



KPMG Regulatory Centre of Excellence

Be on the **inside**

[Important Links](#)

[Contact Us](#)

[Subscribe](#)

[Previous Editions](#)

KPMG in South Africa

Regulatory Updates for the week ended 4 August 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.

- [Regulatory Developments](#)
- [Market Developments](#)
- [Accounting / Auditing Update](#)
- [The Inside Edge](#)

Regulatory Developments

Banking

Bank-wide stress testing as a risk management tool

The Deputy Governor of the South African Reserve Bank (SARB) spoke at the Actuarial Society Banking Seminar on stress testing and its role in being used as a risk management tool. He also spoke about SARB's progress in the methodologies applied to stress test the banking sector. The Governor emphasised the need for a stable banking sector for financial stability and how stress testing is one of the important tools of systematic regulators as it ensures efficient identification of vulnerabilities and initiation of proper mitigation action. The additional benefits of macro stress tests identified are:

- Reconciling the widely different perspectives of the various stakeholders;
- Fostering better communication;
- Cross-checking the performance of individual firms' risk models; and
- Identifying important data gaps. [SARB](#). For more information, please contact [John Martin](#) or [Johan Scheepers](#).

Matters related to the communication of key audit matters in the independent auditor's report

The International Auditing and Assurance Standards Board (IAASB) issued an International Standard on Auditing (ISA) on communicating Key Audit Matters in the Independent

Auditor's Report, effective for audits of financial statements for periods ending on or after 15 December 2016. This directive has been published for banks, controlling companies, branches of foreign institutions and auditors of banks. The directive includes considerations and requirements to be considered while communicating the Key Audit Matters (KAM) for audit reports that relates to the audits of financial statements of banks and controlling companies. [SARB](#)

No new state bank apart from Postbank

The attached article states that according to the Finance Minister, the National Treasury will not establish any state bank in addition to the Postbank as there are other development finance institutions such as Ithala Bank, Land Bank and Development Bank of South Africa. According to the information in the article, the African National Congress, at its policy conference instructed the Telecommunications and Postal Services Minister to establish a state bank within six months. The article further states that the Finance Minister, the National Treasury has engaged with the Department of Telecommunications and Postal Services on the funding of the Postbank. [Fin24](#). Please contact [John Martin](#) or [Johan Scheepers](#) to discuss further.

Others

ASISA dispatches for July

The Association for Savings and Investments South Africa (ASISA) published key highlights for the month of July. The key highlights are as follows:

- **Transfer of tax free products:** A working group set up by ASISA has developed three documents to support the transfer of tax free products. The 3 documents are:
 - A flowchart explaining the Tax Free Savings Account Transfer process;
 - The Tax Free Savings Account Transfer Request Form; and
 - Transfer of Tax Free Savings Account Certificate.
- **Sustainable financial sector:** ASISA along with National Treasury is drafting a sustainable finance framework paper which aims to provide a guide policy for a sustainable financial sector.
- **Guidelines under the Competition Act:** The Competition Commission issued Draft Guidelines on the exchange of Information between Competitors under the Competition Act. [ASISA](#)

[To Top](#)

Market Developments

Other African countries

Mid-term policy statement (Zimbabwe)

The Reserve Bank of Zimbabwe published their monetary policy statement. The Bank is using non-traditional home-grown monetary policy tools and the export incentive scheme to address export competitiveness to stabilise the economy. The Reserve Bank has commenced activities on phase 2 of the credit registry implementation programme. This will entail a co-option of microfinance institutions and other credit providers as data providers. The bank has also implemented the National Financial Inclusion Strategy which will include working with nine thematic working groups focusing on execution of strategies to achieve the set financial inclusion goals and objectives. [RBZ](#)

ADGM and CMA form fintech bridge (Kenya)

Abu Dhabi Global Market (ADGM) and Capital Markets Authority (CMA) confirmed their fintech collaboration which would make it the first fintech bridge between the UAE and an African financial regulatory authority. The agreement provides a framework for cooperation to support financial innovation in each jurisdiction. The agreement looks to expand the fintech cooperation network to grow markets with enormous potentials. It provides a framework for information sharing between the two regulators to assist each other in keeping a track of regulatory and relevant economic or commercial developments. [CMA](#)

International

FCA's competition mandate (UK)

The Director of Competition and Economics at the Financial Conduct Authority (FCA)

delivered a speech giving an overview of competition at the FCA. The Director spoke about how the objective of competition at the FCA is to promote healthy competition which would improve the rivalry process. Effective competition leads to dynamic benefits to the wider economy since it pressurises firms to increase efficiency and drives innovation. The statement was concluded by focusing on the vitality of regulation which enables competition rather than hindering the process. [FCA](#)

Financial Conduct Authority sets out agenda and priorities for consumer credit (UK)

The Financial Conduct Authority (FCA) published the outcome of its review into high-cost credit, which includes its assessment of the effectiveness of the payday loan price cap. The review provides clear evidence that the FCA regulation of high-cost short-term credit (often known as 'payday lending') has delivered substantial benefits to consumers. The review also established clear concerns with other forms of high-cost credit. In particular, the FCA identified concerns in the rent-to-own, home-collected credit and catalogue credit sectors. While there are similarities between high-cost credit markets and products, there are also significant differences in how they work and how people use them. The FCA is developing tailored solutions to these issues, and will consult on action to address these concerns in Spring 2018. [FCA](#)

Proposed changes to rules and guidance on assessment of creditworthiness in consumer credit (UK)

The consultation focusses on the principles that Financial Conduct Authority (FCA) believes should underpin firms' assessments of affordability, as part of a creditworthiness assessment. In particular, the proposed rules introduce a new explicit definition of 'affordability risk'. This sets out the factors which firms should consider when assessing whether the credit is likely to be affordable for the borrower. With respect to methods and processes to assess credit risk and affordability, the proposed rules do not prescribe which type of process firms should adopt. However, where processes are automated, the FCA expect firms to have appropriate policies and procedures in place to ensure they can adequately manage any risks associated with those processes. [FCA](#)

Insurance Distribution Directive Implementation – Consultation Paper 2 (UK)

These are the Financial Conduct Authority (FCA)'s further proposals on how the FCA plans to implement the Insurance Distribution Directive (IDD) in the UK. This consultation will interest firms (including insurance and reinsurance companies, and insurance intermediaries), customers in the insurance market, and bodies representing these groups. It will also be of interest to designated professional bodies whose members conduct insurance distribution activities.

[Paper](#)

FCA seeks views regarding the Office for Professional Body Anti-Money Laundering Supervision(OPBAS) (UK)

The consultation sets out draft expectations about how professional body supervisors can meet their obligations in relation to AML supervision. The government has proposed that OPBAS oversees the adequacy of the anti-money laundering supervisory arrangements of 22 professional bodies. On 20 July 2017, the government published draft regulations that will give powers and responsibilities to OPBAS. [Press Release](#)

FCA's work on motor finance (UK)

The Financial Conduct Authority (FCA) examined the motor finance market to develop an understanding of credit products and how they are sold, and to assess whether the products cause harm to consumers and if the market is functioning as well as it could be. According to the Prudential Regulatory Authority (PRA) a Personal Contract Purchase (PCP) agreement which is more like a hire purchase creates an explicit risk exposure to a vehicle's Guaranteed Future Value for lenders. The key questions that the FCA is focusing on are:

- If the firms are taking the right steps to ensure responsible lending and are correctly assessing if potential customers can afford the product;
- Conflicts of interest arising from commission arrangements between lenders and dealers and if they are being managed effectively; and
- Whether information provided to potential customers by firms is sufficiently clear and transparent to enable them to understand the risks involved and make informed decisions.

The FCA is conducting supervisory work with FCA-authorized lenders, detailed analysis of millions of anonymised credit reference agency records, and careful scrutiny of firms' sales

practices and processes. [FCA](#)

New technologies and anti-money laundering compliance (UK)

The Financial Conduct Authority (FCA) published a report which includes the findings from the study conducted on new technologies in Anti-Money Laundering (AML) compliance by the PA Consulting Group (PA) on behalf of the FCA. The various technologies considered while conducting the review across the AML lifecycle were related to data analytics, machine learning and NLP. These technologies are considered to have potential for transforming the AML compliance lifecycle. The conclusions of the report summarised that the new and emerging technologies have genuine potential to have a transformative impact on AML compliance. It can help to prevent money laundering and to reduce the cost of compliance. However, it was also observed that substantial barriers to widespread adoption exist which can limit the progress of ongoing innovation in AML compliance. [FCA](#)

FCA and the FCA Practitioner Panel publish the findings from their joint survey of industry views (UK)

The Financial Conduct Authority (FCA) along with its Practitioner Panel published findings from their survey of FCA regulated firms. According to the findings of the survey the regulator's effectiveness has increased. The key areas for further improvement identified are as follows:

- Ensure that the firms clearly understand the FCA's remit;
- Need for the FCA to be more transparent about future plans;
- Direct and clear communication about Brexit. [FCA](#)

Individual Accountability: Extending the Senior Managers & Certification Regime to insurers (UK)

This Consultation Paper proposes changes to how Financial Conduct Authority regulates people working in insurance and reinsurance firms. Insurers currently apply a revised version of the Financial Conduct Authority's Approved Persons Regime and the Prudential Regulation Authority's Senior Insurance Managers Regime. [Paper](#)

ECB seeks to increase transparency of euro area pension fund sector (Europe)

The European Central Bank (ECB) is publishing a draft regulation on statistical reporting requirements for pension funds. The new regulation is aimed at increasing transparency in this fast-growing sector of the financial industry and improving data comparability. [Press Release](#)

EBA consults on the future EBA register under the Payment Services Directive (Europe)

The European Banking Authority (EBA) launched a public consultation on the draft regulatory technical standards (RTS) and implementing technical standards (ITS) on the EBA electronic central register under the Payment Services Directive (PSD2), which respectively set requirements on the development, operation and maintenance of the register and the information to be contained in it. [Press Release](#)

ECB details approach to implement Foreign Exchange Global Code of Conduct (Europe)

The European Central Bank (ECB) invites foreign exchange trading counterparties to publicly commit to the principles set out in the FX Global Code by endorsing the Statement of Commitment annexed to that code of conduct by the end of May 2018. Counterparties are also encouraged to reaffirm their commitment to those principles after any substantial future update of the FX Global Code. [Press Release](#)

Banks to overhaul consumer credit insurance sales processes (Australia)

The Australian Securities and Investments Commission (ASIC) has appointed representatives from the banking industry and consumer advocates to improve outcomes for consumer credit insurance, with the establishment of a Consumer Credit Insurance (CCI) Working Group. The CCI Working Group will progress a range of reforms, including a deferred-sales model for CCI sold with credit cards over the phone and in branches. In addition to the work on add-on insurance (including CCI) sold through car dealerships, ASIC has commenced surveillances into past CCI practices by banks. [ASIC](#)

FSI Insights on policy implementation series launched; first papers focus on proportionality, cyber-risk (International)

The Financial Stability Institute (FSI) launched a new publication series on policy implementation. The new publication series will contribute to international discussions on a range of policy issues and implementation challenges faced by financial sector authorities. The first two papers launched focus on proportionality and on cyber-risk. The papers are as follows:

- **Paper on proportionality:** This paper explores the issue of how best to tailor regulatory requirements for different types of banks by comparing the approaches followed in six jurisdictions. It shows the range of approaches in terms of criteria and the thresholds used to differentiate banks, and also in terms of the regulatory standards that are subject to a proportional implementation. The paper notes that implementation of the proportionality strategy should respect prudential objectives and consider implications for the competitive environment.
- **Paper on cyber-risk:** This paper explores regulatory and supervisory initiatives in some leading jurisdictions. Even though there are different views on the need to specifically regulate cyber-risk or how prescriptive these regulations should be, the supervisory approaches to assessing banks' cyber-risk vulnerability and resilience seem to be converging towards a threat-informed or intelligence-led framework. The paper also offers some high-level policy considerations for banking supervisory authorities contemplating or planning to introduce or enhance cyber-risk regulation and supervision for banks. [BIS](#)

IOSCO Publishes Thematic Review of Client Asset Protection Recommendations (International)

The Board of the International Organization of Securities Commissions (IOSCO) published its Assessment Committee's Thematic Review of the Adoption of the Principles set forth in IOSCO's Report: Recommendations Regarding the Protection of Client Assets. The thematic review identifies the implementation progress of 38 IOSCO members from 36 jurisdictions in adopting legislation, regulation and other policies in relation to intermediaries holding client assets addressed by the Principles for the protection of client assets. [Press Release](#)

[To Top](#)

Accounting/ Auditing Updates

FASB proposes improvements to not-for-profit grant and contribution accounting

The Financial Accounting Standards Board (FASB) proposed an Accounting Standard Update (ASU) to clarify the accounting guidance for contributions made or received by not-for-profits. The ASU will provide a framework which will help organizations clarify whether a particular transaction should be accounted for as a contribution or exchange. The clarifying guidance will be used to check whether sufficient resources are transferred in exchange for the resources provided. [FASB](#)

[To Top](#)

Please [click here](#) to access the previous issues of the External edition of FinWatch

Nicky Kingwill
Associate Director, Africa Regulatory CoE
Email ID: nicky.kingwill@kpmg.co.za

kpmg.com/socialmedia

[Unsubscribe](#) | [Privacy](#) | [Legal](#)

You have received this message from KPMG in South Africa.

© 2017 KPMG Services Proprietary Limited, a South African company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity. All rights reserved.



kpmg.com/app



