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KPMG in South Africa

Regulatory Updates for the week ended 16 February, 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

Banking

SARB FinTech Programme

The South African Reserve Bank (SARB) has a responsibility to promote a sound and effectively regulated financial system. The SARB therefore takes a balanced approach to technological innovations, considering the potential benefits and risks of each innovation. It is against this background that the SARB recently established the Financial Technology (FinTech) Programme to strategically assess the emergence of FinTech in a structured and organised manner, and to consider its regulatory implications.

The FinTech Programme will focus on three primary objectives:

Review the SARB's position on private cryptocurrencies to inform an appropriate policy framework and regulatory regime. This review will address regulatory issues such as clearing and settlement risks, exchange control impacts, monetary policy and financial stability, and other matters such as cybersecurity considerations. Through collaboration with the other regulatory bodies, matters such as tax implications, consumer and investor protection, and money laundering activities will also be addressed. The SARB expects to complete the review in the second half of 2018.

Investigate and decide on the applicability of innovation facilitators for the SARB. The SARB hopes to conclude its assessment of the appropriateness of innovation facilitators by the third quarter of 2018. Clear and transparent eligibility and participation criteria will be developed to assist in the consideration of applicants into a

regulatory sandbox;
Launch Project Khokha which will experiment with distributed ledger technologies (DLTs). The aim of this project is to gain a practical understanding of DLTs through the development of a proof of concept (POC) in collaboration with the banking industry. The objective of the POC is to replicate interbank clearing and settlement on a DLT which will allow the SARB and industry to jointly assess the potential benefits and risks of DLTs. The POC involves the processing of wholesale payments using Quorum, an Ethereum enterprise DLT. [SARB](#). For more information, please contact [Johan Scheepers](#).

Brokerage and Securities Markets

Cautious investors take wait and see approach in interest bearing portfolios while equities reward resilience

The annual CIS industry statistics for 2017, released by the Association for Savings and Investment South Africa (ASISA), show that the bulk of the net inflows went into interest bearing portfolios. South African (SA) Interest Bearing Short Term portfolios recorded net inflows of 40.2 billion ZAR in the 12 months to the end of December 2017, Money Market portfolios 26.8 billion ZAR, and SA Multi Asset Income portfolios 21.2 billion ZAR. More resilient investors, on the other hand, sought the potential of higher returns typically offered by equity portfolios. SA Multi Asset High Equity portfolios attracted net inflows in 2017 of 20.4 billion ZAR and SA Equity General portfolios 13.3 billion ZAR. [ASISA](#)

Financial Markets Act regulations in place

The regulations are necessary to meet South Africa's commitment to the G20 decision to implement regulatory and legislative reforms to make financial markets safer. The reforms are also intended to regulate over-the-counter (OTC) derivatives markets. Included in the regulations are:

- Requirements for the regulation of OTC derivatives;
- Category of regulated person;
- External central securities depositories links;
- Assets and resources requirements for certain market infrastructures;
- Central counterparties; and
- Transitional arrangements and commencement.

The regulations came into effect on the date of publication. [Sabinet](#) For more information, please contact [Justin Chait](#).

Others

Comment on the Draft Public Audit Amendment Bill has been extended

The Draft Bill seeks to:

- amend the Public Audit Act, 2004, so as to insert new definitions;
- provide for certainty on the discretion of the Auditor-General with regard to certain audits;
- authorise the Auditor-General to provide audit or audit related services to an international association, body, institution or organisation;
- provide for the Auditor-General to refer undesirable audit outcomes, arising from an audit performed under the Act, to an appropriate body for investigation;
- provide for the Auditor-General to recover losses in certain instances against the responsible persons;
- provide for the establishment, powers and functions of a remuneration committee;
- provide for consultation between the Independent Commission for the Remuneration of Public Office-bearers and the remuneration committee;
- provide for additional reporting requirements;
- provide for a maximum amount or percentage of audit fees that can be defrayed from the vote of National Treasury;
- revise the provisions relating to the appointment of an audit committee for the Auditor-General;
- empower the Auditor-General to make regulations on specific issues;
- provide for matters connected therewith.

The committee indicated that the extension was granted following requests from stakeholders for more time to comment. The deadline for comment is now February 23, 2018. [Parliament, South Africa](#)

FSB invitation on ETF industry workshop

The agenda for the workshop highlights discussion points identified from a review of the relevant regulations, from engagement with ASISA and FSB's regulatory and supervisory experience. IOSCO has embarked on a similar process with the aim to produce principles for the regulation of ETFs and inform the final outcomes of the process. [FSB](#)

B-BBEE Commission to host annual conference on improving state procurement for real economic empowerment

The theme of the conference, Improving State Procurement for Real Empowerment, aimed at finding effective ways in which the state can make B-BBEE a reality for black South Africans and to achieve the objectives of the B-BBEE Act. According to the Commissioner of the B-BBEE Commission, the conference will focus on state procurement, grants, incentives, licensing and concessions as means to achieve real economic transformation.

[DTI](#)

Other African countries

Financial Services Commission held an interactive session titled "Developments impacting India-bound foreign investments (Mauritius)"

Speaking at the session, the Chief Executive of the FSC highlighted that India remains a priority market for our Financial Centre. He added that following recent development both in India and globally, an array of opportunities can currently be tapped into by the financial services operators. In this regards, synergies are equally being developed between the FSC and its counterparts in India to create an appropriate mechanism to further facilitate cross-border investments. [FSC](#)

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Market Developments

International

FCA publishes report on the supervision of Algorithmic Trading (UK)

The report focuses on five key areas within algorithmic trading compliance in wholesale markets:

- Defining Algorithmic Trading;
- Development and Testing Process;
- Risk Controls;
- Governance and Oversight; and
- Market Conduct

The Prudential Regulation Authority (PRA) has also published a consultation paper on proposed expectations regarding a firm's governance and risk management of algorithmic trading. The PRA publication is a formal consultation on a supervisory statement which sets out expectations for the prudential aspects of risk management and governance of algorithmic trading at PRA regulated firms. [FCA](#)

APRA begins consultation with ADIs on revisions to capital framework (Australia)

The key proposed changes to the capital framework include:

- lower risk weights for low LVR mortgage loans, and higher risk weights for interest-only loans and loans for investment purposes, than apply under APRA's current framework;
- amendments to the treatment of exposures to small- to medium-sized enterprises (SME), including those secured by residential property under the standardised and internal ratings-based (IRB) approaches;
- constraints on IRB ADIs' use of their own parameter estimates for particular exposures, and an overall floor on risk weighted assets relative to the standardised approach; and
- a single replacement methodology for the current advanced and standardised approaches to operational risk.

The paper also outlines a proposal to simplify the capital framework for small ADIs, which is intended to reduce the regulatory burden without compromising prudential soundness.

[APRA](#)

ASIC welcomes establishment of the Australian Financial Complaints Authority (Australia)

The article states that the establishment of a single scheme for all financial services and superannuation complaints is a very positive development, building on the outcomes achieved over many years by the existing three schemes: the Financial Ombudsman Service (FOS), the Credit and Investments Ombudsman (CIO) and the Superannuation

Complaints Tribunal. Higher monetary limits and compensation caps, including for primary production businesses, is expected to give more consumers and small businesses access to a free and independent forum to resolve their complaints. ASIC will work with Government and scheme stakeholders to ensure that the transition to the commencement of AFCA is as smooth as possible. In the interim, ASIC will retain direct oversight of the two ASIC-approved schemes - FOS and CIO - which will continue to provide high levels of service to consumers and firms. Separate arrangements are in place for the ongoing operation of the SCT to enable it to deal with existing complaints. [ASIC](#)

Information on new professional standards for financial advisers now available on ASIC website (Australia)

The new requirements are aimed at lifting the education, training and ethical standards in the financial advice sector. ASIC's website now provides an overview of the new requirements, as well as related information on:

- the scope of the reforms
- the obligations on advisers
- the commencement dates of the reforms
- the Financial Adviser Standards and Ethics Authority
- compliance schemes for the Code of Ethics, and
- updates to the Financial Advisers Register.

The information is expected to help existing and new financial advisers to better prepare for the new requirements. [ASIC](#)

ASIC reports on Credit Rating Agencies (Australia)

ASIC's main areas of focus were the Credit Rating Agencies (CRA) governance arrangements (including relating to conflicts of interest and their corporate structure), transparency and disclosure. ASIC's report makes a number of observations about CRAs' activities with some leading to recommendations for change in areas such as board reporting, compliance teams and compliance testing, analytical evaluation of ratings and human resources. [ASIC](#)

BIS and IMF to work more closely together to help strengthen financial supervisory skills around the world (International)

The Bank for International Settlements (BIS) and the International Monetary Fund (IMF) is expected to work closely to help strengthen the expertise and skills of financial regulators and supervisors, particularly in the context of implementing the post-crisis financial reforms and dealing with emerging issues such as financial technology. In this regard, both the organisations have announced creating a new joint online course on banking supervision, which will be available to financial supervisory officials worldwide later this year. [BIS](#)

BIS's Financial Stability Institute and the International Association of Deposit Insurers host eighth conference on bank resolution, crisis management and deposit insurance (International)

In the various panels, speakers and participants discussed:

The progress and challenges associated with the implementation of resolution frameworks not only for banks but also for non-bank financial institutions.

Practical implementation issues related to core elements of the global standards on resolution such as bail-in, total loss-absorbing capacity (TLAC) and valuation.

The intersection between banking supervision, resolution and deposit insurance through discussions on early supervisory intervention approaches and recovery plans.

Lessons learned from last year's bank failures.

Future challenges and opportunities in the resolution and deposit insurance areas, including the ones arising from the developments in financial technology. [BIS](#)

The policy life cycle and capacity-building needs of financial sector authorities (International)

At his keynote address at the BIS-IMF symposium on "Capacity-building in financial sector regulation and supervision, Agustín Carstens, General Manager of the BIS, emphasised the importance for all stakeholders to continuously identify the changing capacity-building needs of financial sector authorities worldwide, and for the various organisations providing capacity-building initiatives to enhance coordination and effectively meet those needs. [BIS](#)

Post-crisis bank resolution: what are the main challenges now? (International)

At his keynote address at the 8th FSI-IADI conference, General Manager of the BIS,

pointed out the following challenges:

The goal of the post-2007 reforms was to replace bailouts with bail-ins, and to make bailouts the exception in crisis management. However, this goal has not been reached yet.

The second major challenge is the resolution of cross-border banks. A precondition is to have resolution plans that are predictable, viable and supported by both home and (key) host authorities. But cross-border banks are inherently complex, so designing their resolution plans is not straightforward. Moreover, there is only an abstract idea of what may work, cross-border resolution still needs to stand the test of a real-life case.

[BIS](#)

Cross-stock market spillovers through variance risk premiums and equity flows (International)

This is the first paper that uses a parametric model to estimate the Variance Risk Premiums (VRP) in emerging market economies (EME) stock markets. The papers decompose the VRP into a part that compensates for the risk of continuous price changes and one that compensates for the risk of discontinuous price changes. The paper finds evidence of significant VRP spillovers from the United States and the eurozone advanced economies (AE) to other economies following the Global Financial Crisis of 2007-09. Also, increases in the size of the US premium significantly reduces equity fund flows to all other AEs and some EMEs during the same period. [BIS](#)

Mapping shadow banking in China: structure and dynamics (International)

The study found that banks have been the dominant player in China's shadow banking system. This is why it is sometimes dubbed the "shadow of the banks". In contrast to shadow banking in the United States, securitisation and market-based instruments still play a rather limited role in China. While growth of shadow credit to ultimate borrowers has slowed, the use of shadow saving instruments (eg wealth management products, trust products) has continued to expand at a fast pace. New and more complex structured shadow credit intermediation aimed at reducing banks' regulatory burden has emerged and quickly reached a large scale. However, the bond market has become highly dependent on funding channelled through wealth management products. As a result, Chinese shadow banking is becoming slightly more similar to US shadow banking. [BIS](#)

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