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KPMG in South Africa

Regulatory Updates for the week ended 08 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.

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Regulatory Developments

SARB publishes notice on Intraday Overnight Supplementary Repurchase Operations

The South African Reserve Bank (SARB), on account of liquidity strains in financial markets, announced that it will begin to offer Intraday Overnight Supplementary Repurchase Operations (IOSROs) — to provide intraday liquidity support to clearing banks.

[Link](#)

SARB publishes May 2020 edition of tax chronology report of SA: 1979-2020

SARB published its tax chronology report in May 2020, which covers the period of 1979-2020 and provides an overview of current and historical rates for various taxes, duties and levies collected by the South African Revenue Service (SARS). [Link](#)

National Treasury releases its strategic plan and annual performance plan

National Treasury has released a document which covers its strategic plan for the next five-

year period (2020-25) and its annual performance plan for FY20-21. [Link](#) [Link](#)

NCR publishes guidelines for change in circumstances (17.3): April 2020

NCR published a range of guideline principles to support consumers in operational handling of debt review matters, for cases where it has identified a change in financial circumstances. The issued guidelines aim to mitigate the risk of making uninformed decisions, on behalf of both the consumer and the credit provider. [Link](#)

PA publishes list of registered co-operative financial institutions

The Prudential Authority (PA) published a list of registered co-operative financial institutions (CFIs), under Chapter VIIA 40C(2), Co-operative Banks Act, 2007. [Link](#) [Link](#)

FSCA, PA, SARB and FIC publish Joint Communication 2A of 2020: COVID-19 supervisory response

The Financial Sector Conduct Authority (FSCA), the PA, the National Payment System (NPS) Department and the Financial Surveillance Department of SARB, in consultation with the Financial Intelligence Centre (FIC) published a joint communication with respect to the COVID-19 pandemic. The joint communication is a revised version of the previously published 'Joint Communication 2 of 2020'. [Link](#) [Link](#)

Market Developments

International

PRA's statement on credit risk mitigation eligibility and leverage ratio treatment of loans under BBLS

The Prudential Regulation Authority (PRA) published a statement on its observations with respect to HM Treasury's recent launch of Bounce Back Loan Scheme (BBLS). The statement is with respect to the risk-weighted treatment of exposures under the BBLS and a related change to the UK leverage ratio framework. According to the modification, the PRA will provide an option to banks to exclude loans under the scheme from the leverage ratio total exposure measure, subject to the UK Leverage Ratio Part of the PRA Rulebook. [Link](#) [Link](#)

PRA publishes statement on prioritisation in light of COVID-19 pandemic

The PRA, in light of the COVID-19 pandemic, published further details on its plans to help UK firms in maintaining their safety and soundness and continue delivering critical functions. [Link](#)

PRA publishes on conversion of Pillar 2A capital requirements from RWA percentage to nominal amount

The PRA published a statement on setting its Pillar 2A requirements as a nominal amount, instead of as a percentage of total Risk Weighted Assets (RWAs). [Link](#) [Link](#)

Bank of England publishes its risk management approach to collateral, referencing LIBOR for use in Sterling Monetary Framework

The Bank of England published a market notice, which forms a part of its documentation for operations under the Sterling Monetary Framework (SMF) and should be read in conjunction with the main SMF Documentation. In the notice, the London Interbank Offered Rate (LIBOR)-linked collateral refers to the following —

- LIBOR-linked loan portfolios
- Collateral securities, where the coupon pays a rate of interest calculated by reference to LIBOR
- Collateral securities, where embedded swap payments are calculated by reference to LIBOR
- Collateral securities backed by loans, where one or more loans in the portfolio are linked to LIBOR [Link](#)

Joint statement by Bank of England and PRA on resolution measures and COVID-19

The Bank of England and the PRA, on account of COVID-19, have jointly published a statement announcing changes to resolution measures — aimed at alleviating operational burdens on the PRA-regulated firms. In this context, the Bank of England has also provided

an update on the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for its regulated firms. [Link Link](#)

FCA publishes statement from RFRWG on impact of COVID-19 on LIBOR transition timeline

The Financial Conduct Authority (FCA) published a statement in a continuation to its previous joint statement with Bank of England on the impact of COVID-19 on the London Interbank Offered Rate (LIBOR) transition in the UK. The FCA and the Bank of England have worked with members of the Working Group on Sterling Risk-Free Reference Rates (RFRWG) and its sub-groups and task forces, to consider the various possibilities of impact of COVID-19 on firms' LIBOR transition plans. [Link Link](#)

FCA seeks legal clarity on business interruption insurance alongside package of measures to help consumers and small businesses

The FCA published a media communication to announce its intention to seek legal clarity on business interruption (BI) insurance to resolve doubt for businesses who are facing uncertainty on their claims during the period of COVID-19 pandemic. The package of measures sets out the FCA's expectation that insurance firms should consider whether their products still offer value to customers in the current situation and whether they can be doing more for those suffering a financial impact because of coronavirus. [Link](#)

FCA publishes extension of period to cover absent Senior Managers due to COVID-19

The FCA published an extension of the period of compliance for firms to arrange cover for a Senior Manager without being approved, from 12 weeks to 36 weeks, in a consecutive 12-month period. The modification by consent to rule SUP10.3.13R is available to all solo-regulated firms and aims to provide flexibility to firms who are managing their governance arrangements during the situation of COVID-19 pandemic. [Link Link](#)

BIS publishes working paper: Dealers' insurance, market structure and liquidity

The Bank of International Settlements (BIS) published working paper: 'Dealers' insurance, market structure and liquidity', where it has analysed the effects of introducing measures that aims to reduce counterparty risk on dealers' entry/exit, market share of each dealer, liquidity measured by bid-ask spreads and the overall welfare of dealers and end users in normal times. The report has also analysed the impact of adopting these measures on the incentives of dealers to innovate in better market-making technologies. [Link Link](#)

BIS publishes working paper: Instability of banking and other financial intermediation

BIS published working paper on instability of banking and other financial intermediation, to identify whether financial intermediaries are inherently unstable. To identify the concern, BIS has analysed whether model economies with financial intermediation are particularly prone to multiple, cyclic or stochastic equilibria. A few highlights on the findings are as follows —

- Financial intermediaries can engender instability, as an economy with such institutions are more prone to volatility
- In some cases, intermediation also leads to expansion of a set of parameters, for which the economy displays volatility [Link Link](#)

FSI publishes article on banks' dividends in COVID-19 times

The Financial Stability Institute (FSI) published an article highlighting the issue of dividends of banking institutions during COVID-19 crisis. A few discussions include —

- Regulatory actions need to focus on preserving banks' lending activity, without hampering their solvency. This calls for flexibility in capital requirements
- Basel III framework in banking regulation provides for automatic distribution constraints, when capital falls below specific threshold. In present scenario, this may disincentivise firms from following authorities' recommendations to use capital buffer [Link Link](#)

ASIC defers commencement of mortgage broker reforms and design and distribution obligations

ASIC announced deferral of the commencement date of mortgage broker best interest duty and remuneration reforms and the design and distribution obligations, for six months from their original commencement dates, due to the impact of COVID-19 on the Australian

economy, particularly on the Australian financial system and consumers. [Link](#)

Accounting standards update

Announcement of SAICA Annual General Meeting

The South African Institute of Chartered Accountants (SAICA) is to conduct its Annual General Meeting on 28 May 2020, at 9am, via webcast. [Link Link](#)

SAICA publishes articles on the effect of COVID-19 on year-end audits

SAICA published an article which answers the question — whether year-end audits can be postponed until the end of the isolation period or is it mandatory to follow the usual norms. [Link](#)

SAICA publishes 1Q2020 newsletter

SAICA published its quarterly newsletter: March 2020 issue of 'Small and Medium Practices', which covers the auditor's initiatives and various audit-related issues for the for the quarter. [Link](#)

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