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## KPMG in South Africa

*Regulatory Updates for the week ended 10 April, 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](#)
- [Market Developments](#)

## Regulatory Developments

### SARB publishes discussion paper: Coverage and reporting rules for deposit insurance in SA

The SARB published a discussion paper on the coverage and reporting rules, as a part of its strategic initiative to establish the Corporation of Deposit Insurance (CoDI). The preparations involve a range of policy, legal, operational and institutional aspects. In line with its strategy, the SARB will further publish several discussion papers on key design aspects, that will affect and facilitate the operationalisation of CoDI. [Link](#) [Link](#)

### PA publishes press release on regulatory relief measures and guidance to the banking sector in response to COVID-19

The Prudential Authority (PA) of South Africa published a media statement, welcoming various measures taken by the SA banks to support their customers during the period of economic turmoil and uncertainty, due to the outbreak of COVID-19. The PA will provide for regulatory relief measures and also guidance to banks during the period of crisis. The regulatory relief measures are provided for in three areas – capital relief on restructured

loans that were in good standing before the COVID-19 crisis, a lower liquidity coverage ratio (LCR) and lower capital requirements. [Link](#)

#### **PA publishes directive on matters related to temporary capital relief with respect to COVID-19**

The PA published a directive on matters related to temporary capital relief to alleviate risks posed by the COVID-19 pandemic in South Africa. Government and business have called upon the banking sector to extend credit to sectors in need, particularly households and small businesses, as well as provide relief measures to reduce the strain on these sectors, in an effort to sustain the local economy and maintain financial stability. The PA has decided to implement various measures to provide temporary capital relief to banks during this period of financial stress, to ensure compliance with the relevant internationally agreed capital framework. [Link](#)

#### **PA publishes guidance note on dividends and bonus payments in response to COVID-19**

The PA published a guidance note related to recommendations on the distribution of dividends on ordinary shares and payment of cash bonuses to executive officers and material risk takers. The guidance note is published with respect to the negative economic impact of COVID-19 and temporary regulatory capital relief, that is provided by the PA. [Link](#) [Link](#)

#### **PA publishes a roadmap for 2020, on its participation in international insurance developments**

The PA published a report on 'The PA's participation in international insurance developments – A roadmap for 2020'. The PA, as a member of the International Association of Insurance Supervisors (IAIS), actively takes part in the development and establishment of IAIS standards and other developments. The document highlights the main IAIS developments that the PA will take part in, over the course of 2020 and even beyond – in some cases. The developments discussed in the document are –

- The common framework for supervision in internationally active insurance groups (ComFrame) and the Insurance Capital Standard (ICS)
- The holistic framework for assessment and mitigation of systemic risk in global insurance sector [Link](#) [Link](#)

#### **FSCA published notice on exemption of Fitch Ratings from certain sections under Credit Rating Services Act, 2012**

The FSCA under section 27(1) of Credit Rating Services Act, 2012 (Act 24 of 2012), 2012, read with section 281(3) of Financial Sector Regulation Act, 2017 (Act 9 of 2017), exempted Fitch Ratings from section 3(2) and certain regulated persons from section 4(1) of the Credit Rating Services Act, 2012. [Link](#) [Link](#) [Link](#) [Link](#)

#### **FSCA published media statement on launch of IFWG Innovation Hub**

The FSCA published a media statement on its launch of the Intergovernmental Fintech Working Group (IFWG) Innovation Hub, to respond to changes related to fintechs and promote responsible innovation in the sector. [Link](#) [Link](#)

#### **PA and FSCA publishes joint directive under regulations in terms of Disaster Management Act, 2002**

The PA and the FSCA, in terms of Regulation 11B(4A)(e)(i) of the Regulations made under section 27(2) of the Disaster Management Act, 2002 (Act 57 of 2002), issued a directive to financial institutions, with respect to appropriate precautionary measures while performing essential financial services – as set out in the schedule. [Link](#) [Link](#) [Link](#)

#### **Updates from other parts of Africa**

##### **Reserve Bank of Malawi publishes measures to mitigate the impact of COVID-19**

The Reserve Bank of Malawi, to prevent the spread of COVID-19, announced additional measures, as agreed by the Bankers Association of Malawi (BAM) and the Governor and Registrar of Financial Institutions. The measures aim to reduce the impact of COVID-19 on banking sector of Malawi, effective from 9 April 2020. A few highlights include –

- Provision of three-month moratorium on interest and principal repayments for loans, to borrowers who are impacted due to COVID-19 outbreak

Grant relief to banks on provisioning of restructured loans and loans on moratorium impacted by COVID-19 [Link](#)

#### **CMA Kenya press release: Fourth firm admitted to the Regulatory Sandbox**

The Capital Markets Authority (CMA) Kenya announced admission of the Central Depository and Settlement Corporation (CDSC) to the Regulatory Sandbox, to test its proposed screen-based Securities Lending and Borrowing (SLB) platform, for a period of five months from 07 April 2020. [Link](#)

#### **SEC Ghana directive on payments**

The Securities and Exchange Commission (SEC) Ghana published directive on online payments, an effort to digitise and streamline its operations, effective from 8 April 2020. It is effective on all payments, including licensing, renewals and operator levies. [Link](#)

#### **Reserve bank of Zimbabwe publishes provision of international remittance services by money transfer agencies during COVID-19**

The Reserve Bank of Zimbabwe, in light of the COVID-19 outbreak, published a media statement to advise public on additional services, that will be provided by money transfer agencies (MTAs) during the period. [Link](#)

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## **Market Developments**

### **International**

#### **Bank of England publishes note on upcoming webinar on digital currency**

The Bank of England to conduct a webinar on its March 2020 discussion paper: 'Central Bank Digital Currency' on 7 April 2020. [Link](#) [Link](#)

#### **PRA publishes statement on decision by insurance companies to pause dividends**

The Prudential Regulation Authority (PRA) published a notice on its decision to support insurance companies, who are pausing dividends on account of COVID-19. [Link](#)

#### **PRA's decision on Systemic Risk Buffer rates**

The PRA published a statement announcing its decision to maintain firms' Systemic Risk Buffer (SRB) rates, as set in December 2019, in response to the economic shock from COVID-19 pandemic. The rates will be reassessed in December 2021. [Link](#)

#### **FCA sets out priorities for FY20-21 with respect to COVID-19 pandemic**

The FCA has set out its business priorities for FY20-21, with specific focus on the challenges presented by the coronavirus pandemic. The priorities are related to –

- Concerns of vulnerability in financial services sector
- Tackling of market scams and market operations
- Fair treatment of customers and small firms
- Mitigation of impact on consumers, resulted due to failure of operations of firms [Link](#) [Link](#) [Link](#)

#### **Basel Committee publishes Basel III Monitoring Report**

The Basel Committee on Banking Supervision (BCBS) published the 'Basel III Monitoring Report', which discusses the results of the latest Basel III monitoring exercise, based on data up to 30 June 2019. The report sets out the impact of the Basel III framework, that was initially agreed in 2010. It also includes the effects of finalisation of the Basel III reforms in December 2017 and market risk framework published in January 2019. It also mentions that the implementation of the final Basel III minimum requirements has been deferred to 1 January 2023 and will be fully implemented by 1 January 2028. [Link](#) [Link](#) [Link](#) [Link](#)

#### **BCBS publishes on Basel III: Finalising post-crisis reforms**

The BCBS through this standard, published the updates that are included in the existing Basel III framework. A key objective of the revised framework is to reduce excessive variability of risk-weighted assets (RWA). Amid COVID-19 crisis in global economy, many stakeholders lost faith in banks' reported risk-weighted capital ratios. The BCBS's own empirical analyses also highlighted a worrying degree of variability in banks' calculation of RWA. The revised framework, as set out in the publication, will help to restore credibility in

calculation of RWA. [Link](#) [Link](#)

#### **BIS publishes working paper: A new indicator of banking funding cost**

The Bank for International Settlements (BIS) published working paper, which describes construction of a new indicator of bank funding stress in both US Dollars and Euros. The paper discusses on building forward interbank offered rate-overnight indexed swap (IBOR-OIS) spreads, also known as forward funding spreads (FFS), by using transaction data from both the US Dollar and Euro interest rates of various maturities. These FFS, which are daily indicators of expected funding stress, are made available online in an appendix on the paper. [Link](#) [Link](#)

#### **BIS publishes working paper on prudential and monetary policy spill-overs through global banks**

The BIS published working paper, where it has studied whether prudential policies enacted in a country affect banks' lending to other countries and the role of monetary policy in such spill-overs. According to the findings of the BIS, the prudential policies produce spill-overs through cross-border bank lending. However, the effect depends on the instrument used and implementation of policy by the regulators. [Link](#) [Link](#)

#### **BIS press release: Jurisdictions move towards full implementation of standards for financial market infrastructures**

The BIS publishes media statement on the Committee on Payments and Market Infrastructures (CPMI) and International Organisation of Securities Commissions (IOSCO). The update shows that 25 out of 28 jurisdictions who are participating in implementation monitoring programme, have adopted measures by implementing the international standards for all types of financial market infrastructures (FMIs). The update is based on self-assessments by individual jurisdictions. It covers the 24 Principles and four out of five Responsibilities for authorities, that are included in the principles of financial market infrastructures (PFMI). The CPMI and IOSCO have encouraged jurisdictions to continue adopting measures, to fully implement the PFMI. [Link](#)

#### **APRA issues guidance to ADIs and insurers on capital management**

The Australian Prudential Regulation Authority (APRA) issued guidance to authorised deposit-taking institutions (ADIs) and insurers, to provide guidance on capital management during the period of significant disruption caused by COVID-19. [Link](#) [Link](#)

#### **APRA temporarily suspends issuance of new licences**

The APRA, with respect to sudden outbreak of COVID-19, has written to applicants for new banking or insurance and superannuation licences on temporary suspension of issuance of new licences for at least six months. [Link](#) [Link](#)

#### **APRA and ASIC release feedback on financial institutions' preparation for LIBOR transition**

The Australian Securities and Investments Commission (ASIC) released feedback on responses to the 'Dear CEO' letter from selected major Australian financial institution. It details their preparations for transition from the London Interbank Offered Rate (LIBOR) – an initiative supported by the APRA and the Reserve Bank of Australia (RBA). The feedback highlights the following –

- Requirement for institutions to plan for LIBOR transition
- Aspects that should be considered during the transition
- Importance of addressing related issues [Link](#) [Link](#) [Link](#)

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