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DIFFERENCE MAKERS

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FINANCIAL SERVICES NEWSLETTER

technical

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UPCOMING SEMINARS:

17 SEPTEMBER
- Insurance Seminar (Webcast)

04 NOVEMBER
- Medical Schemes Seminar (Webcast)

SAICA DIFFERENCE MAKERS

ARTICLES

ACCOUNTANCY
and loss adjusting

Author: Jolene Visser CA(SA)
Complex Claims Loss Adjuster, PD & BI

Traditionally, when thinking about the general or typical function of an accountant, one would think of the people in the finance department within a company or the person who does your financial record keeping and tax, or of auditors, the treasurer of a club or association. Today, these ostensibly 'simple' roles has become quite evolved and complex, depending on where in the financial world or economy the accountant finds themselves. What does not come to mind easily is the accountant's role nestled within the insurance industry and which has an important impact on business but also a reach into all possible industries...

MEET THE LOSS ADJUSTER

Now let me just clarify upfront – a loss adjuster is not necessarily born from accounting, but I am, and so my accountant cap is well and truly infused in my day-to-day work as a loss adjuster. I stumbled into loss adjusting approximately three years ago when I was looking for something new and challenging to get involved in. And my, oh, my, has a new universe opened up for me! I discovered that my new role as loss adjuster provides me with unlimited variation – in terms of industry exposure, interaction with other professionals, and office-/non-office-bound work. Put differently, I get a rush from being able to swap my high heels and blazer for a pair of safety boots and a high-vis vest from time to time. And there is value in spreading the awareness of what the role of a loss adjuster entails: Within your financial role, you may be called upon to assist with the formulation of a claim to submit to insurers, or perhaps you are considering a career change.

Let us start with what a loss adjuster does. The Institute of Loss Adjusters of Southern Africa defines loss adjusters as 'the bridge between the Insurer and the Insured in the event of a claim', but I believe the role is more than that. If you ask my personal definition, it would be that the loss adjuster establishes and maintains trust and goodwill between the insurer and the insured during a time of loss.

What does this mean in practical terms? Well, typically appointed by an insurer (or several co-insurers), a loss adjuster reviews, on behalf of the insurer, a claim submitted by an insured. The review extends to the circumstances of the event, the extent of damage and resulting loss to the business, available cover provided by the insurance policy, as well as the estimated duration and cost of reinstatement to get the business back to its normal operation.

But it does not stop there. Depending on the complexity of the claim, the claim process could be quite lengthy and may require ongoing review and adjustment during the reinstatement period. This necessitates continuous timely and effective communication by the loss adjuster with the insurers, the insured (and related parties such as the insured's broker and claims preparer, the latter of which may be an external third party) and other relevant authorities or experts throughout the reinstatement process.

The complexity and size of the claim often also dictates the extent of the 'physical' or in-person involvement it requires from the loss adjuster. Site visits are key to claims where physical damage occurred (think fire damage, floods, explosions, earthquakes) as it is not practical for an insurer to physically inspect each reported claim themselves. The appointed loss adjuster therefore undertakes this task on the insurer's behalf and will visit the site as soon as possible after the occurrence of an event, and as often as required thereafter to monitor reinstatement, and report all the necessary details to the insurer.

Often, these site visits require on-site meetings with other experts (such as forensic fire investigators, engineers, quantity surveyors and the like) to discuss the damage incurred and to determine the best and most economical reinstatement path possible – whilst, of course, not losing sight of the cover the insurance policy allows. The physical presence and monitoring of a claim is a dynamic gear in the bigger loss-adjusting engine.

The adjuster will thus adjust a submitted claim in various respects and in doing so, achieves a result which is fair to both the insured and the insurer, and more importantly, that is in line with the cover provided by the insurance policy. The ideal result is an agreed settlement amount which all parties happily sign off on (until the next disaster hits, as much as I hate to say it).

General and specialised lines of loss adjusting exist. Whereas an engineer will generally work on the material damage side of a claim (as it pertains to buildings, equipment, plant, and so forth), stock losses and the business interruption side of the claim (in simple terms, the damage to the profit as a result of the event), will generally be attended to by a suitably qualified accountant.

Optimal efficiency is achieved within a loss adjusting team when there is collaboration between the members of a multi-disciplined group of adjusters; however, it is a person-specific appointment from insurers and not a firm-specific appointment, and therefore the successful integration of relevant sources of knowledge, be it fellow adjusters or experts from other career walks, is fundamental in managing relationships all around.

In my case, my qualification as a chartered accountant (and my background in forensic services) put me squarely in the business interruption section of claims. In this space, I can apply my accounting knowledge, understanding of businesses and investigative skills to determine whether a claim is appropriately quantified in the context of the damage as well as in the context of any factors unrelated to the event that may affect the business' performance. Only then will final quantum of the claim be determined.

There is much more to say about the engaging role of a loss adjuster, more than can be said in a single introductory article, so please head on over to my LinkedIn page (https://www.linkedin.com/in/jolenevisser/) for further discussion on commonly asked questions. If you have any other questions you would like to raise or if you would like to share any experiences you have had with commercial claims, please reach out, I am eager to hear from you.

Jolene further shares more on the role of a loss adjustor. We will also feature a session at the 2024 Insurance Seminar whereby claim preparers are taken through the process of submitting claims for a successful and smoother process.

Article appeared on Bizcommunity

Depending on the complexity of the claim, the claim process could be quite lengthy and may require ongoing review and...

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ARTICLES

THE TWO-POT SYSTEM

A balanced solution for retirement fund members

Author: Vickie Lange
Head: Best Practice at Alexforbes

Read the Article

The two-pot system is a significant milestone in retirement reforms that have taken place over the last decade. It enhances our retirement system, which we expect to improve retirement outcomes for members.

The COVID pandemic was the catalyst for the two-pot system. Members were requesting access to retirement savings while still employed to assist with financial relief. The two-pot system is a more sustainable regime into the future, which better aligns to the main purpose and objective of a retirement fund. It also provides a practical way for members to balance their competing financial needs for longer-term financial security and short-term financial relief.

What the TWO-POT system sets out to achieve

The main objective is to improve members' retirement outcomes by requiring increased preservation before retirement. These retirement reforms are important because our insights and data analysis show that only about 6% of members can expect a replacement ratio of 75% or more of pensionable salary. This is mainly due to 91% of members taking cash withdrawals when changing jobs. Considering various assumptions, the two-pot system is likely to improve new members' retirement outcomes by 2 to 2,5 times compared to those under the current system. The system ultimately provides better retirement outcomes while assisting members with financial relief when they have no other options.

How the TWO-POT system works

Key changes that the two-pot system introduces:

a. From the effective date two-thirds (about 67%) of new retirement fund contributions will be automatically allocated to a retirement component. These savings, and any investment growth, must be kept invested until retirement and used to set up a retirement income (be annuitised) at retirement.

b. From the effective date one-third (about 33%) of new retirement fund contributions will automatically be allocated to a savings component. These savings, and any investment growth, can be withdrawn once in a tax year by members, provided the amount withdrawn is not less than R2 000. They can do this without having to leave their job or retire. Members can also keep this invested and withdraw it or use it to set up a retirement income at retirement. Tax at marginal rates applies to any amounts withdrawn from the savings component before retirement.

c. Any amounts saved just before the effective date, and any past or future investment growth, will be automatically allocated to a vested component. This is to safeguard existing rights under the current laws.
   - Members of occupational retirement funds will still be able to withdraw these savings in cash if they leave their jobs or retire according to rules that apply before the two-pot system is implemented.
   - For members of preservation funds the one withdrawal rule will still apply to these savings before retirement.
   - Members of retirement annuity funds will not be able to withdraw these savings before retirement, as they can only withdraw up to one-third at retirement.
   - Tax applies to all cash withdrawals from the vested component.

d. Members will have limited access to their retirement savings they have just before the effective date without resigning from their employer. This is known as 'seed capital' and is proposed to be limited to 10% of retirement savings just before the effective date but not more than R30 000. This amount reduces the vested component and will be transferred to the savings component as the starting balance. Tax will also apply to this amount if it is withdrawn.

e. Provident fund members who were 55 or older on 1 March 2021 will be able to opt in to the two-pot system. In other words, the two-pot system will not automatically apply to these members, as they will have a choice.

How alexforbes is preparing for the TWO-POT system

It is possible that final legislation will only be available in early 2024. We are also waiting for the proposed changes to the Pension Funds Act that are required to support the two-pot changes in the tax laws. We are engaging with National Treasury, FSCA, SARS and industry bodies throughout the process.

Alexforbes has been diligently working on implementation plans based on draft legislation. However, our progress is contingent on the final legislation, which is still unavailable. This limitation prevents us from making final changes and updates to our communication efforts, systems and processes. These reforms represent significant changes to the retirement system, with substantial implementation requirements. Therefore it is crucial to allow a reasonable time between the finalisation of the legislation and the effective date of these changes. This will enable all stakeholders in the industry to ensure a smooth transition that works well for retirement fund members. As custodians of our clients' retirement savings, we hold a responsibility to manage their money diligently and responsibly.

Our approach to implementation is to ensure the right outcomes for members within a safe and secure environment. It's important for all stakeholders to work together to ensure everything is in place to assist members within reasonable timelines.

We believe that the new proposed effective date of 1 September 2024 provides a good compromise based on the unfolding parliamentary and legislative process. Alexforbes welcomes the two-pot system changes and is looking forward to how this will shape the industry over time and provide additional value and enhanced benefits to members of retirement funds.

EFFECTIVE DATE FOR THE TWO-POT SYSTEM

On 4 December 2023 the Standing Committee on Finance (SCOF) met to discuss the Finance Minister's letter which requested that the effective date for the two-pot system be changed to 1 September 2024 for the following reasons:

1. **Pension Funds Act changes are needed**
2. **Retirement fund rules need to be amended**
3. **Retirement funds such as the GEPF that are not regulated by the Pension Funds Act need legislative changes**
4. **SARS requested more time to get their processes and systems ready to tax withdrawal claims from the savings component**
5. **Liquidity must be managed in investment portfolios**
6. **Members need comprehensive education and communication**

Our understanding is that SCOF supported and accepted the Minister's proposed effective date of 1 September 2024. However, final parliamentary approval and final legislation are needed as part of the process. This means that the new proposed effective date is not yet final.

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ARTICLES

THE TWO-POT SYSTEM

Key considerations before you withdraw your retirement savings

Author: Kedibone Sono CA(SA)
SAICA Project Director for Members in Business (Technical)

The retirement funds industry is poised to implement the long-awaited two-pot system, effective September 1, 2024, granting members partial access to their retirement savings. However, there is a critical need for education and managing members' expectations due to prevalent misinformation. Members must stay informed through their respective funds' communications to understand the process of accessing these funds fully. While many members grasp the concept of a R30,000 withdrawal, other crucial considerations remain overlooked. Kedibone Sono CA(SA), SAICA Project Director for Members in Business (Technical), sheds light on these considerations, alongside the challenges members need to navigate while assessing their savings.

The actual amount you receive, whether it's R30,000, hinges on your current savings. To initiate your savings pot, a capital seed equivalent to 10% of your existing retirement savings will be made available. Consequently, your withdrawal amount is restricted to this seed capital, capped at R30,000. It's imperative to understand that this amount serves as a ceiling; the 10% seed capital must also be considered. For example, if your retirement savings amount to R100,000, you can only claim R10,000 (10% of R100,000). Similarly, even if 10% of someone's current savings, like R45,000 for R450,000, exceeds R30,000, the withdrawal will be capped at R30,000. Additionally, members should factor in other transactional costs such as administration fees and taxation, which would reduce the net payout they receive.

Another significant concern is access to the savings. Many members anticipate expedited access to their retirement savings, but it's unlikely to happen due to stringent controls implemented by funds to ensure the validity of payments and mitigate fraud risks. Engagements with human capital departments to assist with withdrawals have faced challenges due to the administrative burden associated with the process. Consequently, employees must claim directly from the funds, increasing the risk of fraud. Members need to adjust their expectations regarding withdrawal turnaround times accordingly.

Although funds are uncertain about the expected volumes, they are preparing their employees and systems based on estimates. Funds will also undertake more targeted educational initiatives to raise awareness and manage member expectations. Members intending to withdraw must engage with their respective funds to update and secure their details against fraud and familiarise themselves with the procedures put in place to access claims securely. The tax implications of these withdrawals remain unclear, and funds need to incorporate such specifications into their systems and communication efforts directed at members.

Finally, there are additional accounting considerations for funds, especially regarding additional disclosures, particularly for funds with a September year-end, there may be a need to highlight subsequent events, potential impact of the system on changes in accounting policies, any contingent liabilities etc. Although the two-pot system may lead to short-term cash outflows, most funds believe it will attract more retirement fund saving participants in the future, as the proposed changes are more favourable. At the heart of the two-pot system is the preservation of retirement fund savings while providing partial access to alleviate financial hardships for members. Members should ensure they fully understand the implications of withdrawing and the impact this has on their remaining vested component and future annuities they would earn from their savings.

Another significant concern is access to the savings. Many members anticipate expedited access to their retirement savings, but it's unlikely to happen due to stringent controls...

DISCLOSURE in an uninsurable world

Author: Dr Brad Beira MTech C, LLM Associate Director in Risk & Regulation, PwC South Africa;
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Read the Article

The future of the world's climate will have a significant determining impact on the financial prospects of the future insurance industry due to the interconnected nature of climate-related risks to existing and traditional risk types.

Insurance sector transparent disclosure on climate-related impacts is maturing across the insurance sector. Latest-generation climate-related reporting is now informed globally by International Financial Reporting Standards (IFRS), IFRS sustainability standards by the International Sustainability Standards Board (ISSB), the Task Force on Climate-related Financial Disclosures (TCFD) and locally through the new Prudential Authority (PA) disclosure requirements.

The country is regularly assessed on its financial stability, and this is likely to include regular e valuations of how the financial system is responding to climate and other sustainability risks.[1]

Beginning the way we wish to end

In principle, transparency of reporting will support risk-managed solutions in high-carbon operations and transitional sectors as well as the build of public trust and confidence. These are the objectives of (ultimately) externally assured disclosure and financial / non-financial materiality reporting.

Information on corporate performance is available through voluntary disclosure in different forums and the provision of publicly available information through integrated sustainability reports.

Let's quickly take a step back to reflect on what we know of our business operating context – within the context of organisational resilience.

Human, natural or social inputs (or capitals per the King IV Report on Corporate Governance for South Africa 2016) cannot be taken as stable, optimally functioning and infinite. These critical foundations are inherently volatile, sub-optimal and finite. Our approach to running or insuring any business therefore needs to work on this basis.

Operational requirements of businesses are changing rapidly. This takes the form of customer or client expectations, regulations, disclosure frameworks, rating agency and investor pressures, natural constraints impacting the value chain, and the related cost of capital.

Historically accessible and cost-effective raw materials and resources and the ability to secure an environmental, social licence to operate, might not be possible going forward. We need agile and resilient solutions to maintain profitability and competitiveness while adjusting toward low carbon, low water and zero waste operating environments. The insurance sector has been actively engaged in identifying and de-risking these challenges across multiple portfolios.

We are beginning to understand the commercial and social impact of unpredictable natural climate systems across our societies and economies as global average temperatures rise, and weather-related events increase in frequency and impact.

In the past climate-related risks, while a new risk type, were considered stand-alone risks. By their very nature, climate-related risks are better understood as risk multipliers, with the interconnected impacts exponentially increasing the likelihood and impact of existing risks.

The silver lining

We've seen an increasing global recognition of the link between climate change and the financial viability of businesses. The most widely recognised framework for disclosing these financial impacts has been the Task Force on Climate-related Financial Disclosures (TCFD).

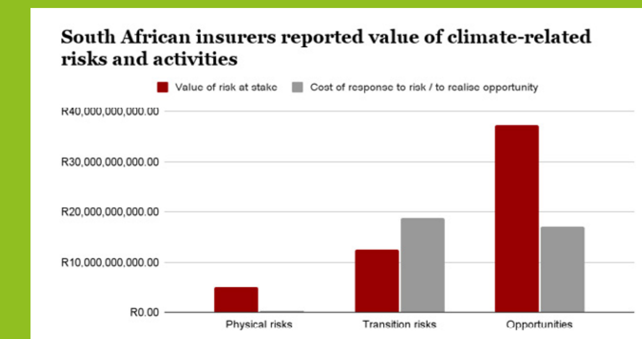
The TCFD was established by the Financial Stability Board (FSB) as a voluntary disclosure framework in 2015 and now has been taken over by the IFRS Foundation to build them into future IFRS standards.

The most recent standard which was published in 2023 is the IFRS S1, which has a broader sustainability focus, and the IFRS S2 Climate Related Disclosure which is focused on the financial impact of climate-related risks and opportunities, using the TCFD as the foundation.

With the release of the IFRS S1 and S2, a number of countries are moving to formally adopt these standards which will require companies to report against these standards. These have been adapted by the Prudential Authority (PA) in a recent guideline document titled 'Proposed Guidance Note – Climate-related disclosures for banks' which is aligned to ISSB and is most likely to become relevant to insurers.

In May 2023 the PA released a directive on operational resilience emphasising the need for operational resilience to form part of ERM processes, practices and procedures within the financial sector. A key part of managing overall operational resilience for insurers includes understanding the impact that the environment has on investment portfolios, the climate-related risk that the organisation is exposing itself to, and how the exposure to climate-related risks and claims affects the cost of reinsurance.

Disclosure information in the integrated reports of some of the biggest insurers in South Africa relating to the estimated climate-related risks and opportunities in front of them, suggest that the commercial impact they are estimating is significant, as shown in the figure below.



Source: PwC research
(ASHLEY:
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The amounts disclosed by these insurance companies should be considered against the backdrop of inconsistently reported data where differing methodologies for calculation were used and with a number of the insurers recognising that they are not yet able to quantify some or all of the risks and opportunities. This means that the actual value of the climate-related risks and opportunities they face could be a lot higher.

However, what this data highlight is:

1. Insurance companies are already starting to think about the financial impact of these risks and opportunities but have some way to go to fully understand the financial impacts.
2. The climate-related risks that have been identified are already financially material to insurers in South Africa.
3. The climate-related opportunities identified outweigh the combined climate-related physical and transition risks.
4. Transition risks (changing market conditions, consumer preferences) outweigh the modelled potential physical risks, while the physical risks may be most top of mind from recent natural disasters.

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DISCLOSURE CONT.

In the future, climate related reporting will include greenhouse gas emissions, ISSB disclosure requirements, and the nature of climate-related risk contained in an insurer's portfolios. This is likely to directly impact reinsurance premiums and the extent of available cover.

And now to disclose

The PA is increasing the focus on detailed information around the disclosure of credit risk, operational risk, leverage ratio and comparison of information as well as outcomes of the risk sensitivity analysis, in addition to the numbers presented on the annual financial statements as articulated and illustrated in Pillar 3 standard of the Basel Committee on Banking Supervision (BCBS) to allow users to make informed decisions based on the relevant information disclosed. In this regard the PA will set to follow the principles set out in Pillar 3.

In March 2023 the Financial Sector Conduct Authority (FSCA) published their statement on the Sustainable Finance and Programme of Work as part of the integration of sustainability into financial decision-making. The regulatory and supervisory frameworks will be evaluated by the FSCA to enable the effective spreading of financial risks and opportunities by evaluating products, improving the accuracy and transparency reporting of risks associated with sustainability, effectively and reliably mitigating these risks, and ensuring fair customer outcomes for financial products and services that are related to sustainability opportunities.

As international regulators such as the BCBS and the International Sustainability Standards Board (ISSB) increase their focus on granular information around various risks, it is likely that the South African regulator will soon follow suit. The key objectives for the increased focus on disclosure include transparency, consistency and comparability throughout the insurance industry which will allow the users of the data to make more informed decisions.

The measurement and disclosure of climate-related metrics such as greenhouse gas emissions and water and energy usage is the key starting point for organisations within the financial sector to set targets, develop risk strategies and ultimately set themselves apart as key industry leaders within the insurance sector.

The international stage has been set with the Partnership for Carbon Accounting Financials (PCAF) standardising the measurement and reporting of financed emissions and the TCFD. The Carbon Disclosure Project (now referred to as the CDP) as their reporting is now broader than carbon reporting, providing frameworks for disclosure. Combined with Solvency II, Pillar 3 which requires the disclosure not only of key metrics but also the methodology and assumptions used in determining those metrics in the South African insurance industry has a way to go when it comes to climate disclosure.

Where to from here?

Insurers don't have to look too far when it comes to required disclosure with the release of IFRS S1 and S2 which is effective for periods beginning on or after 1 January 2024. These standards require organisations to disclose information about their sustainability-related risks with IFRS S2 having a targeted focus on climate risk. These disclosure requirements make it vital for insurers to start gaining insight and in many instances continue their disclosure processes into how climate-related risks affect their businesses in areas such underwriting, claims management, risk transfer and ultimately their overall profitability.

As the discussion around climate risk starts to take centre stage, it is imperative that insurers start to consider the effects that climate-related risks have on its business continuity management, governance structures and future disclosure and regulatory requirements. Key questions for the industry to consider would be:

a. What are our climate-related risks? (IFRS S1 & S2)
b. How can we measure these risks? (PCAFs), and
c. How can we disclose these risks to our stakeholders? (TCFD, CDP and PA regulations)

These three topics will be explored in upcoming articles.

Please click here to view the article

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PROFILES

DISCOVERY'S IFRS TECHNICAL TEAM

Meet discovery's ifrs technical team

The IFRS technical team, the custodian and business partner within Discovery Group, aims to ensure that Discovery complies with IFRS Accounting Standards in accounting and reporting transactions. Giel Pieterse, who leads the team, says what he values about IFRS is its intention to bring transparency and accountability in business reporting.

GIEL PIETERSE CA(SA)
Head: Group IFRS Technical

Giel Pieterse says if he had not followed the CA(SA) route, he would most likely have gone the actuarial route. He says curiosity, coaching, patience and support structures have contributed to his success. 'I believe that the CA(SA) designation empowers an individual with choice, both in the work you do and the global access,' he says.

Within consulting and corporate, he believes there are softer skills that are essential for developing leaders: 'These include how to communicate simply, clearly, concisely. Speaking confidently within public forums, be it large crowds or executives. To this day I learn and get coached by colleagues, junior and senior colleagues on how to zone in and improve these skills. Every environment I have worked in has been a learning environment where individuals challenge each other and build up and have been fortunate with those individuals that have contributed to my development.'

He studied at the University of Pretoria and completed his articles at KPMG. After articles, Giel joined KPMG's IFRS technical department. In addition to his six years with KPMG post articles, he worked on the staff teams at the IFRS Foundation on the then IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments projects. In 2017, he joined Discovery Bank as a financial manager responsible for financial reporting, including technical matters and tax. An opportunity came in 2019 to move into a Discovery Group role, where he is currently managing the IFRS technical function. The IFRS technical team, the custodian and business partner within Discovery Group, aims to ensure that Discovery complies with IFRS Accounting Standards in accounting and reporting transactions. Giel Pieterse, who leads the team, says what he values about IFRS is its intention to bring transparency and accountability in business reporting.

'As a technical accountant, I aim to participate as much as possible within the respective industry forums, fieldwork and standard development. For me it is not about always having the answer for the new standards, but making sure that the proposals are considered, ensuring consistency and understanding how stakeholders such as shareholders will be impacted. Most importantly, it must be progress for the accounting profession.' As a CA(SA), he was a member of the SAICA Examinations Committee for a number of years. 'What was great about this role is how we as members in practice can contribute to the educational standards of the profession and collaborate with universities to make sure that future generations of CAs(SA) can contribute to the country. I have also been fortunate to partake in studies of master's and doctoral students that perform research into specified IFRS topics.' Another aspect Giel enjoys about IFRS is the technical analysis, investigation and reasoning in accounting for complex transactions. 'As the saying goes, seeing the wood through the trees.'

ADVICE FOR YOUNGER CAs

'Be curious about the world and read, read, read about the world. You are never too young to start building wealth. Take more time to learn about investing early than about expensive luxuries that don't last. You will be thankful you made those good choices when you become financially free.'

FUNDISWA NZUZA CA(SA)
Senior Manager: Group IFRS Technical

Fundiswa Nzuza was born and raised with her grandparents in a small town in Mpumalanga before moving to Gauteng when starting high school. After deciding on being a charted accountant, she obtained her undergraduate and postgraduate honours degree in BCom Accounting Sciences from the University of Pretoria.

After her studies she started her career in audit and advisory at KPMG. After completing her articles in auditing, she decided to specialise in IFRS with a focus on the financial services industry, particularly large JSE-listed banks and South African entities that also apply US GAAP. During her time in the KPMG technical department, she gleaned valuable knowledge consulting a large JSE-listed bank and various Mauritian financial institutions. She joined Discovery as a technical accountant specialist in 2020 and her role includes assisting in the completion of IFRS technical matters for Discovery Group, with a particular focus on insurance.

'My current contribution to the industry is focused on the implementation of the new accounting standard IFRS 17. The IFRS 17 standard changes how insurance contracts are measured and presented in the financial statements and there are several interpretation items across the auditing and insurance industry communities that I am involved in developing from a South African industry view by being involved in industry technical groups,' she says. Fundiswa attributes her growth as a technical accountant to communication and continuous learning and development. She stresses that being committed to life-long learning is vital to a career and that her experience as a technical accountant has helped her tremendously in climbing the ladder.

ADVICE TO YOUNGER CAs

'Maintaining a work/life balance is important throughout your career. During articles, the work/ life balance may be strained, as that is the time to absorb as much information and develop the skills that you will carry throughout your career. Learning and growth during this period are exponential. As you mature in your career and understand how to effectively manage your time and work cycle (ie, the busy vs the quiet periods), a work/life balance is easier to achieve.'

As a technical accountant, I aim to participate as much as possible within the respective industry forums, fieldwork and standard development.

DISCOVERY'S IFRS TECHNICAL TEAM CONT.

LUNGA MNISI CA(SA)
Manager: Group IFRS Technical

Lunga Mnisi says he landed in technical accounting by accident (well, sort of). After having joined the Absa Young Chartered Accountant Programme (YCAP) in 2016 (a programme intended for newly qualified CAs with no banking experience), his initial goal was to become an investment banker. 'You know, do the cool stuff we see in movies and wear the shiny suits,' he laughs.

As part of the YCAP, he was placed on a six-month rotation to Absa's technical accounting department, where he fell in love with technical accounting.
'It was different from the technical accounting perception I had formed from varsity and articles. The work wasn't just IFRS theory. Although understanding IFRS is a key component, it also involved a great deal of liaising with various stakeholders within a business and understanding the economics of transactions as a first base principle before the IFRS theory. Technical accounting work is very broad and diverse from day to day – today I may be helping a stakeholder with basic debits and credits, tomorrow unpacking a complex structured transaction and related accounting implications, and the next day drafting a memo,' he explains.

He says that the CA profession has opened many doors and, more importantly, has afforded him the opportunity to apply for various roles, including his current technical accountant role at Discovery. 'Through the rigorous journey one goes through from university to articles training, the CA qualification has afforded me opportunities to skill myself to be a fast learner in understanding multiple industries as well as a hard worker – which is a bonus in any career progression. I moved across industries … for example I did my TOPP articles at Eskom, after completing my articles joined Absa Bank through YCAP, and am currently at Discovery.' Some of his highlights include being seconded on work to other countries (international work experience, travel opportunities and other cultures, plus a six-month stint in Kenya).

Why be passionate about IFRS? 'Over the years, as the world has become more complex with more and more peculiar types of transactions and products (non-fungible tokens, cryptocurrencies, etc), so the IFRS standards have become "grey" to keep up in the fast-changing world of today. Where previously IFRS standards were black and white, we are presented with more and more grey areas where the role of a technical accountant is to add colour (black, read "simplify") and define the black areas from the grey using accounting principles outlined in the IFRS standards.'

ADVICE FOR YOUNGER CAs
'It's never 50/50: often in the early stages it's going to be 80/20 weighted more to work. As long as the sum is a hundred or greater, you know you are on the right track. It does get better as you gain more experience in your profession. Be willing to get out of your comfort zone and challenge yourself. You are probably going to find out you are more capable than you give yourself credit for.'

STHABILE (ABBIE) MBONAMBI CA(SA)
Manager: Group IFRS Technical

Sthabile Mbonambi is the newest team member. She was born and raised in Durban, matriculated in 2012, and subsequently chose to attend Rhodes University as Allan Gray (her bursar) was a Rhodes alumnus. Although she initially registered for BCom Law, she realised from the accounting lectures that she would enjoy accounting more. She subsequently requested to change her major to BCom Accounting due to her love for accounting, and she completed this degree in 2015.

After completing her Postgraduate Diploma in Accounting in 2016, she started her training articles at Deloitte Cape Town, where she had exposure to financial service clients in the banking, asset management and insurance industries.

'I then lectured at Stellenbosch University, lecturing accounting and auditing. I then moved to Johannesburg to challenge myself in an unfamiliar environment. After being a technical manager at EY, I joined the Discovery team in July 2023 as a technical accountant,' she recounts.

'Being a CA(SA) has given me the freedom of choice and abundant opportunities in the corporate space. I have been lucky enough to realise where my passion lies relatively early and pursue that passion with all of me. I love what I do, and deciphering IFRS Accounting Standards is it for me.'

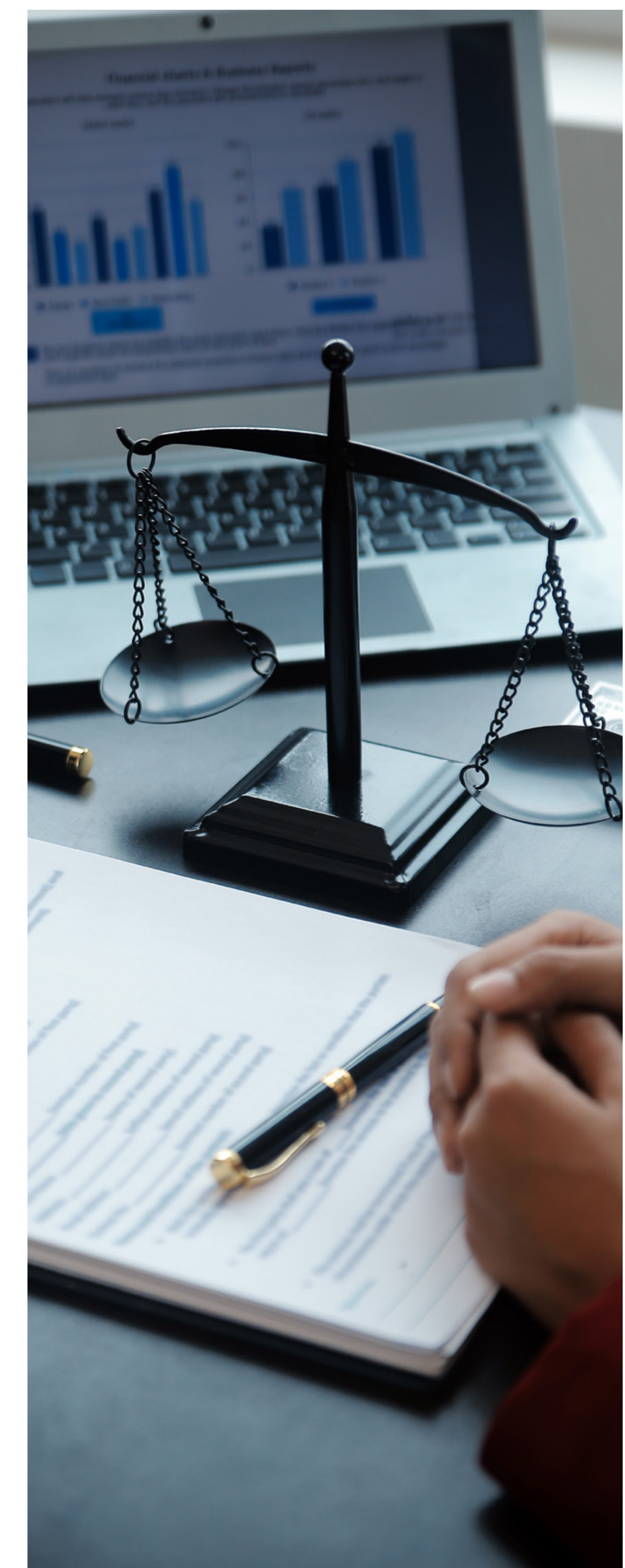
She currently has a YouTube channel providing CTA videos to students explaining concepts most of them find difficult. 'I am trying to grow the CA(SA) profession, so this is not limited to an industry.

Though she is still relatively new to the accounting technical industry, her attention to detail and language skills has made it easier to adapt and interpret the more complex areas at Discovery.

'Attention to detail is critical in all roles and responsibilities, but even more so if one is assisting with a technical issue that deals with the annual financial statements. Language and communication are interrelated skills because it means one can be part of a team, build rapport, and ask for help where necessary, especially when one is still starting in a role,' she explains.

'I also believe always being mindful of deadlines is a trait I could never have excelled without. I believe in doing things and staying focused in the face of pressure. Remaining calm when faced with a lot of information and being able to filter out what is important and what is urgent has been crucial in my roles (both current and previous).'

ADVICE FOR YOUNGER CAs
'Sacrifice your ego to sow seeds of knowledge. You cannot grow if you are unteachable or refuse to be accountable for the work you have delivered. That was the biggest lesson I had to learn: accepting that I do not know everything and asking for help.'



PROFILES

MEET MAMETSE MOKANSE

Finance Executive: IFRS Advisor

From Township to Corporate Heights

In the heart of Ga-kgapane, a small township in Limpopo, Mametse Mokanse's journey unfolded against the familial backdrop of a hardware store. Raised in a family of seven, her parents, both educators, instilled early values of diligence and the pursuit of education. Little did they know that these humble beginnings would lay the foundation for a transformative career in Chartered Accountancy.

CA(SA): A Catalyst for Professional Evolution:

The pivotal moment occurred during her grade 11, years when a Thuthuka bursary advertisement caught her eye. Despite a limited understanding of the CA profession, she seized the opportunity and found herself at the University of Johannesburg for a life-altering bursary interview. With unwavering parental support, emphasizing the significance of education, the journey into the intricate world of CA began.

Becoming a Chartered Accountant (SA) proved to be a transformative experience, particularly in the realm of technical accounting. This specialization not only exposed her to diverse and intricate transactions but also positioned her as a key contributor to solutions during economically challenging periods. A poignant example was her involvement in navigating the complexities of the government's Covid-19 Loan Guarantee Scheme, illustrating the profound impact a CA(SA) can have on societal challenges.

Paying it Forward: Making a Mark in the Industry:

Opting for the path of a technical accountant, her journey emphasized the importance of perpetual learning and networking. Beyond personal growth, mentoring aspiring CAs and coaching colleagues became an intrinsic part of her professional identity. Actively imparting knowledge and fostering collaboration became her way of contributing to the collective growth of the industry.

Climbing the Corporate Ladder: A Journey of Learning and Adaptation:

Currently serving as the Finance Executive for IFRS Advisory at Nedbank Group, Mametse's career trajectory encountered unexpected turns. The decision to stay in the technical accounting division post-articles proved pivotal, leading to specialization in the financial services industry. Climbing the corporate ladder demanded resilience, a commitment to learning, and an understanding that every experience contributes to one's professional journey.

Reflecting on her career, she recognized that being a CA(SA) is the best career decision she has made. It has not only allowed her to realize her dreams but also provided opportunities beyond her initial aspirations.

Guidance for Emerging CAs: Balancing Act and Strategic Planning:

Navigating the demanding landscape of a CA(SA) career requires a delicate balance between work and personal life. Shifting away from the conventional notion of work/life balance, she found that strategically allocating intense work periods and ensuring quality family time during less hectic phases proved to be a sustainable approach. Clear communication with her support system, including a spouse, daughter's aunties, and helper, played a pivotal role in navigating challenges effectively.

Overcoming Challenges: A Journey of Determination:

The CA(SA) journey is not without challenges, from rigorous study hours to explaining absences during family functions. The tenacity to overcome obstacles, coupled with having a mentor, proved instrumental. Mentorship provided invaluable insights, guiding her through uncharted territories and offering a compass during moments of uncertainty.

From the humble beginnings in Ga-kgapane to steering financial strategies at Nedbank Group, her CA(SA) journey has been marked by resilience, continuous learning, and unwavering support from family and mentors. To aspiring CAs, the advice extends to embracing challenges, actively seeking knowledge, and recognizing that the journey itself is as transformative as the destination. Chartered Accountancy is more than a career; it's an odyssey that shapes individuals and leaves an indelible mark on the fabric of businesses and economies. As the Finance Executive for IFRS Advisory, Mametse finds fulfillment not just in the numbers but in the journey that brought him from a hardware store in Ga-kgapane to the boardrooms of corporate leadership. This narrative encapsulates not only her personal journey but serves as a testament to the potential and impact of a career in Chartered Accountancy.

Please click here to view the interview

The decision to stay in the technical accounting division post-articles proved pivotal, leading to specialization...

EVENTS

UPCOMING SEMINARS AND EVENTS

The financial services landscape is evolving rapidly, driven by technological advancements, regulatory changes, shifting customer preferences and global economic trends. In this dynamic environment, staying ahead of the curve is essential for sector participants to thrive and meet the evolving needs of their customers. The rise in fraud and cyber risk is a significant challenge for the industry, necessitating a proactive approach, with businesses needing to be agile in their response.

The sector seminars in 2024 aims to provide insights and strategies for professionals operating in South Africa to adapt, innovate, and succeed in the face of these challenges. The events will bring together industry experts, thought leaders, and industry professionals to explore key trends, discuss best practices, and identify opportunities for growth and transformation.

PAST EVENTS: BANKING SEMINAR

The SAICA Banking Seminar, themed "Exploring the Future of Banking in South Africa," was held on 14 June 2024. This event brought together key stakeholders to explore the rapidly evolving landscape of the banking industry. The seminar emphasized the importance of incorporating sustainable finance into banking practices. Dr. Morne Mostert, a panel member, urged banks to prioritize funding for environmentally friendly projects. The event also highlighted the transformative role of fintech in banking and stressed the need for banks to adopt a more customer-centric approach, emphasizing that "people need banking, not banks." Overall, the seminar provided valuable insights and strategies to assist banks in navigating challenges posed by technological advancements, regulatory changes, shifting customer preferences, and global economic trends.

Banking Seminar
(Webcast)
Date:
14 June 2024
click here

SEE OUR UPCOMING EVENTS:

Insurance Seminar
(Webcast)
Date:
17 September 2024
click here

Medical Schemes Seminar
(Webcast)
Date:
04 November 2024
click here

KINDLY JOIN US

NEWSLETTERS

BANKING

South African Reserve Bank Launches the Corporation for Deposit Insurance

The South African Reserve Bank (SARB) officially launched the Corporation for Deposit Insurance (CODI) in April 2024. CODI is set to protect qualifying depositors, including individuals and non-financial businesses, and to inform them of CODI's protection benefits and limitations, should a bank fail. CODI provides an automatic cover of up to R100 000 to each qualifying depositor per bank in the unlikely event of a bank's collapse.

CODI 1: Fund Liquidity

The Standard sets out the calculation of the minimum amount that banks must maintain in the account of the Deposit Insurance Fund for purposes of the Fund liquidity of the Corporation It also details how the contributions to the fund's liquidity are transferred to the Corporation.. The Standard became effective on 1 April 2024.

Minimum regulatory requirements relating to mutual banks' fund liquidity contributions to the Corporation for Deposit Insurance

The Prudential Authority (PA) has published the minimum regulatory requirements relating to mutual banks' fund liquidity contributions to the Corporation from 1 April 2024. When calculating the minimum required capital and reserve funds related to credit risk exposure to the Corporation, mutual banks must apply a 0% risk weight based on the explicit guarantee provided by the South African Reserve Bank (SARB).

Directive - Minimum regulatory requirements relating to the deposits covered by the Corporation for Deposit Insurance and banks' fund liquidity contributions

The PA has informed all banks of the minimum regulatory requirements relating to the deposits covered by the Corporation and banks' fund liquidity contributions to the Corporation from 1 April 2024

This directive direct banks to apply minimum requirements for credit risk exposure to the Corporation outlined as follows:

- Banks that have adopted the STA Approach must apply a 0% risk weight for exposure to the Corporation, based on the explicit guarantee provided by the SARB.
- Banks that have obtained approval to adopt the foundation IRB Approach can substitute the probability of default (PD) and loss-given default (LGD) estimates related to the Corporation with those related to the SARB.
- Banks that have obtained approval to adopt the advanced IRB approach can substitute either the PD or the LGD estimate related to the Corporation with the PD or LGD estimate related to the SARB.

LCR Requirements:

- Banks must apply a 5% run-off factor to retail deposits within a 30-day window covered by the Corporation when calculating the LCR.
- If a bank's total covered deposits increase / decrease from one month to the next, the bank's fund liquidity tier balance must be adjusted by the Corporation. The surplus / shortfall must be assigned a 100% run-off / inflow factor when calculating the bank's LCR.

BANKING CONT.

NSFR Requirements:

- A required stable funding (RSF) factor of 100% must be applied to the fund liquidity contribution requirement when calculating the bank's NSFR.
- An RSF factor of 50% must be applied to a shortfall.
- An available stable funding (ASF) factor of 50% must be applied to excess balances.

Find out more

Corporation for Deposit Insurance November 2023 Newsletter

This newsletter provides information in the form of frequently asked questions (FAQs) on deposit insurance ahead of the implementation of the deposit insurance scheme in April 2024.
Questions may be emailed to CODI@resbank.co.za.

Proposed Directive - Proposed amendments to Regulations

Since the Banks Act was established, the BA returns to be completed by banks and the related directives have been a crucial part of the Regulations issued by the Minister of Finance under section 90 of the Banks Act. To support the ongoing Umoja System Implementation Project, which includes the submission of various regulatory returns, the PA decided to recommend the deletion of all the BA returns and the related directives from the Regulations.

In the future, all BA returns and the related directives will be issued separately as Directives or Determinations.

Find out more

The SARB releases Roadmap towards inclusive digital payments

The South African Reserve Bank (SARB), the custodian of the national payment system, published the Digital Payments Roadmap (Roadmap). The Roadmap aims to promote and enable the offering and adoption of alternative inclusive, cost-effective, sustainable, and innovative digital payments. It also aims to increase the usage of both traditional and emerging digital payments to support the socio-economic needs of all South Africans. However, this Roadmap is specifically focused on the South African payment ecosystem and does not encompass cross-border payments.

Proposed Directives - Completion of regulatory returns relating to credit risk forms BA 200 and BA 210

In December 2023, the PA published proposed directives to guide banks on certain matters related to the completion and submission of forms BA 200 and BA 210 to ensure consistency in credit risk reporting across banks by providing specific instructions for completing these forms. Comments were invited until 5 February 2024. As part of the invitation to comment, the PA included a summary document highlighting the changes it considered important for all reporting institutions and other interested parties to note.

Following consultations, the comments were processed, and necessary amendments were made. In April 2024, the PA published the finalised directives.
Accordingly, Banks that have adopted the standardised (STA) approach or the Internal Ratings-Based (IRB) approaches for calculating their required capital and reserve funds for credit risk are directed to comply with the respective directive and interpretation specified in the Regulations for the completion and submission of forms BA 200 and BA 210 relating to credit risk. These proposed directives become effective from 1 July 2025.

Notice governing operational and administrative issues pertaining to repurchase transactions entered into by the Corporation for Public Deposits (CPD)

To participate in repo transactions with the CPD, a counterparty must:

- Obtain approval from the FMD of the SARB.
- Be registered with the Financial Sector Conduct Authority (FSCA), STRATE, and be a member of a reputable locally registered stock exchange.
- Comply with all relevant laws, rules, and regulations applicable to the transactions.

The CPD may amend this CPD Operational Notice periodically and will give reasonable notice of any amendments. However, it reserves the right to introduce any amendment with immediate effect if necessary. The CPD may also vary the operational timetable or vary or omit any of the procedures described on any particular day, if deemed necessary.

Joint Discussion Document on the expansion of eligible collateral types and the risk management protocols for the use of non-cash collateral, in termsof Joint Standard 2 of 2020.

The Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) propose recognizing certain government bonds as collateral for OTC derivatives, subject to credit ratings and risk management. Comments by 8 July 2024. Find out more

Anti-money laundering, counter-financing of terrorism and counter-proliferation financing(AML/CFT/CPF) awareness communiqué

The Prudential Authority (PA) published this communique highlighting key deficiencies observed during AML/CFT/CPF supervision of accountable institutions (AIs). AIs are expected to acknowledge these deficiencies and enhance their risk management and compliance programs. Refer to the Annexure attached for details of the deficiencies identified, and guidance on the PA's expectations on implementation of effective controls. These deficiencies include amongst others - business risk assessment, the detail within the ML/TF/PF risk scoring model/matrix, customer due diligence, suspicious and unusual transaction reports/suspicious reporting as well as governance.

Working Paper: Monetary policy and herding behaviour in the ZAR market

This paper investigates the presence of herding and its interactions with monetary policy in the ZAR market.

The results showed that monetary policy announcements induced herding behaviour only in the bear market. This result is in line with the literature, which shows that the SARB's monetary policy communication and credibility has improved.

Draft Prudential Standards for Co-operative Financial Institutions (CFIs) and Co-operative Banks

The PA re-drafted the Prudential Standards outlining requirements in relation to registration and operations, governance, risk management as well as financial soundness for CFIs and co-operative banks for consultation. The PA further proposed tiering of the co-operative banking sector by categorising CFIs and co-operative banks into basic, intermediary, and advanced models with commensurate financial soundness, governance, operational and risk management requirements. The proposed tiering is not intended to be in the public domain to avoid any perceptions of the riskiness of the financial institution.

BANKING CONT.

Clarification of supervisory expectations regarding branch closures and automated teller machine (ATM) removals by Banks

Clarification of supervisory expectations **regarding branch closures and automated teller machine (ATM) removals by Banks**

This communication seeks to further clarify and confirm that banks are not required to obtain prior approval from the Financial Sector Conduct Authority (FSCA) before taking a decision to close a branch or remove an ATM whether temporarily or permanently. However, the FSCA does expect banks to notify it, within a reasonable period, details of the bank's strategy for planned closures or removals on an annual basis. This includes steps taken to ensure that such closures or removals do not adversely impact fair outcomes for financial customers. In case of unplanned branch closures or ATM removals, banks are expected to share with the FSCA, through its ongoing supervisory engagements, details of appropriate arrangements such as the provision of reasonable alternative services or access points to safeguard the needs of vulnerable customers during such closures or removals.

Proposed Directive: Implementation of a positive cycle-neutral countercyclical capital buffer

The Basel Committee on Banking Supervision (BCBS) issued Risk-based capital requirements, RBC30 Buffers above the regulatory minimum, which set out, among others, the countercyclical capital buffer (CCyB) requirement.

The PA and the South African Reserve Bank (SARB), agreed to implement a positive cycle-neutral countercyclical capital buffer (PCN CCyB) in South Africa. The SARB has set the PCN CCyB at 1% of risk weighted exposures and will have a 12-month implementation lead time, commencing on 1 January 2025 to December 2025.

Banks are therefore directed to maintain a PCN CCyB of 1% effective from 1 January 2026.

Mutual Banks: Auditing requirements in terms of Regulation 6 of the Regulations relating to Mutual Banks

This Directive specifies the detailed scope of the regulatory returns that must be audited, reviewed, or concluded upon under a limited assurance framework by auditors of mutual banks as required by regulation 6 of the Regulations relating to mutual banks.

Auditors of mutual banks are directed to perform an audit, review, or limited assurance engagement on the respective regulatory returns in accordance with the detailed audit matrix provided in the Annexure in relation to engagements for financial years ended on or after 30 June 2023. The reports submitted to the PA shall be in accordance with the illustrative regulatory reports periodically published by the IRBA.

Proposed Directive - Credit spread risk in the banking book (CSRBB)

The amendments to regulation 30 of the Regulations which came into effect from 1 January 2023 makes provision for the PA to issue directives which includes, amongst others, instructions for the completion of CSRBB.

This Directive sets out, amongst others, the following instructions relating to CSRBB:

- Banks must consider currency-specific dimensions when assessing changes in credit risk premium and liquidity premium movements. No instrument in the banking book should be excluded from the perimeter of CSRBB, including assets, liabilities, derivatives, and other off-balance sheet items as well as assets accounted at fair value.
- The strategy and risk appetite for CSRBB, must align with the bank's overall strategy and must be expressed in terms of the impact of fluctuating credit spreads on different CSRBB measures.
- The CSRBB risk management framework must establish clear lines of responsibilities including policies, processes, and internal controls. The board of directors must oversee the CSRBB management framework and the bank's risk appetite framework.

Prudential Authority Quarterly Industry Newsletter-December 2023

As part of its efforts to engage with the financial sector, the PA issues a Quarterly Industry Newsletter highlighting valuable insights, updates, and information related to the financial industry. This edition highlights the 2024 industry engagements, PA communications and publications for the quarter as well as an update on the Umoja System Implementation Project.

Guidance Note: Matters on the use of Terrorist Financing or other unlawful activity

This guidance note emphasises the importance of conducting comprehensive institution-wide terrorist financing (TF) risk assessments in ensuring that banks gain a clear understanding their exposure TF risks, which informs the degree and extent of controls required to mitigate the risk posed to the bank concerned. The guidance also highlights specific areas that, when given sufficient attention, aid in mitigating TF and targeted financial sanctions (TFS) risks as well as the trends and typologies which may impact banks within South Africa. These guidelines are consistent with the Financial Action Task Force (FATF) Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation.

Working Paper: Can monetary and fiscal policy account for South Africa's economic stagnation

This paper examines the interaction between macroeconomic variables and the fiscal and monetary policy mix between 2012 and 2019, a period characterised by increases in public debt and the sovereign risk premium, and low economic growth. Using the Bayesian vector autoregression (BVAR) model to estimate the interrelationships between the variables, it found that monetary and fiscal policy fail to account for the observed lower real gross domestic product between 2012 and 2019. Based on the historical relationship between monetary and fiscal policy in South Africa, the results indicate that we should have observed much higher growth, especially during the 2015–2019 period. In addition, little evidence indicates that low growth during the period can be explained by the much-criticised "anti-growth" monetary policy.

BANKING CONT.

Working Paper: The lending implications of banks holding excess capital

This paper considers *the role of monetary policy and the interaction of monetary policy with regulatory capital decisions* more explicitly. The results of the analysis show that excess capital has a large and significant impact on credit extension across different specifications. The main finding of this paper is that banks' decision to hold excess capital has a large impact on lending, especially for small banks. The results also indicate that higher levels of excess capital amplify the effect of monetary policy actions on lending. This is another financial sector channel through which unsustainable fiscal actions impact the economy.

Working Paper: Cash transfers and prices: what is the impact of social welfare on prices?

This paper examined the *relationship between existing social grants and prices,* highlighting several key findings. There are significant price effects on the goods and services consumed by individuals in the poorest deciles in South Africa. This can likely be attributed to the type of grant received and the characteristics of beneficiary households.

Working Paper: The impact of Basel III implementation on bank lending in South Africa

This paper investigated the *impact of the Basel III capital requirement on the supply of bank credit in South Africa.* The literature offers greatly varying estimates of the impact of bank capital requirements on loan supply. Using a specification closely modelled on a related study of Peru by Fang et al. (2020), we report panel regressions using monthly balance sheet data for the four biggest banks in South Africa. We distinguish between three different categories of bank lending for household and corporate borrowers and report complementary local projection estimates to capture dynamic impacts. We find little evidence that the introduction of higher capital requirements under Basel III has reduced the supply of bank credit in South Africa. We surmise that this is mainly due to the large banks being well capitalised and operating with capital buffers that are larger than regulatory minimum requirements.

Status of previously issued Circulars, Directives and Guidance Notes

In order to ensure that banks and auditors of banks are in no doubt as to which previously issued circulars, directives and guidance notes remain effective, the PA annually confirms their status. Accordingly, all previously issued circulars, directives and guidance notes are deemed to be withdrawn/terminated/replaced except if it is to remain effective and is then accordingly confirmed by the PA.

- *Bank Circulars*
- *Bank Guidance Notes*
- *Mutual Banks Circular*

Directive: Pillar 3 disclosure requirements for interest rate risk in the banking book (IRRBB)

The ***Pillar 3 disclosure requirements*** aim to enhance market discipline by providing users with key information about bank's regulatory capital and risk exposures. These requirements aim to improve transparency and confidence in a bank's exposure to risk as well as the overall adequacy of its regulatory capital. Accordingly, Banks are required to disclose information related to IRRBB to the public. These disclosure requirements apply to banks reporting at the solo level, and branches of foreign institutions in South Africa, unless the PA directs otherwise. Where the templates require the disclosure of data points for current and previous periods, data points for previous periods are not required when reporting metrics for new standards. Banks must disclose IRRBB risk management objectives, policies, and quantitative information according to specified formats and frequencies.

This directive applies to years ending on or after January 1, 2024.

Simplified Approach Credit Valuation Adjustment Framework Application Suite

The PA issued an application suite for the use of the standardized approach for counterparty credit risk in calculating Credit Valuation Adjustment (CVA) capital requirements. Reference should be made to Prudential Communication 15 of 2023 for qualitative and quantitative criteria related to eligibility for using the standardized approach for counterparty credit risk in determining CVA capital requirements. Banks are encouraged to leverage their resources and governance to ensure that the questionnaire and requirements in this application suite are comprehensively addressed. Applications due by 03 June 2024.

Directive: Reporting requirements in terms of regulation 46 relating to Banks

Auditors of banks are directed to perform an audit, review, or limited assurance engagement on the specified regulatory returns (as per regulation 46(6) of the Regulations), in accordance with the detailed audit matrix provided in the Annexure for reports submitted to the PA in relation to engagements for financial years ending on or after 30 September 2023. The *reports submitted* to the PA must align with the illustrative regulatory reports published by the IRBA.

Proposed Directive - Loss absorbency requirements

The Regulations prescribe minimum requirements for capital instruments to qualify as either additional tier 1 or tier 2 capital. This proposed directive directs banks to comply with the *loss absorbency requirements* and the relevant trigger events for capital instruments, in addition to the respective requirements specified in the Regulations. Accordingly, Banks are directed to clearly indicate in the contractual terms and conditions of additional tier 1 and tier 2 instruments whether they will be written off or converted into the most subordinated form of equity, at the occurrence of a trigger event which is at the discretion of the CEO of the PA.

The contractual terms and conditions for additional tier 1 and tier 2 instruments must include the number of shares (or a formula) in the most subordinated form of equity received by instrument holders upon conversion and the conversion price, determined as the greater of the arithmetic mean of share closing prices over five consecutive dealing days before the trigger event, or a floor price of 20% of the shares' closing price at the issuance date.

In exceptional cases where conversion cannot be undertaken, is not irrevocable or won't immediately increase CET1 capital, the instrument will be written off instead. **Comments due by 29 April 2024.**

NEWSLETTERS

RETIREMENT FUNDS

Extension of period of compliance and the launch of the second phase of the Trustee Training Toolkit (TTK)

The Financial Sector Conduct Authority (FSCA) extended the deadline for the completion of the first 11 modules of the *Trustee Training Toolkit (TTK)* to 30 September 2024 due to technical issues. This applies to board members of pension funds who were appointed on or before 28 March 2024. Newly appointed or elected board members after 28 March 2024 must complete these modules within six months from their date of appointment or election.

In addition, the FSCA concurrently launched the second phase of the TTK, comprising the remaining half of the 22 modules. Board members appointed on or before 28 March 2024 must complete these modules by 30 September 2024. New board members appointed or elected after 28 March 2024 are required to complete modules 12 to 22 within six months from their date of appointment or election. All 22 modules of the TTK can be accessed on the FSCA's eLearning portal.

FSCA Prudential Standard 1 of 2024: Regulation 28 Quarterly Reporting Requirements for Pension Funds

The FSCA published *draft Prudential Standard* that included a high-level requirement to report on non-compliance and assets held in terms of Regulation 28, along with the draft reporting template. The draft reporting template, to the extent possible, fully aligns to the annual report on assets held in terms of Regulation 28. The draft Prudential Standard and supporting documents were submitted to Parliament on 22 February 2024.

Following the parliamentary process, on 2 April 2024, the FSCA published the *FSCA Prudential Standard 1 of 2024.* This Prudential Standard prescribes quarterly reports for pension funds relating to assets held in terms of Regulation 28 (as amended). The requirement to report on assets held in compliance with Regulation 28 on a quarterly basis has been removed and the revised Prudential Standard now only requires pension funds to report any non-compliance with or breaches in terms of regulation 28 on a quarterly basis. If no non-compliance or breaches occurred, a fund does not have to submit a quarterly report. The FSCA also determined the format of the quarterly reports to be submitted to the Authority in accordance with paragraphs 2 and 3(2) of the Prudential Standard. The Prudential Standard became effective on the date of publication.

Publication of names of pension funds and employers with arrear contributions

The FSCA published the names of *pension funds and employers with arrear contributions* for contravening section 13A(3)(a) of the Pension Funds Act, 1956 ('PFA'). This list contains the names of 3262 non-compliant employers as at 31 July 2023 including non-compliant employers who have subsequently made payments in full or have an arrangement in place. The FSCA intends to update and publish this on a quarterly basis going forward.

Updated Requirements for rule amendments to be submitted by retirement funds to give effect to the Two-Component System

This *Communication* sets out the revised requirements regarding rule amendments to give effect to the two-component system and outlines the approach that the FSCA will be taking towards applications for such amendments. Funds have until 15 July 2024 to submit two-component amendments. This will enable the FSCA to process and approve them timeously before the 1 September 2024 deadline. No rule revisions or consolidations will be accepted during this period.

Exemption of Funds from using certain prescribed formats for preparing financial statements

Large Funds are exempted from the *requirement* to complete Schedule D1 and Schedule IB1 when preparing financial statements, on the condition that such a fund complete the IRBA approved illustrative "Auditor's Report template, Assurance Report on Compliance and Annexure A as may be amended by IRBA from time to time.

FSCA Interpretation Ruling 1 of 2024 (RF) on the Application of Section 37C of the Pension Funds Act, 1956 (PFA), and withdrawal of FSCA Interpretation Ruling 1 of 2020 (RF)

The FSCA Interpretation Ruling 1 of 2024 (RF): Interpretation and application of section 37C of the Pension Funds Act, 1956 replaces the previous FSCA Interpretation Ruling 1 of 2020 (RF) with effect from 4 March 2024. The revision was prompted by an incorrect interpretation in the earlier ruling regarding the payment of unclaimed benefits upon member's death. The *Revised Ruling* clarifies the distinction between benefits payable upon a member's death (in this instance Section 37C would apply) and benefits that has already become payable before the member's death (which falls outside the ambit of Section 37C), even if the benefit hasn't been paid to the member yet. It also clarifies that section 37C does not apply to an unclaimed benefit and to a member of an unclaimed benefits fund.

Requirements for rule amendments to be submitted by retirement funds to give effect to the Two-Component System in terms of the Revenue Laws Amendment Bill and the Pension Funds Amendment Bill

The two-component system will require the *rules of a retirement fund* to allocate contributions flowing into retirement funds to provide for a seed capital amount or starting (opening) balance of 10% of the value of the member's share in a retirement fund subject to a maximum of R30 000, a savings component, to be made up of one- third of all contributions for the period and a retirement component that will consist of two-thirds of contributions. Funds are requested to limit the rule amendment submissions to the two-component amendments delineated in this communication.

Update on Annual Statutory Returns submissions for 2023

The *Annual Financial Statements (AFS) and Annual Statutory Returns (ASR)* for 2023 submission were delayed end of June 2024, due to additional time was needed to complete the back-end validations and word document. Schemes will be provided with a six-week period for completion of their full submission.

Annual Financial Statements and Annual Statutory Returns for 2023

The purpose of *this Circular* is to guide the industry in preparing Annual Financial Statements (AFS) and Annual Statutory Returns (ASR) for 2023.

The 2023 ASRs underwent significant changes due to the introduction of IFRS 17: Insurance Contracts. The updated specifications, which align with the revised 2023 SAICA Guide, were developed in response to industry feedback. The return aligns with IFRS disclosures but does not need to adhere to IFRS as it is a regulatory tool. Key amendments include the splitting of trade and other receivables, trade payables, and the modification of administration expenditure to account for expenses directly attributable to insurance contracts.

The format of the IFRS 17 Statement of Comprehensive Income has been adopted, and the Statement of Financial Position now discloses detailed figures representing a net position in the AFS. Accumulated Funds and other reserves are now part of Insurance liabilities for members under non-current liabilities due to medical schemes being regarded as mutual entities.

The implementation of IFRS 17 necessitated significant changes to the ASR system, resulting in a delay for the 2023 submissions. The system is expected to go live at the beginning of May 2024.

Update on the Risk-Based Capital Solvency Model Framework

The CMS assessed three *Risk-Based Capital (RBC) Models* for potential application to medical schemes. These models include:

- **a** The CMS model, developed internally by the CMS.
- **b** The Industry Technical Advisory Panel (ITAP model), developed in collaboration between CMS and the private sector.
- **c** The Scott and Lowe model, proposed at the Actuarial Society of South Africa's Actuarial Convention in 2015.

The project concluded that while various models perform better under varying circumstances, the RBC methods should be used as an early warning system rather than radically changing the current situation. Implementing a new RBC model would be challenging for medical schemes due to the complexities of the various models.

However, the project proposed that the RBC should be used as an early warning system and should be considered alongside other risk-based early warning systems, such as the Composite Risk Model. Additionally, an initial shadow period with a phased-in approach is proposed to allow schemes to adapt to the new framework and enable both the schemes and the CMS to assess the potential impact.

Updated operational statistics for reporting

This circular sought to engage stakeholders on the *updated operational statistics* to be disclosed in the 2024 Board of Trustees' Report. These was due to changes in terms contained in the Statement of Comprehensive Income, following the implementation of IFRS 17: Insurance Contracts. This engagement was aimed at ensuring consistency and enhancing disclosure comparability within industry. The proposed updated statistics included, among others, Insurance Revenue, Insurance Service Expense, Relevant Healthcare Expenditure Incurred, and Directly Attributable Insurance Service Expenses.

Vetting of Board of Trustees and Officers

The CMS reviewed the *vetting questionnaire and declaration* form to assist medical schemes in vetting the Board of Trustees, Principal Officers, and other scheme officers. Medical schemes are encouraged to incorporate CMS' vetting questionnaire as part of their vetting process to ensure that the minimum requirements for vetting scheme officials are maintained.

Medical schemes are required to furnish the CMS with the outcome of vetting and documents used in vetting such scheme officer(s) within 30 days following the prospective appointment or election of trustees and the appointment of the Principal Officer, together with the completed signed vetting form(s). The submission must be in accordance with the requirements contained in Circular 27 of 2014.

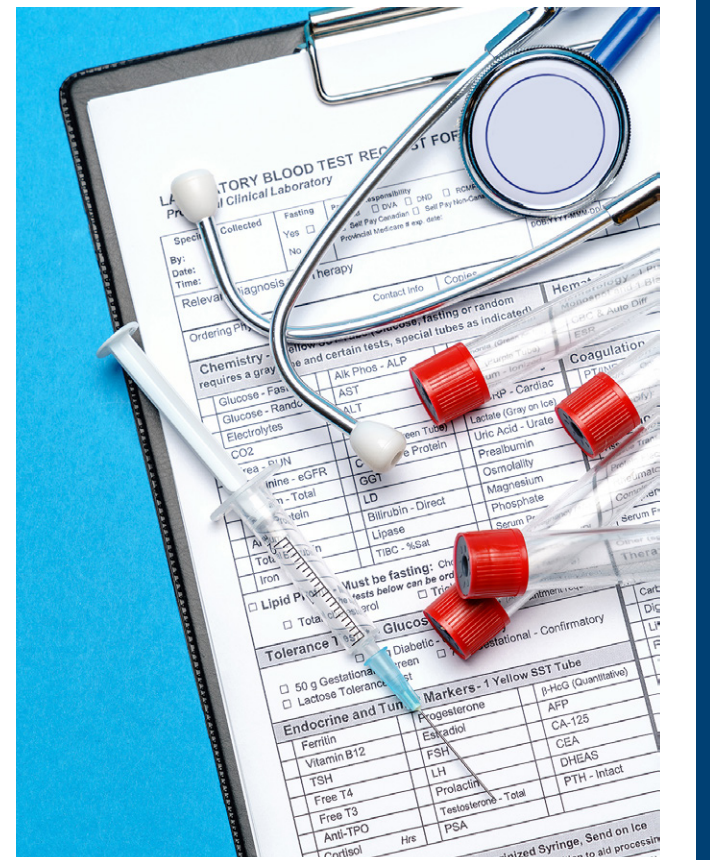
Independent Regulatory Board for Auditors (IRBA) Revisions to the Definitions of Listed Entity and Public Interest Entity

The Independent Regulatory Board for Auditors (IRBA) has updated the definition of Public Interest Entities (PIE) and introduced a new rule for Enhanced Auditor Reporting (EAR rule).

The *updated PIE definition* now includes medical schemes with more than 89,000 beneficiaries at the end of the financial year. The CMS will apply this definition for periods ending 31 December 2023.

The new EAR rule will impact the disclosures in the independent auditor's report, including final materiality, scope of the audit of group financial statements, evaluation of management's assessment where a material uncertainty related to going concern exists, communicating Key Audit Matters (KAMs) and the outcome of audit procedures or key observations with respect to the KAMs, and fee-related matters.

Both publications have significant implications for the audit of medical schemes and becomes effective for audits of financial statements for periods ending on or after 15 December 2024, with early adoption permitted.



MEDICAL SCHEMES CONT.

General concerns noted during the analysis of the 2022 Annual Financial Statements (AFS) and Annual Statutory returns (ASR)

The circular addresses common problems and issues identified during the analysis of the 2022 AFS and ASR in order to enhance the quality of data submitted in the AFS and ASR, achieve standardisation and uniformity regarding proper disclosure, reduce or minimise errors, and establish good financial reporting for the industry in line with the requirements of International Financial Reporting Standards (IFRS). It also highlights discrepancies statutory returns and requests the users responsible for preparing the statutory returns and scheme management to address these matters in future submissions.

Categorisation of assets in terms of Annexure B to the Regulations of the Medical Schemes Act (MSA)

The CMS finalized guidelines on the categorization of assets in terms of Annexure B to the Regulations based on information available to CMS. The purpose of these guidelines is to guide the categorization of assets according to Annexure B to the Regulations, and not to highlight any non-compliance matters. Schemes should ensure compliance with not only the limitations imposed by Annexure B, but also the various Sections of the MSA.

Real-time monitoring for 2024

The circular specifies the deadlines for monthly Real-Time Monitoring (RTM) submissions for 2024. All medical schemes are directed to submit the required information no later than four weeks after every month end. Failure to furnish the Registrar with the requisite information may result in penalties, as per Section 66(3) of the MSA.

IFRS Foundation trademark impact on auditor report templates

The CMS revised auditor report templates effective for the 2023 financial year. The revision was due to a change in the IFRS Foundation's trademark guidelines, which now require that the set of standards issued by the IASB, including the IASs and the IFRSs, be referred to as "IFRS Accounting Standards." The details on the IAASB communication can be found here.

The changed reference to IFRS Accounting Standards is effective for the auditor reports of annual reporting periods of medical schemes beginning on 1 January 2023.

REGULATED ENTITIES

Directive to Provide Information to the Financial Sector Conduct Authority (FSCA) for 2024

The FSCA issued the [Directive to Provide Information for 2024 (DPI 2024)] requesting all supervised accountable institutions to complete and submit the DPI 2024 by 31 July 2024. The DPI 2024 addresses all the requirements that accountable institutions must comply with under the FIC Act. It covers various aspects such as the risk-based approach, risk management, compliance programs, customer due diligence, training, record keeping, reporting, registration, and screening. Accountable institutions are advised to have their risk management and compliance programs readily available to facilitate completing the DPI 2024. Accountable institutions will not be required to provide statistical information or upload any supporting documents.

Failure to comply with this directive may result in the FSCA imposing administrative penalties.

2024 List of planned Prudential Authority surveys and questionnaires

The PA shared the [list of planned surveys and questionnaires] to be requested from regulated financial institutions during the 2024 calendar period. These topics will be discussed in prudential meetings with the governing body members of the regulated financial institutions as well as heads of control functions. The outcomes of the various assessments are expected to inform the refinement and/or development of regulatory instruments and guidance. Correspondence will be shared with the impacted regulated institutions.

Paper: Market conventions for South African Rand Overnight Index Average (ZARONIA)

The Market Practitioners Group's (MPG) Cash Market Workstream (CMW) embarked on a process to formulate a set of recommended conventions for ZARONIA linked instruments, the results of which are presented in these white papers together with reasons for the selections. It should be noted that these working papers should serve as a resource for market participants to consider when using ZARONIA linked instruments. They are not intended to prescribe, mandate, or limit the ways in which market participants may transact to satisfy their needs and clients' requirements. Please note that the papers do not cover a forward-looking term ZARONIA.

MARKET CONVENTIONS FOR ZARONIA-LINKED MONEY MARKET INSTRUMENTS
Find out more

MARKET CONVENTIONS FOR ZARONIA-LINKED BOND MARKET INSTRUMENTS
Find out more

MARKET CONVENTIONS FOR ZARONIA-LINKED LOANS
Find out more

Compliance
Rules
Standards
Policies
Regulations
Law

REGULATED ENTITIES CONT.

2024 Flavour-of-the-year topic: Strategic business growth and resilience of the regulated financial institutions' business models in the current environment

There has been increasing uncertainty in the macroeconomic environment, as the probability of failure of certain regulated financial institutions has increased. This is in part attributable to the non-viability and unresponsiveness of business models, and weak strategies, inadequate capital and liquidity planning, underpinned by poor governance and risk management practices. Therefore, the PA has determined that the 2024 flavour-of-the-year topic will be strategic business growth and resilience of regulated financial institutions' business models in the current economic environment.

- Banks
- Mutual banks
- Co-operative banks
- Financial Market Infrastructures
- Insurers

Independent Regulatory Board for Auditors (IRBA) Revisions to the Definitions of Listed Entity and Public Interest Entity

IRBA published revisions to the definitions of Listed Entity and Public Interest Entity (PIE) in the IRBA Code of Professional Conduct for Registered Auditors. These revisions comprehensively revise the definitions, approach, categories, and thresholds applicable to these entities. The revisions include an expanded definition of "public interest entity" by specifying a broader list of PIE categories, as well as the new "publicly traded entity" category that replaces "listed entity". They also introduce a transparency requirement for firms to publicly disclose the application of independence requirements for PIEs. The effective date is for audits of financial statements for periods ending on or after 15 December 2024, with early adoption permitted.

The new IRBA rule for Enhanced Auditor Reporting

The new IRBA rule will impact the disclosures in the independent auditor's report, regarding the final materiality amount determined by the auditor for the financial statements, scope of the audit of group financial statements, evaluation of management's assessment where a material uncertainty related to going concern exists, communicating Key Audit Matters (KAMs) and the outcome of audit procedures or key observations with respect to the KAMs, and fee-related matters.

This IRBA Rule is effective for audits of financial statements for periods ending on or after 15 December 2024, with early adoption permitted.

South Africa's Crypto Assets market study

The Financial Sector Conduct Authority (FSCA) is of the view that crypto asset-related activities carry substantial risks for financial customers. While a legal framework exists, it may not be specifically tailored to address the unique risks posed by Crypto Asset Service Providers. With this research, the FSCA aims to enhance its understanding of crypto asset-related activities carried out by Crypto Asset Financial Service Providers in South Africa, to better develop licensing, supervision, and regulatory frameworks specifically tailored for Crypto Asset FSPs, by highlighting consumer exposure to crypto assets and to identify potential risks that could adversely affect consumer well-being.

Joint Standard 1 of 2023 – Information Technology (IT) Governance and Risk Management (Joint Standard)

The Prudential Authority (PA) and the FSCA published Joint Standard in November 2023 setting out IT risk management principles that financial institutions must comply with for achieving sound practices and processes in managing IT risk. The Joint Standard seeks to ensure that financial institutions have established a sound and robust IT risk management framework, have integrated technology risk management in their overall management system and that the oversight of IT risk management is incorporated to the financial institution's governance and risk management structures, processes, and procedures. The Joint Standard becomes effective on 15 November 2024.

Re-investment of income distribution from securities held by Collective Investment Schemes in Portfolios

The FSCA has noted that certain Collective Investment Scheme (CIS) Managers who have been engaging in practices that are in contraventions with contrary to paragraphs 3(1)(b)(i) and 3(3)(b) of Board Notice 90 of 2014 (Notice). These practices include reinvesting income distributions (dividends) from an equity security within the same portfolio, applying income received in the portfolio from an underlying portfolio to purchase more participatory interests of that underlying portfolio and deeming the re-investment of income in portfolios as part of the market movement exclusions. These practices may result in that equity security exceeding the prescribed exposure limit for the portfolio, and a CIS Manager found to have acted in contrary to the requirements of the Notice may be subjected to enforcement action by the FSCA.

Exemption of Managers of Collective Investment Schemes from Certain Requirements of Board Notice 52 of 2015 (BN 52)

The current requirements of Board Notice 52 of 2015 (BN 52) limits Retail hedge funds to invest a maximum of 75% in any one portfolio, and this equally applies to feeder retail hedge funds. The FSCA did not envisage that the 75% restriction would create a challenge for retail hedge funds wishing to establish feeder funds and as a result inhibit feeder retail hedge funds from investing 100% in a single offshore hedge fund.

The FSCA acknowledges that feeder funds are an industry norm internationally and should be available in the spectrum of portfolio offerings. Consequently, the FSCA intends to close this gap by exempting managers of retail hedge funds from complying with the 75% exposure limit in BN 52, insofar as it relates to feeder retail hedge funds. This exemption is aimed to benefit investors and serve the public interest as collective investment feeder funds are a normal existing product style that provides domestic investors access to foreign CIS funds.

The Financial Sector Conduct Authority (FSCA) Industry Conference 2024

The FSCA hosted its first industry-wide conference on 13-14 March 2024, under the theme: *Inspiring Trust, evolutions in financial conduct regulation.*

The conference reflects on the FSCA's performance since its inception almost six years ago and provide updates on regulatory matters and trends. Topics covered include culture and governance, South Africa's progress on the Action Plan for the greylisting, digital innovation, and sustainable finance.

DAY 1: click here
DAY 2: click here
PRESENTATIONS: click here

Adoption of the Legal Entity Identifier (LEI) in South Africa

This communication outlines the FSCA's view on the importance and benefits of LEIs and encourages regulated entities to implement them. The LEI is a 20-digit. Alphanumeric code, which connects to key refence information and serve as a global identity number for legal entities, was introduced after the Global Financial Crisis of 2008 to enhance transparency and facilitate assessment and monitoring of financial stability. The FSCA is developing a Conduct Standard for the Securities Finance Transactions (SFT) market. This standard aims to enhance transparency by introducing new rules for market participants, including a requirement for counterparties to SFTs to report details of concluded SFTs, as well as any modifications or terminations, to the FSCA. The use of a LEI is envisaged for reporting SFT transactions.

New IFRS Accounting Standard on Presentation and Disclosure in Financial Statements (IFRS 18) published

The International Accounting Standards Board (IASB) has introduced a new standard, *IFRS 18 Presentation and Disclosure in Financial Statements*, transparency and comparability of financial statements. This standard introduces three key improvements, a structured income statement with defined categories for income and expenses, increased transparency of management-defined performance measures, and more useful grouping of information in financial statements. These changes aim to provide investors with a consistent basis for analysing companies' performance and making investment decisions. IFRS 18, which replaces IAS 1, will be effective from 1 January 2027, but companies can choose to apply it earlier.

> The FSCA did not envisage that the 75% restriction would create a challenge for retail hedge funds wishing to establish feeder funds and as a result inhibit feeder retail hedge funds from...

The IVSC Global Survey 2024: Incorporating Environmental, Social, and Governance (ESG) into International Valuation Standards

IVSC through the ESG working group comprising of representatives from the IVSC Standards Review Boards, stakeholders, and external specialists tasked with discussing market needs has issued a survey exploring the evolution of ESG considerations within the valuation process with comments due by 31 May 2024. A key part of this process involves conducting regular surveys of valuers and other stakeholders to understand their progress towards incorporating ESG components into their valuations. This approach aligns with the role of standard setters, which is not to lead the market, but to develop standards that meet market needs.

This survey was a first in a series and covered all types of valuations, including those for financial reporting, market capitalisations, secured lending, and tax reporting. The survey results will be compiled into a report that provides insights into the current state of ESG in valuations and the perspectives of valuers on their markets. This report will also guide the IVSC Standards Review Board on the consideration of ESG within valuations and the need for more explicit ESG requirements in future editions of IVS.

International Valuation Standards Council (IVSC) Board Appointments, effective April 2024

The ICVS announced new board appointments to the Standards Review Board, Business and Intangible Assets Board, Financial Instruments Board, and Tangible Assets Board. The new board members come from a diverse range of backgrounds and international expertise which will be instrumental in guiding the evolution and relevance of global valuation standards, bringing fresh ideas and perspectives to the IVSC's work.

New edition of the International Valuation Standards (IVS) published

The IVS developed by the International Valuation Standards Council (IVSC), serve as globally recognized, principles-based standards that underpin valuation practices for all assets and liabilities. These standards are utilized by professionals in over 100 countries and play a crucial role in enhancing the quality, comparability, and transparency of valuations.

The latest edition of IVS effective from 31 January 2025, introduces significant updates to better align with modern valuation practices. Key changes include, amongst others:

- The updated IVS features a new uniform framework applicable to all asset and liability classes, enhancing process rigor and risk mitigation.
- A new chapter on Data & Inputs (IVS 104) emphasizes the criticality of data quality and selection in valuations.
- New guidance on model selection and the importance of professional judgment for IVS compliance.
- Expanded consideration of environmental, social, and governance (ESG) factors in valuations, including a dedicated appendix.

These enhancements follow extensive public consultation, including board meetings, webinars, and presentations throughout 2023.

Perspectives Paper: Value and Data

The IVSC published a new **Perspectives Paper** focusing on the valuation of data as an intangible asset. The paper examines what is meant by data as an asset, how it acquires and eventually loses value; exploring how it is accounted for under selected current accounting standards and what valuation professionals should keep in mind when valuing data.

It covers the economic significance of data, valuation challenges, its impact on financial reporting and considerations for valuation professionals. The framework presented aligns with the IVS, advocating for transparency in data-related costs. This paper is designed to support professionals in navigating valuation of data as an asset, offering insights into current methodologies and future considerations.

Africa Valuation Conference 2024 (AVC2024): Shaping the Future of Property Valuation in Africa

The AVC2024 conference was held on the 16th to 18th April 2024. Its aim was to elevate the valuation profession to experience a bold new future. Attendees had the opportunity to engage with presentations on property valuation practices and standards delivered by experts and leading speakers from the African continent and other parts of the World. They also had an opportunity to participate in debates and discussions with various experts on the latest in valuation and gained knowledge about valuation practices on the continent.

NEWSLETTERS

INSURANCE

Proposed Guidance Notice and the Draft Prudential Standard on liquidity risk management for insurers

The PA published a draft Prudential Standard and a proposed Guidance Notice on Liquidity Risk Management for Insurers for public comments.

The draft Prudential Standard provides practices and guidelines to assist insurers comply with the requirements of GOI 3 (Risk Management and Internal Controls for Insurers) and GOI 3.1 (Own Risk Solvency Assessment (ORSA) for Insurers) as they apply to liquidity risk management. The aim is to illustrate approaches that should be considered in managing an insurer's liquidity risk.

On the other hand, the Guidance Notice aims to assist insurers in complying with the draft Prudential Standard on Liquidity Risk. It provides approaches for identifying, measuring, and managing an insurer's liquidity risk. **Comment by 31 July 2024.**

Submission to Parliament of draft Joint Standard - Outsourcing by Insurers

The draft Joint Standard outlines essential requirements for insurers when outsourcing material functions and activities to third-party service providers. Its main objective is to ensure that outsourcing does not impair the prudent management of an insurer's business. The draft Joint Standard intends to establish minimum requirements for outsourcing material functions, define the concept of "materiality" in insurer business, specify conditions necessitating regulatory notification for outsourcing arrangements, outline considerations before making outsourcing decisions, and mandate board-approved policies for assessing outsourcing risks.

General exemption of Microinsurers from Rule 2A.6.1 of the Policyholder Protection Rules (Long-Term Insurance), 2017

The exemption aims to promote market development and competition within the microinsurance sector and deepen financial inclusion through competitive pricing. Under this exemption, microinsurers may not impose a waiting period exceeding 6 months for policy benefits related to death, disability, or health events resulting from natural causes. Additionally, microinsurers would be exempt from imposing further waiting periods on policies entered before the exemption's effective date.

Failure by microinsurers to comply with the conditions will result in the exemption no longer being applicable to that microinsurer.

Amendment of FSCA INS Notices 4 and 5 of 2020 (Notices)

The amendment states that the exemption for independent intermediaries from the Regulations under the Short-term Insurance Act and the Long-term Insurance Act will be valid until 31 March 2027. These Notices became effective from 26 February 2024.

Financial Soundness Standards for Insurers (FSI) - Technical Supervisory Observation - Topic 3: Credit Quality Steps

The Credit Quality Step (CQS), introduced by the Insurance Act, Act No. 18 of 2017 (Insurance Act) and its Prudential Standards, plays a crucial role in calculating the financial soundness of insurers and it is intended to address insurers' reliance on the ratings of credit rating agencies when updating or rating counterparties and assets.

Similar in nature to credit ratings assigned by credit rating agencies, the CQS is derived within the context of the international scale local currency rating, comprising 18 steps of descending credit quality. Insurers must consider the historic long-term probability of default for counterparties and assets when determining their CQS. Additionally, a CQS has an unrated category which comes into play when an insurer hasn't assigned a CQS for the counterparty or asset. In such cases, CQS 18 is used when a particular Solvency Capital Requirement (SCR) factor tables does not include the unrated CQS. The previous FSI Technical Supervisory Observation covers two key topics, namely, Encumbered assets and the Regulatory balance sheet.

The Supervisory Observations provide technical information but have no legal standing. The PA may expand or amend these them from time to time.

Determination of Equivalent Foreign Jurisdictions

This Notice lists the foreign jurisdictions whose laws, supervisory practices, and information-sharing frameworks have been deemed equivalent to the regulatory framework established under the Insurance Act. The Prudential Authority has identified these jurisdictions as meeting the objectives of the Act. Notably, the list includes countries such as Australia, Canada, France, Japan, and the United States. The PA reserves the right to replace or amend this Notice as needed.

GENERAL

IFRS FOUNDATION WORK PLAN

- Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard
- Amendments to the Classification and Measurement of Financial Instruments
- Annual Improvements to IFRS Accounting Standards—Cost Method (Amendments to IAS 7)
- Annual Improvements to IFRS Accounting Standards—Derecognition of Lease Liabilities (Amendments to IFRS 9)
- Annual Improvements to IFRS Accounting Standards—Determination of a 'De Facto Agent' (Amendments to IFRS 10)
- Annual Improvements to IFRS Accounting Standards—Disclosure of Deferred Difference between Fair Value and Transaction Price (Amendments to Guidance on implementing IFRS 7)
- Annual Improvements to IFRS Accounting Standards—Gain or Loss on Derecognition (Amendments to IFRS 7)
- Annual Improvements to IFRS Accounting Standards—Hedge Accounting by a First-time Adopter (Amendments to IFRS 1)
- Annual Improvements to IFRS Accounting Standards—Introduction and Credit Risk Disclosures (Amendments to Guidance on implementing IFRS 7)
- Annual Improvements to IFRS Accounting Standards—Transaction Price (Amendments to IFRS 9)
- Business Combinations—Disclosures, Goodwill and Impairment
- Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures
- IFRS Accounting Taxonomy Update—Primary Financial Statements
- IFRS Accounting Taxonomy Update—Subsidiaries without Public Accountability: Disclosures and Amendments to IFRS 7 and IFRS 9
- ISSB Consultation on Agenda Priorities

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