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## KPMG in South Africa

*Regulatory Updates for the week ended 29 May, 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](#)
- [Accounting standard updates](#)

### Regulatory Developments

#### **SA Ministry of Finance publishes appointment of new CEO for Public Investment Corporation**

The Minister of Finance, Mr Tito Mboweni, announced the appointment of Mr Abel Moffat Sithole as the new CEO and Executive Director on the Board of Directors of the Public Investment Corporation (PIC). [Link](#)

#### **SARB publishes template on international reserves and foreign currency liquidity**

The South African Reserve Bank (SARB) published its April 2020 template on international reserves and foreign currency liquidity. [Link](#)

#### **SARB publishes its first edition of financial stability review 2020**

The SARB published its 'Financial Stability Review (FSR): first edition 2020', conducted by the Financial Stability Forum. The report includes updates on the impact of the COVID-19

pandemic in the South African economy and rise in risk aversion, global and domestic financial conditions, cyberattacks and key financial infrastructure, climate change-related physical and transition risks, regulatory developments etc. [Link Link](#)

#### **PA publishes deposit-takers Co-operative Financial Institutions: Returns**

The Prudential Authority (PA) of South Africa published the following documents for May 2020:

- Co-operative financial institutions returns [Link](#)
- Year to date (YTD) income statement [Link](#)
- Delinquency loan report [Link](#)
- Report on board and staff related loans [Link Link](#)

#### **FSCA publishes draft Conduct Standard on requirements related to payment of pension fund contributions**

The Financial Sector Conduct Authority (FSCA) published a notice to inform its stakeholders of the release of the following draft Conduct Standard and supporting documents, in terms of section 98(1)(a) of the FSR Act for public comment:

- Draft Conduct Standard - Requirements related to the payment of pension fund contributions
- Annexures: A, B, and C to the draft Conduct Standard
- Statement supporting the draft Conduct Standard
- Comments template [Link Link Link](#)

#### **FSCA publishes exemption of certain provisions in the listing requirements of physical shareholder meetings**

The FSCA, under section 6(3)(m) of the Financial Markets Act, 2012 (Act 19 of 2012) (FMA), read with section 281(3) of FSR Act, 2012 (Act 19 of 2012), exempted certain listed companies from certain provisions in the listing requirements under section 11 of FMA, as set out in the schedule. [Link Link Link](#)

#### **FIC's compliance contact centre is fully operational now**

The Compliance Contact Centre of the Financial Intelligence Centre (FIC) has resumed its full on-site operations and will be operating regular working hours, from 7:30-16:30. [Link](#)

#### **Ombudsman for Short-Term Insurance publishes Annual Report 2019**

The Ombudsman for Short-Term Insurance (OSTI) has published its 2019 Annual Report. A few highlights include:

- The OSTI closed a record of 9,167 complaints with a 117 days of average turnaround time
- Total amount recovered is about ZAR94.9 million
- The OSTI has recorded a revenue of ZAR45.2 million in FY19, an increase of 19 percent as compared to FY18 (ZAR38.1 million) [Link Link Link](#)

#### **ASISA media release: Investors in SA commit ZAR23 billion to local CIS portfolios in 1Q2020, but avoid equities**

The Association for Savings and Investment South Africa (ASISA) published a media statement on a market analysis of the local Collective Investment Schemes (CIS) industry — that has seen net inflows of ZAR23 billion in 1Q2020, after experiencing net outflows ZAR3 billion in 4Q2019. The COVID-19 induced market turmoil in SA has caused the assets under management (AUM) to decline by ZAR0.2 billion to about ZAR2.3 trillion, at the end of March 2020. Among these assets, about 49 percent were held in SA Multi Asset portfolios, 34 percent in SA Interest Bearing portfolios, 15 percent in SA Equity portfolios and remaining 2 percent in SA Real Estate portfolios. [Link Link](#)

#### **JSE looks for support to expedite capital raising**

The Johannesburg Stock Exchange (JSE), in light of the COVID-19 crisis, is looking for support from SA financial regulators, to provide more options to help companies in raising capital in a more effective manner. According to the JSE, about ZAR1.7 billion has been raised so far from secondary offerings on the bourse, since the imposition of lockdown in the country. [Link](#)

#### **Mastercard commits to connect 1 billion people through digital economy by 2025**

Global payments technology company Mastercard has expanded its worldwide commitment to financial inclusion by pledging to bring 1 billion people and 50 million micro and small businesses into the digital economy by 2025. As a part of the same strategy, the company also aims to provide support to 25 million female entrepreneurs and is taking up initiatives to support the SA economy. [Link](#)

### **SA Development Bank seeks loan to meet funding gap**

According to the article the Development Bank of South Africa (DBSA) is currently in discussion with various multilateral lenders and commercial banks, to meet funding gaps, as disruptions in debt capital markets hinder its ability to sell bonds. The additional capital would help the bank to fund a pipeline of more than ZAR20 billion of deals. [Link](#)

## **Market Developments**

### **International**

### **FCA publishes updated draft guidance for firms on mortgages during COVID-19 pandemic**

The Financial Conduct Authority (FCA) updated their COVID-19 related guidance, initially published on 20 March 2020. It is applicable to mortgage lenders, mortgage administrators, home purchase providers and home purchase administrators. The guidance considers any exceptional circumstances that may arise due to the COVID-19 pandemic and its impact on the financial situation of customers of home finance providers. [Link Link](#)

### **FCA acts to strengthen protection for customers using payment firms**

The FCA launched a consultation on additional guidance for payments firms, to strengthen their customer fund management process and ensure that these service providers are adequately protecting their respective customer funds. [Link](#)

### **PRA publishes feedback to consultation paper — Solvency II: Prudent Person Principle**

The Prudential Regulation Authority (PRA) published a policy statement, that provides feedback on responses to consultation paper (CP) 22/19 — ‘Solvency II: Prudent Person Principle’. The CP is related to the PRA’s proposed expectations for investment by the UK firms in accordance with the Prudent Person Principle (PPP), as set out in Chapters 2 to 5 of the Investments Part of PRA Rulebook. [Link Link LinkLink](#)

### **PRA publishes statement on regulatory capital and IFRS 9 requirements for payment holidays**

The PRA published a statement that provides further information on the application of regulatory capital and IFRS 9 requirements to payment holidays granted or extended to address the challenges faced due to the COVID-19 pandemic. [Link Link](#)

### **PRA publishes feedback to consultation paper — Insurance special purpose vehicles: Updates to authorisation and supervision**

The PRA published a policy statement, that provides feedback on responses to CP 19/19 — ‘Insurance special purpose vehicles: Updates to authorisation and supervision’. The document also contains the PRA’s final policy, as follows:

- Amendments to Insurance Special Purpose Vehicle Part of PRA Rulebook (Appendix 1)
- Updated supervisory statement (SS) 8/17 ‘Authorisation and supervision of insurance special purpose vehicles’ (Appendix 2)
- Updated Multi-Arrangement Insurance Special Purpose Vehicle New Risk Assumption Notification Form (Appendix 3) [Link Link Link LinkLink](#)

### **Bank of England publishes staff working paper: A shadow rate without a lower bound constraint**

The Bank of England published its staff working paper, proposing a shadow rate that measures the overall stance of monetary policy when the lower bound is not necessarily binding. With the daily yield curve data, the paper estimates shadow rates for the US, Sweden, the euro area and the UK and establishes its relationship with respective monetary policy. The paper has also demonstrated two applications for shadow rate. [Link](#)

### **Charlotte Gerken’s speech on life beyond Solvency II regulatory regime**

Charlotte Gerken, the Executive Director of Bank of England, shared her view on how the insurance industry has responded to the COVID-19 crisis, including the impact on elements of Solvency II regime. She has addressed the theme of her speech as 'Life beyond Solvency II' and has identified two important considerations for the post-pandemic situation:

- Fundamental principles that are expected to endure in any future regulatory framework and relevant scope for change in the regulatory model
- The PRA's key supervisory priorities for insurers beyond the Solvency II regulatory regime [Link Link](#)

#### **BIS working paper: Model risk at central counterparties — Is skin-in-the-game a game changer?**

The Bank for International Settlements (BIS) published a work paper regarding its investigation on how central counterparties (CCPs) manage counterparty credit risks in the process of playing a key role in clearing derivative trades. In the paper, the BIS has analysed how CCPs are to be incentivised to set the initial margin correctly, which is basically the amount of collateral charged by CCPs from the clearing members. BIS has examined three factors that might influence incentives, including:

- 'Skin-in-the-game' or a CCP's own capital, that can be used to cover credit losses
- Profits as a proxy for franchise value
- Capital other than 'skin-in-the-game' [Link Link](#)

#### **ASIC publishes opening remarks of James Shipton to FINSIA webinar**

The Australian Securities and Investments Commission (ASIC) published the opening remarks of its Chair, James Shipton, to the Financial Services Institute of Australasia's (FINSIA's) webinar — 'The Regulators: Priorities Update', held on 21 Mar 2020. A few highlights on the key areas discussed are:

- Regulatory work and priorities during the COVID-19 pandemic
- Scope of support towards Australia's capital markets during the current situation and ensuring market performance in a fair, orderly and efficient manner [Link](#)

#### **ASIC publishes article on funding and consolidating lost superannuation**

ASIC's Superannuation Senior Executive Leader, Jane Eccleston, discussed some of the issues related to superannuation that ASIC has identified to help the trustees in the process of guiding their fund members. The proliferation of duplicate superannuation accounts and lost superannuation is an existing problem, that has undermined confidence in the superannuation industry. One such issue includes payment of unnecessary fees by members from separate accounts. [Link](#)

#### **ASIC Senate Select Committee statement on COVID-19**

ASIC published the opening statement by its chair, James Shipton, at the Senate Select Committee on COVID-19 public hearing on 28 May 2020. A few highlights on the discussion include:

- ASIC's regulatory work and priorities during the pandemic
- Measures to ensure proper operations of Australia's equity and capital markets
- Customer risk management
- Expectations of ASIC on its regulated entities [Link](#)

#### **APRA publishes second edition of APRA Insights for 2020**

The Australian Prudential Regulation Authority (APRA) published the second edition of 'APRA Insight – 2020', covering its perspective related to the following:

- APRA's strategy to support the financial services industry during the COVID-19 pandemic
- Myths and misconceptions regarding superannuation fund managers
- Restructuring of APRA during the COVID-19 pandemic
- Risk-weighted assets [Link](#)

#### **APRA Senate Select Committee statement on COVID-19**

APRA published the opening statement by its chair, Wayne Byres, at the Senate Select Committee on COVID-19. A few highlights on the topics discussed include:

- Operational and financial resilience of banks during the pandemic
- Focus on financial stability of households and businesses [Link Link Link Link](#)

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## Accounting standards update

### **FAF releases 2019 Annual Report**

The Financial Accounting Foundation (FAF) released its 2019 Annual Report, with this year's theme being 'Standards That Work for Everyone'. Apart from the 2019 updates, the report also provides an outline on the operations of the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) and highlights their perspectives on effective approaches to standard-setting and their connect with FAF in the process. [Link Link](#)

### **FASB announces new technical director**

The Financial Accounting Standards Board (FASB) announced the appointment of Hillary H Salo as its new director of technical activities and chair of the Emerging Issues Task Force (EITF). [Link](#)

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Michelle Dubois  
Senior Manager, Africa Regulatory CoE  
Email ID: [Michelle.Dubois@kpmg.co.za](mailto:Michelle.Dubois@kpmg.co.za)

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