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KPMG in South Africa

Regulatory Updates for the week ended 28 April 2017

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

Insurance

FSB published a notice in terms of the Long Term Insurance Act (LTIA) and Short Term Insurance Act (STIA) as well as an explanatory note for the Insurance Conduct of Business Returns (CBRS)

The Deputy Registrar of the FSB, acting in term of the LTIA and STIA, issued a notice prescribing the second version for the Conduct of Business Return (CBR) which has to be uploaded by June 30, 2017 in electronic form via the Conduct of Business-Data Upload facility.

The Financial Services Board (FSB) further issued an explanatory note to provide an overview of the changes made to the second version of CBRS along with its revised timelines. The following changes have been made:

- Portal renamed as ‘Conduct of Business’ with an option to add third party cell captive arrangement if applicable;

- Various corrections to the life and non-life validations tabs along with validations on calculation errors;
- Realignment of complaint questions as per the categorization prescribed in the proposed Policyholder Protection Rules (PPR); and
- Accident & Health subclass amended to include a category for 'Other'.
[Financial Services Board](#). Please contact KPMG's [Finn Elliot](#) for more information.

Others

President, South Africa signed FICA bill into law

The President gave his consent to the Financial Intelligence Centre Amendment (FICA) Act which made amendments to combat money laundering and terror financing activities. These amendments give the financial system more transparency and integrity. The measures include:

- Identify beneficial owners to avoid tax evasion;
- Enhance customer due diligence requirements to ensure that entities mitigate risk posed by customers;
- Enhance administrative and enforcement mechanisms;
- Provide inspections powers for regulatory compliance;
- Safeguard personal information;
- Implement United Nations Security Council Resolutions which would give authority to freeze assets of anyone involved in terrorist activities; and
- Adopting a risk based approach to identify and assess risks related to money laundering and terrorism. [The Presidency](#). For further information, please contact [Tersia Rossouw](#).

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Market Developments

International

Executive Director FCA delivered a speech at the Financial Information Security Network (UK)

In her speech, the Director addressed the threats of information security and what can be done collectively to improve the understanding of those threats and best practices to mitigate them. She expressed her opinion on the approach to address the widening gap between criminal capability and the capability to defend oneself. In her opinion, in order to make the approach effective firms should:

- **Get the basics right:** By performing robust and comprehensive risk assessments focused on the impact of Distributed Denial of Service (DDoS) attack on their systems
- **Move to a secure culture:** By empowering staff to make security decisions themselves
- **Share information:** By establishing Cyber Coordination Groups (CCG's) to achieve a better collective cyber capability and share unique solutions
- **Build the capability:** By establishing Academic Centre's of Excellence that specialize in developing cyber security research and innovation, attracting students and investments [Financial Conduct Authority](#)

FCA published finalized guidance on the fair treatment of mortgage customers in payment shortfalls (UK)

The guidance published by the Financial Conduct Authority (FCA) sets out a remediation framework for customers who have suffered due to automatic capitalization of payment shortfalls and seeks consultation on the framework for fair treatment of mortgage customers. The framework provides firms with an option to start remediating customers, thus saving time and cost in developing their own approaches. The guidance is primarily aimed at residential mortgage lenders and administrators of regulated mortgage contracts.
[Financial Conduct Authority](#)

Executive Director of Strategy and Competition, FCA delivered a speech at Leeds Digital Festival (UK)

In his speech, the Executive Director spoke about the FCA's approach to innovation and its

future plans on innovation. He talked about how innovation promotes competition in the interest of the consumers and how regulations ensure that the right conditions exist for such competition. Initiatives such as Project Innovate, developed by the FCA, have been supporting RegTech. Techsprints have been created to bring market participants together to solve problems in financial markets collaboratively. [Financial Conduct Authority](#)

UK Money Markets Code launched (UK)

The Bank of England's Money Market Committee (MMC), money market code outlines six principles encompassing ethics, governance, risk management, confidentiality, execution and settlement. The Code sets out the standards and best practices expected from market participants. The key principle of the Code is to promote integrity among participants to ensure effective functioning of the markets. [Bank of England](#)

ASIC's regulatory approach to high-frequency trading and dark pools (Australia)

The Chairman of Australian Investments and Securities Commission (ASIC) in his speech spoke about the importance of trust and confidence in markets and how ASIC is responding to innovation and technological developments. He focused on ASIC's work in High Frequency Trading (HFT) as they add complexity to the system. The key challenge is that HFT is a complexity driven by financial innovation. The approach to the financial innovation would include the following principles:

- Flexibility and adaptability;
- Resisting the temptation to jump before properly understanding developments;
- Ensuring responses are technology neutral; and
- Ensure skills and expertise of an effective regulator. [Australian Investments and Securities Commission](#)

Opening statement to the Parliamentary Joint Committee inquiry into whistleblower protections (Australia)

According to the Commissioner of Australian Securities and Investments Commission (ASIC), the regulator has established an Office of the Whistleblower and enhanced its internal processes to deal with whistleblower reports, including training staff who are involved in handling whistleblower matters. In addition, the regulator has developed targeted information to ensure whistleblowers are aware of the protections that apply to them and better understand ASIC's role. [Australian Securities and Investments Commission](#)

High level meeting on global insurance standards and supervisory priorities (International)

The Financial Stability Institute (FSI) of the Bank for International Settlements (BIS), together with the International Association of Insurance Supervisors (IAIS) and the Association of Insurance Supervisors of Latin America (ASSAL), held its first high-level meeting in the insurance sector. The Chair of the IAIS committee focused on the common framework for supervision and regulation of internationally active insurance groups and the Global Insurance Capital Standard (ICS). [Bank for International Standards](#)

BCBS to tighten oversight activity (International)

The Basel Committee on Banking Supervision (BCBS) issued its work programme for 2017-2018. BCBS will improve the supervisory tools and techniques by developing case studies and identifying best practices as a part of their approach to prioritize supervisory powers and actions. The following priorities have been set out by the BCBS:

- Finalize existing policy initiatives and initiate policy development;
- Monitor emerging risks and assess the impact of the Committee's post-crisis reforms;
- Promote strong supervision; and
- Ensure full, timely and consistent implementation of the Basel standards. [CCH Daily](#)

Basel Committee published its progress report on adoption of Basel III standards (International)

The Basel Committee on Banking Supervision published its 12th progress report on adoption of the Basel Regulatory Framework. The report focuses on the status of adoption to ensure that Basel standards are accepted as national laws in all jurisdictions. The following points have been covered in the report:

- Status of adoption of the Basel III risk-based capital standards, Leverage Ratio (LR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
- Status of draft or final rules related to standards for Global And Domestic

- Systemically Important Banks (DSIBs and GSIBs)
- Status of Pillar 3 disclosure requirements, the large exposure framework and interest rate risk in the banking book. [Bank for International Settlements](#)

Financial soundness indicators - looking beyond the lessons learned from the crisis (International)

The Chairman of The Financial Stability Institute spoke about the lessons learned from the Great Financial Crisis (GFC) and the regulatory reforms in response to it, at the “Users’ Workshop on Financial Soundness Indicators”. He highlighted a number of weaknesses that persisted in the global financial system and global efforts to address those weaknesses. In his opinion, the Basel Committee on Banking Supervision (BCBS) on its part overhauled the Basel framework by introducing changes that improved the quantity and quality of bank capital, raised the minimum own-resources ratios, increased the focus on common equity levels, and added restrictions on leverage. In addition, the reform also added macro-prudential elements to the regulatory framework such as a countercyclical capital buffer, a capital surcharge for Global Systemically Important Banks (G-SIBs) and a principles-based framework for their domestic counterparts. He concluded his speech by talking about the new payment and investment opportunities provided by FinTech. Although most existing FinTech firms are not engaged in the transformation of credit or maturity risk and have limited potential to generate systemic instability, he stated that the sector, if properly structured and regulated, could do much to promote financial deepening. [Bank for International Standards](#)

US bank regulators back calls for UK-style survey (US)

The Federal Reserve Bank, called for US banks to have a Banking Standards Boards (BSB) of their own. The New York Federal Reserve has been interested in the BSB’s industry-wide annual survey which was published for the second time revealed that despite tougher regulation, improved whistleblowing procedures and a statutory accountability regime, it has been difficult to progress without flexing ethical standards. [Financial Times](#)

Revision of the European market infrastructure regulation (Europe)

Financial stability is a precondition for jobs and growth which can be threatened by a number of conditions. This includes highly leveraged and interconnected institutions from the banking and non-banking sectors and failures in the functioning of financial markets. Unregulated, opaque over-the-counter (OTC) derivatives markets in which risks are not properly priced and/or mitigated were one of the fault lines that caused the global financial crisis. [Press Release](#)

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Accounting/ Auditing Updates

IFRS foundation published its annual report for the year ended 2016

The annual report focused on the following key points:

- Large projects that are nearing completion - the insurance contracts standard and the revised conceptual framework
- Increased focus on supporting the implementation and application of IFRS standards
- Increasing transparency through making public the meetings of the Due Process Oversight Committee
- An investor’s perspective of the Investors in Financial Reporting [International Financial Reporting Standards](#)

AICPA Unveils Cybersecurity Risk Management Reporting Framework

The American Institute of CPAs (AICPA) has introduced a market-driven, flexible and voluntary cybersecurity risk management reporting framework. The AICPA’s new framework will enable all organizations to take a proactive and agile approach to cybersecurity risk management and communicate those activities with stakeholders. AICPA released two resources that support reporting under the framework:

Description criteria – For use by management in explaining its cybersecurity risk management program in a consistent manner.

Control criteria – Used by CPAs providing advisory or attestation services to evaluate and report on the effectiveness of the controls within a client’s program.

A third resource “Reporting on an Entity’s Cybersecurity Risk Management Program and

Controls” will be available to CPAs in May to assist them in examining and reporting an entity’s cybersecurity risk management program. [Business Wire](#)

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The Inside Edge

[Tackling national barriers to cross border fund distribution](#)

With the publication in March of a report by the European Commission, an important dialogue has begun in earnest under the Capital Markets Union (CMU) initiative: how to remove unnecessary or disproportionate barriers to the cross border-distribution of funds?

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