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KPMG in South Africa

Regulatory Updates for the week ended 19 October, 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

Long-term Insurance Industry report and the Short term Insurance Industry report

The Prudential Authority published the quarterly report on the results of the Long-term Insurance Industry and the Short term Insurance for the period ended June 2018. The report included the following on primary insurers, typical insurers, niche insurers, cell captive insurers, reinsurers, linked investment insurers and assistance insurers:

- Net premiums according to the classes of policies of insurers for the period ended June 2018 as well as comparative figures for the period ended June 2017
- Spread and categories of assets for primary insurers for the years ended December 2016 to 2017 as well as comparative figures for the first six months of 2017 and 2018;
- Free Assets to capital adequacy requirement (CAR) of primary insurers excluding the business in run-off. *Long-term*, *Short-term*

Market Developments

International

FCA consults on its approach ahead of the UK's exit from the EU

The Financial Conduct Authority (FCA) published two consultation papers, setting out its proposals in the event the UK leaves the European Union on 29 March 2019 without an implementation period. It also set out its approach to the regulation of Credit Rating Agencies, Trade Repositories and Data Reporting Services Providers. The two consultation papers focus on:

- Amendments to the FCA Handbook and Binding Technical Standards resulting from leaving the EU, and the FCA's approach after Brexit to EU non-legislative material; and
- Temporary Permissions Regime, which will allow EEA firms and funds passporting into the UK to continue operating here for a limited period after Brexit while seeking full UK authorisation. *FCA*

Impact of Basel 4 on EU banks

The European Banking Authority (EBA) has published an analysis of the impact of Basel 4 on EU banks, showing increases in capital requirements of around 25 percent for large and internationally active banks. The main results were found to be broadly consistent with initial estimates. Implications for firms include:

Capital - Some banks will face significantly higher minimum capital requirements as a result of the new Basel Committee standards;

Capital optimisation –Banks will need to decide whether to apply to use internal model approaches and whether to adjust their asset portfolios in response to changes in risk weightings;

Data and systems – The need to upgrade the data, systems and reporting, rather than on meeting higher capital requirements;

Wider context – Banks need to assess and respond to the impact of the revised capital standards in the broader context of other regulatory reforms and market developments. *Link*

FCA confirms greater access for SMEs to the Financial Ombudsman Service

The Financial Conduct Authority (FCA) confirmed its plans to extend access to the Financial Ombudsman Service to more small and medium-sized enterprises (SMEs). The changes will mean that SMEs with an annual turnover below 6.5 million GBP and fewer than 50 employees, or an annual balance sheet below 5 million GBP will now be able to refer unresolved complaints to the ombudsman service. Under the new rules published around 210,000 additional UK SMEs will be eligible to complain to the ombudsman service. *FCA*

APRA sets out BEAR expectations

The Australian Prudential Regulation Authority (APRA) released an information paper to assist authorised deposit-taking institutions (ADIs) to meet their obligations under the Banking Executive Accountability Regime (BEAR). The information paper, based on APRA's experience in implementing the regime for the largest banks, is aimed at assisting all other ADIs prepare to implement the BEAR, and helping the largest ADIs refine and embed the regime. It clarifies APRA's expectation of how an ADI can effectively implement the accountability regime on matters including:

- Identifying and registering accountable persons;
- Creating and submitting an accountability statement for each accountable person, and an accountability map for the ADI;
- Establishing a remuneration policy requiring that a portion of accountable persons' variable remuneration be deferred for a minimum of four years, and reduced commensurate with any failure to meet their obligations; and
- Notifying APRA of any accountability-related changes or breaches of accountability obligations. *APRA*

FCA opens a discussion on the impact of climate change and green finance on financial services

The effects of climate change and the associated transition to a low carbon economy may have a major impact on financial markets and on products that serve those markets. The Discussion Paper sets out how the impacts of climate change are relevant to the FCA's statutory objectives of protecting consumers, protecting market integrity and promoting competition. The Discussion Paper seeks input on four areas in which the Financial Conduct Authority (FCA) considers a greater regulatory focus is warranted:

- Climate change and pensions – ensuring that those making investment decisions take account of risks including climate change;

- Enabling competition and market growth for green finance;
- Ensuring that disclosures in capital markets appropriately give adequate information to investors of the financial impacts of climate change; and
- Scope for the introduction of a new requirement for financial services firms to report publicly on how they manage climate risks. FCA

Basel Committee seeks views on the leverage ratio treatment of client cleared derivatives

The Basel Committee on Banking Supervision published a consultative document entitled Leverage ratio treatment of client cleared derivatives. The introduction of leverage ratio requirement is a key element of the Basel Committee's post-crisis Basel III reforms. The leverage ratio complements the risk-based capital requirements by providing a safeguard against unsustainable levels of leverage and by mitigating gaming and model risk across both internal models and standardised risk measurement approaches. BIS

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