit Act Amendment Bill, during which a wide range of local government and professional bodies provided opinions and recommendations aimed at enhancing the Act's effectiveness. The following points are highlighted:

- The Accounting Standards Board suggested for the Auditor General to consider using public sector accounting standards;
- The Chartered Institute of Government Finance, Audit and Risk Officers argued that auditors had to maintain their independence. The MFMA required an accounting officer to apply internal measures of control regarding the management of funds;
- The SA Institute of Chartered Accountants provided detailed input on four sections of the Bill. It said Section 1(g) was likely to create confusion since undesirable audit outcomes could be understood to refer to any outcome that was not a "clean audit". It believed that responsibility for recovering assets on behalf of the state would be better placed in an institution with the authority to prosecute. [PMG](#)

Policyholders and beneficiaries receive R469 billion in benefit payments

The 2017 long-term insurance industry statistics released by the Association for Savings and Investment South Africa (ASISA) show that despite the healthy increase in benefit payments, South African life insurers remained strongly capitalised. The life insurance industry held assets of 2.84 trillion ZAR at the end of 2017, an increase of 6% from the 2.67 trillion ZAR held at the end of 2016. South African life insurers paid 469 billion ZAR benefits to policyholders and beneficiaries. Total benefit payments increased by an inflation beating 10% from 2016. [ASISA](#)

South African Reserve Bank announces the establishment of the South African Foreign Exchange Committee (SAFXC)

The SAFXC is a forum consisting of key professionals and associations in the domestic wholesale foreign exchange (FX) market, such as Authorised Dealers, the Association of Corporate Treasurers of South Africa (ACTSA), the FX interdealer broker community, Association Cambiste International (ACI) South Africa, the Banking Association of South Africa (BASA), the Association for Savings and Investment South Africa (ASISA) as well as a representative of the Financial Services Board. The SAFXC seeks to guide and encourage market participants to adhere to the FX Global Code2 (the Global Code) to promote a fair and more transparent FX market as well as adherence to international best practice. [SARB](#)

Other African countries

The Bank of Ghana (BoG) has signed a Memorandum of Understanding with FSD Africa (FSDA) for the implementation of a Credit Market Development Programme in Ghana (Ghana)

The Credit Market Development Programme is aimed at identifying and helping to address constraints to credit market growth in the country; to enable both bank and non-bank credit providers to expand appropriate credit provision to all areas of the economy, including individual consumers and businesses. The FSDA will provide financial and technical support to the Programme while BoG will lead its implementation, including convening and engaging a range of credit market stakeholders. [BOG](#)

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Market Developments

International

Key Elements of the 2018 Stress Test (UK)

The stresses applied to the economic and financial market prices and measures of activity in the 2018 will be the same as in the 2017 test. The hurdle rates for the 2018 test will evolve from those used in earlier years in four important ways:

- The Bank will hold banks of greater systemic importance to higher standards;
- Hurdle rates will incorporate buffers to capture domestic systemic importance as well as global systemic importance;
- The calculation of minimum capital requirements incorporated in the hurdle rates will more accurately reflect how they would evolve in a real stress; and
- Adjustments will be made to reflect the increased loss absorbency that will result from higher provisions in stress under the new IFRS 9 accounting standard. [BOE](#)

FCA publishes discussion paper on transforming culture in financial services (UK)

The Financial Conduct Authority (FCA) published a discussion paper on transforming culture in financial services which presents views from academics and industry thought leaders. The paper is intended to provide a basis for stimulating further debate on transforming culture in the sector. The paper is a set of essays that discuss what a good culture might look like, the role of regulation and regulators, how firms might go beyond incentives, and how to change behaviour for the better. [FCA](#)

Accomplishments of the last 5 years (UK)

According to a speech given by the FCA Chairman, at TheCityUK event, since 2013, the FCA has engaged on: pension exit charges; general insurance renewals; interest-only mortgage work; foreign exchange and London Inter-bank Offered Rate (LIBOR) issues and subsequent reform; Markets in Financial Instruments Directive (MiFID) II implementation; the Innovation Hub; our market abuse enforcement work; fixing PPI once and for all; the asset management market study; and of course the Senior Managers Regime. The regulator has added the liability side of the customers' balance sheet, consumer credit; a new competition objective. The FCA have also created the Payments Systems Regulator as a separate subsidiary; which will prospectively pick up credit rating agencies, claims management companies and the work of the Office for Professional Body Anti-Money Laundering Supervision (OPBAS). [FCA](#)

Motor Finance – update (Australia)

Major findings from detailed analysis of millions of credit files from a mystery shopping exercise include:

- growth in motor finance has been strongest for consumers with better credit ratings, who are less likely to face repayment difficulties;
- arrears and default rates remain generally low, though they have increased moderately in recent years;
- arrears and default rates are higher, and have risen more, amongst customers with the lowest credit ratings, who account for around 3% of lending;
- if not properly managed, some of the commission arrangements in place could incentivise dealers to arrange more expensive finance for customers;
- in some cases, customers are not being provided with key information in an accessible

manner, including information provided on lenders' and dealers' websites; the largest lenders are adequately managing the risk of a severe fall in prices for used cars, but firms should regularly consider relevant changes in the market. [FCA](#)

ASIC reports on changes to small business loan contracts by big four banks (Australia)

The report:

- Identifies the types of terms in loan contracts that raise concerns under the law;
- Provides details about the specific changes that have been made by the banks to ensure compliance with the law; [and](#)
- Provides general guidance to lenders with small business borrowers to help them assess whether loan contracts meet the requirements under the unfair contract terms law. [ASIC](#)

ASIC releases market integrity report (Australia)

The report looks at ASIC's focus on cyber resilience, client money and sell-side research. It also looks at some of our key activities over the last six months in areas such as financial benchmarks, continuous disclosure and binary options. [ASIC](#)

ASIC further extends exemption for simple credit hardship arrangements (Australia)

The newly made instrument extends the exemptions granted under transitional regulations that relieve credit providers and lessors from the obligation to provide a written response to a hardship notice in certain circumstances. For industry and consumers, this extends the arrangements for credit hardship that are currently in place. It allows flexibility for both sides in dealing with a simple hardship arrangement. The exemption was due to expire on 1 March 2018 and now extends until 1 March 2020. This will allow ASIC time to continue to consult with industry and affected stakeholders in relation to the hardship process and the interaction with credit reporting requirements. [ASIC](#)

ASIC extends the transition period for superannuation and retirement calculators (Australia)

ASIC has extended, to 1 July 2019, the time that providers of retirement and superannuation calculators have to comply with the requirement that generic financial calculators must account for inflation. During this period, ASIC will further review the suitability of the prescribed discount rate for calculators that produce retirement estimates, taking into account the interests and further views of consumers, superannuation and retirement calculator providers, and actuaries. [ASIC](#)

Global imbalances from a stock perspective. The asymmetry between creditors and debtors (International)

The paper explores whether the accumulation of Net Foreign Assets (NFAs) feeds into larger external imbalances by analysing the impact of external positions on the current account for a panel of 39 economies. [BIS](#)

March 2018 BIS Quarterly Review: Volatility returns to centre stage after stock market wobble (International)

The March 2018 issue of the Quarterly Review:

- Examines the 5 February turbulence and the role played by exchange-traded products that bet on volatility. It highlights that complex and leveraged products can create and amplify market jumps, even if the core players themselves are relatively small;
- Documents the changing patterns of cross-border flows to emerging market economies in Asia;
- Shows how foreign banks operating in the United States changed their operations and legal structures in response to a requirement obliging banks with \$50 billion or more in non-branch US assets to put US subsidiaries under an intermediate holding company. While some banks downsized and others may have shifted assets offshore, they generally spared their trading books of agency and corporate bonds. [BIS](#)

Central bank digital currencies (International)

The report considers a wholesale CBDC (for use in financial markets), and a general purpose CBDC (for use by the general public) and their implications for payments, monetary policy and financial stability. It finds that wholesale CBDCs might be useful for payments but more work is needed to assess the full potential. Although a CBDC would not alter the basic mechanics of monetary policy implementation, its transmission could be

affected. [BIS](#)

Basel Committee publishes follow-up reports on Basel III implementation assessments and an updated Handbook for jurisdictional assessments (International)

Follow-up reports are published on the Basel Committee's website alongside the original Committee's Regulatory Consistency Assessment Programme (RCAP) reports and are prepared by authorities in each jurisdiction that has been assessed. The reports, which have not been reviewed or evaluated by the Basel Committee, outline the actions a jurisdiction has already taken or has planned. A summary of follow-up actions taken or planned by member jurisdictions is also published on the Basel Committee's website. Follow-up reports for assessments completed and published as of end-2017 will be published in 2019. The Basel Committee also published an updated version of its Handbook for jurisdictional assessments. This incorporates lessons from the Committee's experience in conducting RCAP assessments and expands the methodology to cover assessments of the Net Stable Funding Ratio (NSFR) and the large exposures framework. [BIS](#)

Inside Edge

Draft National Credit Amendment Act

As part of the legislative process, public hearings were held in January 2018. The submissions to the Committee raised some critical questions. Please [click here](#) for an overview of the submissions to the committee.

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