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## KPMG in South Africa

*Regulatory Updates for the week ended 16 June 2017*

### FinWatch – A Weekly Newsletter

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## Regulatory Developments

### Brokerage & Securities Markets

#### Minister signed FIC Amendment Act into operation

The Minister of Finance signed and gazetted the coming into operation of various provisions of the Financial Intelligence Centre Amendment Act. The law has introduced the following new concepts and approaches to the implementation of the Financial Intelligence Centre Act:

- Full range of customer due diligence (CDD) requirements which are focused on understanding customers better rather than simply identifying and verifying their identities;
- Customer-Friendly approach based on risk-based CDD enables efficient utilisation of resources and should make compliance easier for low risk clients;
- Beneficial ownership which requires institutions to know and understand the natural persons who ultimately own or exercise control over legal entities or structures;
- Prominent (Influential) Persons and Politically Exposed Persons which requires institutions to better manage risks relating to relationships with prominent persons;
- Freezing of assets in terms of targeted financial sanctions against persons identified by United Nations Security Council in terms of various sanctions regimes. [FIC](#)  
Please contact [Tersia Rossouw](#) for more information.

**Draft guidelines for implementation of new measures to be introduced by the FICA**

## Act

The Minister of Finance has announced the coming into operation of a number of provisions of the Financial Intelligence Centre Amendment Act, 2017 (the FIC Amendment Act). According to this announcement the implementation of the provisions of the FIC Amendment Act for the following, will start on 2 October 2017:

- Customer due diligence measures;
- Recordkeeping requirements; and
- Risk Management and Compliance programme.

The Minister also made available a Roadmap for the Short-term implementation of the Financial Intelligence Centre Amendment Act. The Roadmap provides details on the processes that will be followed to prepare for the commencement of the provisions which will be implemented on 2 October, 2017. [FIC](#)

The FIC further published draft guidance on the implementation of the new measures to be introduced by the Financial Intelligence Centre Amendment Act. [Draft guideline](#) Please contact [Tersia Rossouw](#) for more information.

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## Market Developments

### International

#### **Executive Director for UK Deposit Takers Supervision gave a speech on ring fencing (UK)**

In his speech, the Executive Director gave the industry and other relevant stakeholders an overview of the implementation of ring fencing. In his opinion ring-fencing is a major infrastructure programme that will form part of a broader strategy of coordinated improvements to the financial sector and that ring-fencing will seek to deliver wide-reaching benefits to the public. Ring fencing will be a major step towards implementing the package of post-crisis reforms in the United Kingdom. According to him, ring-fencing addresses the problem that arises from universal banks that allow investment and international banking activities to be placed on the same balance sheet as the critical functions of lending, deposit-taking and payment services for retail and small corporate customers. [Bank of England](#)

#### **Fourth Money Laundering Directive and Fund Transfer Regulation Implementation (DEPP and EG) (UK)**

The Financial Conduct Authority (FCA) published a consultation paper which consists of the Fourth Money Laundering Directive (4MLD) and the Fund Transfer Regulation (FTR) which update the European Union's (EU) Anti-Money Laundering (AML) framework to meet new international standards issued by the Financial Action Taskforce. The new Money Laundering Regulations (MLR) require firms subject to AML obligations to ensure that measures they take in meeting customer due diligence and ongoing monitoring obligations are based on an overall assessment of the money laundering/terrorist financing risks that a firm faces, including taking account guidelines published by the European supervisory authorities (ESA), UK supervisory authorities and the UK Government's national risk assessment. [FCA](#)

#### **FCA published a consultation paper on data collection of market risk sensitivities (UK)**

The Consultation Paper (CP) sets out the Prudential Regulation Authority's (PRA) proposed expectations for the reporting of sensitivities of solvency positions to key market risks by firms with material exposure to market risk. The CP is relevant to Solvency II insurance and reinsurance firms holding, or intending to hold, material quantities of assets exposed to market risk. . The PRA used the data from previous ad hoc collections of market sensitivities and has used it for the following:

- Setting supervisory priorities;
- Wider impact analysis to support the Bank's financial stability remit;
- Gauge the implications of policy options; and
- Engage more effectively with firms in relation to potential management actions which may be needed to remedy a deterioration in the firm's financial condition.

[FCA](#)

#### **FCA's update on regulatory sandbox (UK)**

The Financial Conduct Authority (FCA) provided an update on its regulatory sandbox and unveiled the list of firms that were successful in their applications to begin testing in the second cohort of the sandbox. In the opinion of the Executive Director of Strategy and Competition at the FCA, the sandbox continues to grow in popularity and it is particularly encouraging that both the number of firms applying and accepted for testing has increased in cohort two. [FCA](#)

#### **FCA published an infographic on foundations for good cybersecurity (UK)**

The infographic provides the following effective cyber security practices:

- Manage the risk: The need to know what information to hold and why
- Encryption: Protect sensitive data;
- Disaster recovery: Backup critical systems and data, and test backup recovery processes regularly;
- Network and computer security: Keep systems, software and apps up-to-date and fully patched;
- User and device credentials: Ensure the staff use strong passwords when logging on to hardware and software. Change the default Administrator credentials for all devices;
- Accreditation: Gaining a recognised accreditation;
- Information sharing: Sharing threat information with peers, through networks such as the Cyber Security Information Sharing Partnership (CiSP). [FCA](#)

#### **Strengthening accountability in banking and insurance: optimisations to the SIMR (UK)**

In the consultation paper, the Prudential Regulation Authority (PRA) has set out proposed amendments and optimisations to the Senior Insurance Managers Regime (SIMR). It also includes a proposal to strengthen governance through requiring insurers to take steps to encourage board diversity. This consultation paper also proposes consequential amendments to the Senior Managers Regime (SMR) forms following Policy Statement (PS) 12/17 'Strengthening accountability in banking and insurance: amendments and optimisations'. [PRA](#)

#### **Bank of England's approach to operational resilience (UK)**

The Director of Supervisory Risks Specialists, Prudential Regulatory Authority (PRA) listed the objectives that will be undertaken to assess and build the operational resilience of the sector:

- Proactive micro-supervisory interventions with firms. Setting expectations and assessing against them.
- Macro interventions by looking at the system level and intervening where vulnerabilities exist.
- Working together with the financial services sector. Working with firms to develop and share good practice and running sector wide exercises. And through international engagement learning from and sharing good practice with other supervisory organisations.
- Using these three elements to form a sound base on which to build and contribute to the sector's response capabilities. Making sure the right mechanisms – both public and private sector - are ready to respond when failures happen and working in concert with other authorities. [Bank of England](#)

#### **FCA published a newsletter on market conduct and transaction reporting issues (UK)**

In the market conduct report, the Financial Conduct Authority (FCA) laid down relevant principles to consider before conducting assessment and a principle for disclosure, specifically to be considered before disclosing information on the assessment to the regulator. The principles are as follows:

- Conduct business with integrity;
- Conduct business with due skill, care and diligence;
- Take reasonable care to organise and control their affairs responsibly and effectively, with adequate risk management systems; and
- Principle on disclosure: This principle requires firms to deal with their regulators in an open and cooperative way, and to disclose to the appropriate regulator anything relating to the firm of which that regulator would reasonably expect notice. [FCA](#)

### **ASIC welcomes the dawn of a new regulatory era (Australia)**

The Australian Securities and Investments Commission (ASIC) today welcomed the passing of legislation enabling a more secure and accountable funding of the model for regulation of the Australian corporate sector. Effective from July 1, 2017 ASIC will recover its regulatory costs from all industry sectors regulated by ASIC through annual levies. [ASIC](#)

### **Report on conduct in fund management and recommendations for improved compliance (Australia)**

ASIC made recommendations to improve their compliance in line with a model of 'what good looks like' in the funds management sector including:

- Ensure professional indemnity coverage;
- Review and strengthen their conflicts management measures;
- Review custody measures to ensure they meet the requirements;
- Accountability from top management about disputes;
- Review and strengthen existing cyber resilience measures; focusing on the board's role in influencing the culture of the organisation;
- Align remuneration, rewards and incentives with the values of the responsible entity;
- Appropriate whistle-blowing measures; and
- Consumer-focused culture. [ASIC](#)

### **BIS publishes FAQs on Basel III Liquidity Coverage Ratio (International)**

The Basel Committee on Banking Supervision (BCBS) issued a second set of frequently asked questions (FAQs) and answers on the Basel III Liquidity Coverage Ratio (LCR) on June 8, 2017. The FAQs are presented in combination with existing FAQs published by the BCBS in April 2014. The BCBS will continue to periodically update the FAQs to promote consistent global implementation of the LCR requirements. [BIS](#)

### **BCBS publishes revisions to annex on correspondent banking (International)**

On June 7, 2017, the Basel Committee on Banking Supervision (BCBS) published its final revisions to the annex on correspondent banking, which is part of the BCBS guidelines on the "Sound management of risks related to money laundering and financing of terrorism." The revisions have been made to annexes 2 (Correspondent banking) and 4 (General guide to account opening) and are intended to guide banks in the application of a risk-based approach to correspondent banking relationships. An updated list of risk indicators that correspondent banks should consider in their risk assessment is also included. The BCBS notes that the revisions to the annex support implementation of the Financial Action Task Force (FATF) standards in its October 2016 Guidance on correspondent banking services, and form part of the international initiative to assess and address the decline in correspondent banking as coordinated by the Financial Stability Board. [BCBS](#)

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