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KPMG in South Africa

Regulatory Updates till for the week ended 26 July, 2019

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

Others

Draft exemption notice to exempt micro insurers offering credit life micro insurance policies from Policyholder Protection Rules

The FSCA published a draft general exemption proposing exemption of micro insurers that offer credit life micro insurance policies from the Policyholder Protection Rules 2017, due to the micro insurance policy being underwritten under the credit life class of life insurance business in the Insurance Act. [Link](#)

Publication of the 2019 Budget Draft Tax Bills for public comment

National Treasury and the South African Revenue Service (SARS) published for public comment, the 2019 Draft Taxation Laws Amendment Bill (Draft TLAB) and the 2019 Draft Tax Administration Laws Amendment Bill (Draft TALAB). National Treasury and SARS invited comments in writing on the 2019 Draft Rates Bill, the 2019 Draft TLAB and 2019 Draft TALAB by 23 August 2019. [Link](#)

Draft Taxation Laws Amendment Bill 2019 Published for Comment

National Treasury published the 2019 Draft Taxation Laws Amendment Bill (Draft TLAB) for comment. The Draft TLAB focuses on the following key tax proposals:

- Aligning the effective date of tax neutral transfers between retirement funds with the effective date of annuitisation for provident funds;

- Adjusting the withholding tax treatment of surviving spouses' pensions to limit tax debts on assessment;
- Addressing abusive arrangements aimed at avoiding the anti-dividend stripping provisions;
- Clarifying the interaction between corporate reorganisation rules and other provisions of the Income Tax Act;
- Refining the tax treatment of long-term insurers;
- Refining investment criteria and anti-avoidance measures for the Special Economic Zone regime;
- Limiting the allowable deduction for investors investing in a venture capital company;
- Reviewing the controlled foreign company comparable tax exemption and addressing the circumvention of the anti-diversionary rules; and
- Reviewing section 72 of the VAT Act [Link](#)

Budget vote speech by Deputy minister of finance Dr. David Masondo

Deputy Minister of Finance Dr. David Masondo gave a speech at the budget vote debate, on the theme: Restoring Fiscal Strength and Institutional Integrity. He highlighted the need to restore country's fiscal strength and highlights of the work of entities under the mandate of the National Treasury. [Link](#)

PIC and SARB board of director's appointments

Minister of Finance, Tito Mboweni, after consultation with Cabinet, has appointed an Interim Board of Directors at the Public Investment Corporation (PIC). Additionally, President Cyril Ramaphosa, after consultation with the Minister of Finance and the Board of Directors of the SARB, has re-appointed Mr Lesetja Kganyago to serve as Governor of the SARB for another five years, effective from 9 November 2019. [Link](#)

FSCA Adjusts Levies for Financial Institutions

The Financial Sector Conduct Authority (FSCA) published the latest levies for financial institutions. Levies are provided for:

- Pension funds
- Administrators
- Retirement annuity funds
- Pension funds adjudicator
- Friendly societies
- Short-term insurers and underwriters at Lloyd's
- Long-term insurers
- Special SAM levy on short-term and long-term insurers
- Collective investment schemes in securities
- Foreign collective investment schemes
- Collective investment schemes in property
- Collective investment schemes in participation bonds
- Exchanges

The new levies came into force on 12 July 2019. [Link](#)

South Africa's intended approach to bank resolution

SARB's financial stability department published a discussion article on 'Ending too big to fail: South Africa's intended approach to bank resolution'. It provides an overview on SARB's intention to function as the resolution authority, focusing on the development of resolution plans for an open-bank resolution strategy. [Link](#)

2019 Draft standard significant owners

The SARB and FSCA published a communication on Joint Standard of 2019 on Fitness and Propriety of Significant Owners. In order to assist the Authorities with oversight of the fitness and propriety of significant owners, this Joint Standard also places certain reporting obligations on financial institutions, to the extent practical and appropriate. The Joint Standard amends GOI 4: Fitness and Propriety of Significant Owners and Key Persons of Insurers made by the Prudential Authority under the Insurance Act, 2017. [Link](#)

Working Paper: The impact of capital flow reversal shocks in South Africa: a stock- and flow-consistent analysis

The SARB published a working paper on the impact of capital flow reversal shocks in South Africa: a stock- and flow-consistent analysis. It states that in the absence of a large stock of foreign currency-denominated debt, a capital flow reversal shock can still generate a sizable impact. Highlighting the absence of large foreign currency-denominated liabilities, the document highlights that the capital flow reversal shocks still affect the domestic economy through their impact on financial markets and possibly through expectations in the economy. [Link](#)

SARB new appointments

The South African Reserve Bank (SARB) welcomes the announcement by President Cyril Ramaphosa of the re-appointment of Lesetja Kganyago as Governor of the SARB, and the appointment of Nomfundo (Fundi) Tshazibana and Rashad Cassim as Deputy Governors of the SARB. [Link](#)

Momentum to acquire Alexander Forbes' short term insurance business

Momentum Metropolitan has entered into a binding agreement to acquire Alexander Forbes' Short-term Insurance (AFI) business. The transaction will be implemented towards the end of 2019, with a proposed base price to be ZAR1.94 billion and covers 100 percent of the shares of AFI. The group plans to integrate AFI with the Momentum Short-term Insurance business, to form a retail short-term insurance unit that will trade under the Momentum brand, using one insurance license. [Link](#)

Market Developments

International

BIS international banking statistics at end-March 2019

The Bank for International Settlement (BIS) issued its international banking statistics at end-March 2019. The statistics show that global cross-border bank claims rose by US\$1.4 trillion between end-2018 and end-March 2019. The expansion was spread across all sectors.

Cross-border claims on non-bank financial institutions grew rapidly, expanding at an annual rate of 12 percent. [Link](#)

ASIC consults on proposal to intervene to stop consumer harm in short term credit

ASIC has released a consultation paper on the first proposed use of its new product intervention power. The product intervention power allows ASIC to intervene where financial and credit products have resulted in or are likely to result in, significant consumer detriment. The new product intervention power is an important addition to ASIC's regulatory toolkit. It reinforces ASIC's ability to directly confront, and respond to, harms in the financial sector.

[Link](#)

APRA enforces stable funding requirements on banks

The Australian Prudential Regulation Authority (APRA) has required several banks to tighten the intra-group funding arrangements for their Australian operations and therefore, conducted a review of funding agreements across the authorised deposit-taking (ADI) industry. APRA's review found some of the banks were improperly reporting the stability of the funding they received from other entities within the group. These banks had provisions in their funding agreements that would potentially allow the group funding to be withdrawn in a stress scenario, undermining the stability of the Australian bank. [Link](#)

APRA proposes stronger requirements on remuneration to enhance conduct, risk management and accountability

The Australian Prudential Regulation Authority (APRA) released a draft prudential standard aimed at clarifying and strengthening remuneration requirements in APRA-regulated entities. APRA proposed creating a new prudential standard to better align remuneration frameworks with the long-term interests of entities and their stakeholders, including customers and shareholders. APRA is proposing:

- To elevate the importance of managing non-financial risks, financial performance measures must not comprise more than 50 per cent of performance criteria for variable remuneration outcomes
- Minimum deferral periods for variable remuneration of up to seven years will be introduced for senior executives in larger, more complex entities. Boards will also have scope to recover remuneration for up to four years after it has vested
- Boards must approve and actively oversee remuneration policies for all employees, and regularly confirm they are being applied in practice to ensure individual and collective accountability. [Link](#)

Optimising the Senior Managers and Certification Regime: Policy Statement 19/20 and Feedback to CP 19/4

The Senior Managers and Certification Regime (SM&CR) aims to strengthen individual accountability and help set a new standard of personal conduct for people working in financial services. The Policy Statement summarises the feedback received against the consultation paper, and have implemented the proposed changes to the regime, including:

- Confirming that the Head of Legal function is excluded from the requirement to be approved as a Senior Manager;
- Clarifying the requirements and scope of the Certification Regime; and

- Extending Senior Manager Conduct Rule 4 (SC4) to non-approved Executive Directors at Limited Scope firms. [Link](#)

FCA launches consultation guiding firms on the fair treatment of vulnerable customers

The Financial Conduct Authority (FCA) launched a consultation on proposed guidance for firms on the fair treatment of vulnerable customers. The guidance sets out the FCA's view of what the FCA principles require of firms to ensure that vulnerable consumers are consistently treated fairly across financial services sectors. [Link](#)
