SAICA DIFFERENCE MAKERS™

FINANCIAL SERVICES

Quarterly Brief

DECEMBER 2023

BANKING

Matters related to the fitness and propriety assessment

Employees (Including individuals appointed in an acting capacity) that are in charge of the risk management function of a bank or mutual bank are deemed to be ultimately responsible for such risk management and are therefore required to complete and submit a form BA 020 / DI 020 to the Prudential Authority (PA). These forms must be submitted for employees in charge of the risk management function as prescribed and submission should not only be limited to that of the Chief Risk Officer. These requirements also apply to directors and executive officers who have been appointed in a specific role but are subsequently nominated for a different role for which they had not previously been assessed for nor submitted the relevant form. All banks/mutual banks are required to continuously assess adherence to these requirements and where instances of non-compliance are identified, report such non-compliance to the PA, detailing the reasons for such non-compliance.

Proposed Directive - Matters relating to Minimum Leverage Ratio requirements

The minimum leverage ratio buffer requirements represent a simple, transparent, non-risk-based leverage measure that acts as a credible supplementary backstop to the risk-based capital requirements. The purpose of this Directive is to direct banks and controlling companies to maintain a minimum leverage ratio buffer equal to 50% of their higher loss-absorbency (HLA) requirement imposed on common equity tier 1 (CET 1) capital and to apply the capital distribution constraints when the leverage ratio declines below the minimum specified requirement.

Proposed Directive-Version of BA returns that form the basis for reporting by auditors

The PA has noted several varied practices across the industry regarding the version of the year-end BA returns that form the basis of the regulatory audit opinion or review conclusion. This proposed Directive is aimed at directing banks on the version of the BA returns that must be used to form the basis of the regulatory audit opinion or review conclusion. The first submission of the BA returns must be used as the basis for the initial audit work. Certain adjustments may subsequently be required to align the BA returns at year end to the AFS once finalised or to correct any reporting errors identified either by the auditors or management. In such instances, a resubmission of the BA returns by the bank would be required, i.e. the second submission. The audit opinion or review conclusion submitted to the PA must be based on the second submission. These requirements apply to audits or reviews conducted for financial years ending on or after 31 December 2023.

Directive 5 of 2023: Reporting requirements in terms of regulation 46 of the Regulations relating to Banks

This Directive specifies detailed references to the regulatory returns that have to be audited, reviewed or concluded upon under a limited assurance framework in part fulfilment of the auditors' respective reporting requirements in relation to regulation 46 of the Regulations.

Banks are therefore directed to perform an audit, review or limited assurance engagement on the respective regulatory returns, in accordance with the detailed audit matrix provided in Annexure 1 of this directive for reports submitted to the PA in relation to engagements for financial years ended on or after 31 December 2022

Guidance Note 3 of 2023: Proposed implementation dates in respect of specified regulatory reforms

Based upon, among others, industry requests received, quantitative impact studies, progress by member jurisdictions of the Basel Committee to implement the reforms, regulatory responses to mitigate the impact of Covid-19, and other matters related to implementation complexity, the PA proposed to implement the outstanding regulatory reforms in South Africa on the dates set out in this Guidance Note.

Draft Amendments to the Commercial paper Exemption Notice, 1994 (CP Exemption Notice)

The PA published Draft Amendments to the CP Exemption Notice, 1994 and a position paper explaining the rationale for the amendments for public consultation. The objective of the CP Exemption Notice is to enable corporates to access the domestic capital market by issuing commercial apaper to raise short term funding from investors, to fund their business or operational activities. The CP Exemption Notice, 1994 will be repealed and replaced with a new notice once approved by the Prudential Committee and the Minister and thereafter gazetted.

Proposed Directives - Completion of regulatory return relating to credit risk form BA 200 and BA 210

The Regulations relating to Banks (Regulations) set out the purpose and the regulatory minimum requirements for a bank that adopted the standardised approach or IRB approaches for the calculation of its required amount of capital and reserve funds in respect of credit risk. Furthermore, the proposed amendments to the Regulations provides the PA with enabling provisions to specify instructions or requirements to complete forms BA 200 and BA210.

As part of the PA's supervisory process and in line with the respective requirements of the Regulations, banks are directed to complete and submit the form BA 200 monthly and form BA 210 quarterly in accordance with the requirements of the Regulations.

Proposed Directive - Reporting requirements in terms of regulation 6 of the Regulations relating to Mutual Banks

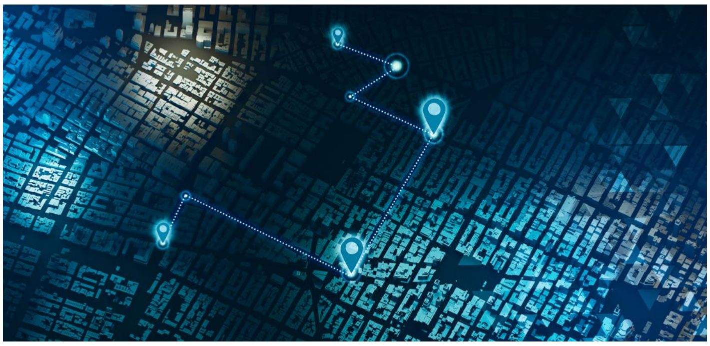
This Directive specifies the detailed scope of the regulatory returns that must be audited, reviewed, or concluded upon under a limited assurance framework by auditors of mutual banks. Mutual banks are therefore directed to perform an audit, review or limited assurance engagement on the respective regulatory returns in accordance with the detailed audit matrix provided in Annexure 1 of this Directive for reports submitted to the PA in relation to engagements for financial years ended on or after 30 June 2023

Margin Requirements Model Application Suite

The Financial Sector Conduct Authority (FSCA) and the Prudential Authority (PA) (the Authorities) informs all providers of the availability of an updated model application suite for purposes of an application for the use of the quantitative portfolio margin model (QPMM) and/or the risk-sensitive quantitative model-based haircut approach (RQMHA). The application window opened on 1 August 2023 and will remain open until further notice.

Revised market risk and credit valuation adjustment frameworks – implementation roadmap and minimum guidelines.

The PA published an implementation roadmap setting out submission milestones for model validations, and associated independent assurance assessments, together with associated governance approvals. In this regard, the PA further developed a set of minimum guidelines for the attention of banks and their independent assurance providers (IAPs) relating to the Fundamental Review of the Trading Book (FRTB), and the Credit Valuation Adjustment (CVA) model validation submissions.



Proposed Guidance: Climate related risk practices and disclosures for banks

The PA developed guidance to contribute to the strengthening of the regulation and supervision of climate-related risk management within banks with the purpose of enhancing financial soundness and stability. The PA encourages institutions to be proactive in their climate-related risk management and disclosures, and not wait for regulation or be compliance-driven. Climate risk management is a developing area and approaches will evolve and mature over time; however, the expectation of future improvements and developments in approach is not a justification for delay in implementation. Climate-related disclosures are expected to become mandatory over time.

South African domestic systemically important banks (D-SIBs) to submit consolidated information.

This directive, serves to direct D-SIBs to submit the credit-related statutory BA 200 and BA 210 returns biannually, based on consolidated information, at bank and controlling company level within 30 business days immediately following the period to which the return relates. D-SIBs with year-ends other than June or December are required to submit additional statutory BA 200 and BA 210 returns, based on consolidated information, at bank and controlling company level as at the D-SIB's year-end. The comparative period to be used for D-SIBs with year-ends other than June or December, shall be the preceding six-month return submitted. All D-SIBs must comply with the respective requirements specified in this directive for reporting periods ending on or after 31 December 2023.

Directive: Matters relating to eligible external credit assessment institutions (ECAIs)

The purpose of this directive is to inform banks and/or affected persons of the credit rating agencies approved as eligible institutions in South Africa. Banks are required to notify the PA in writing of their nominated ECAIs and to apply the mapping tables outlined in this directive in the calculation of their minimum required capital and reserve funds related to credit risk.

Proposed amendments to the Regulations relating to Banks

To ensure that the legal framework for the regulation and supervision of banks and banking groups in South Africa remains relevant, the PA issued the updated proposed amendments to the Regulations, with a proposed implementation date of 1 July 2025. The key components of and matters related to the Basel III post-crisis reforms are outlined in the proposed directive.

Proposed Directive on matters related to Pillar 3 disclosure requirements

This proposed Directive serves as a single reference point for the respective disclosure requirements applicable to banks, as the detailed disclosure requirements have been removed from the Regulations. However, the essential disclosure principles remain in regulation 43(1) of the Regulations. Banks are directed to comply with the requirements specified to ensure that the internationally agreed Pillar 3 disclosure framework is fully implemented.

The disclosure requirements must be published in standardised templates and tables, to promote consistency and comparability of the disclosed information. These templates and tables are contained in Annexures A and B of this proposed Directive.

CFI Directive - Directors and Executive Officers

Co-operative financial institutions (CFIs) are directed to the PA, a duly completed statement and declaration (Form CBF2) in respect of:

- every person who for the first time accepts an appointment as a director, managing director or executive officer of a CFI, at least 30 days prior to the appointment becoming effective.
- every person who previously served as a director, managing director or executive officer of a CFI, but subsequently resigned as such and is being reappointed as a managing director or executive officer of a CFI, after a period of more than twelve months since the date of resignation, at least 30 days prior to the appointment becoming effective.
- any serving director, managing director or executive officer of a CFI, at the request of the PA.

Market conventions for South African Overnight Index Average (ZARONIA) based derivatives

This working paper should serve as a resource for market participants to consider when using the ZARONIA rate in the specification of derivative contracts. It is not meant to prescribe, mandate, or limit the ways in which they can transact based on their needs and requirements. The specific recommendations herein should serve as an underpin for on-the-run overnight indexed swap, which are interest rate swap derivatives that reference the new alternative reference rate and will in future be quoted on screens and/or via interbank broking agents.

Proposed Directive: Operational risk conditions, interpretation, and completion of the form BA 400

This proposed directive stipulates the requirements for the interpretation and completion of the form BA 400. The directive further stipulates, amongst others, the following specific conditions for the measurement of a bank's exposure to operational risk under the standardised approach.

- A bank that has not been designated as a domestic systemically important bank (DSIB) and that does not have 10 years of high-quality loss data will not be allowed to use the loss component in the calculation of the bank's required amount of capital and reserve funds for operational risk. In such cases, that bank must apply an internal loss multiplier equal to 1.
- A bank approved to use loss data in its calculation must apply a minimum threshold amount of ZAR 350 000 for including a loss event in its data collection and calculation of average annual losses.
- If a bank wishes to exclude certain operational loss events that are no longer relevant to the risk profile, a formal written request must be submitted to the PA.

The requirements and conditions specified in this proposed Directive become effective from 1 July 2025 onwards.

Proposed Directive: Prudential treatment of distressed restructured credit exposures

The purpose of this proposed directive is to specify minimum requirements relating to the definition and reporting of distressed restructured credit exposures. It also clarifies the interpretation of regulation 67 of the Regulations which is aligned to International Financial Reporting Standards.

Unless specifically stated otherwise, the requirements of this proposed directive apply to all banks using the standardised (STA) and internal ratings-based (IRB) approaches to calculate their minimum required capital and reserve funds for credit risk.

Eligibility of a Sukuk bond issuance on behalf of the National Treasury

The PA clarifies that a Sukuk bond complying with the relevant requirements specified in the Banks Act read with the Regulations, this Circular and such further requirements as may be directed in writing by the PA, will be considered an issuance by the central government of South Africa and therefore qualifies as level one HQLA for banks solely conducting Shari'ah compliant business or to the extent of banks managing Shari'ah compliant portfolios.

Revised Credit Valuation Adjustment (CVA) Framework-Application Suite

This application suite is primarily relevant for banks implementing basic approach or applying for the use of standardised approach in determining CVA capital requirements for their South African operation and South African banks with operations outside of South Africa, in accordance with the consolidated bank requirements of the Regulations related to Banks.

Banks are strongly encouraged to employ the full extent of their resources, capability, and governance to ensure that the requirements stipulated in this application suite are comprehensively addressed.

Draft Prudential Standards on Market Risk and Credit Valuation Adjustment

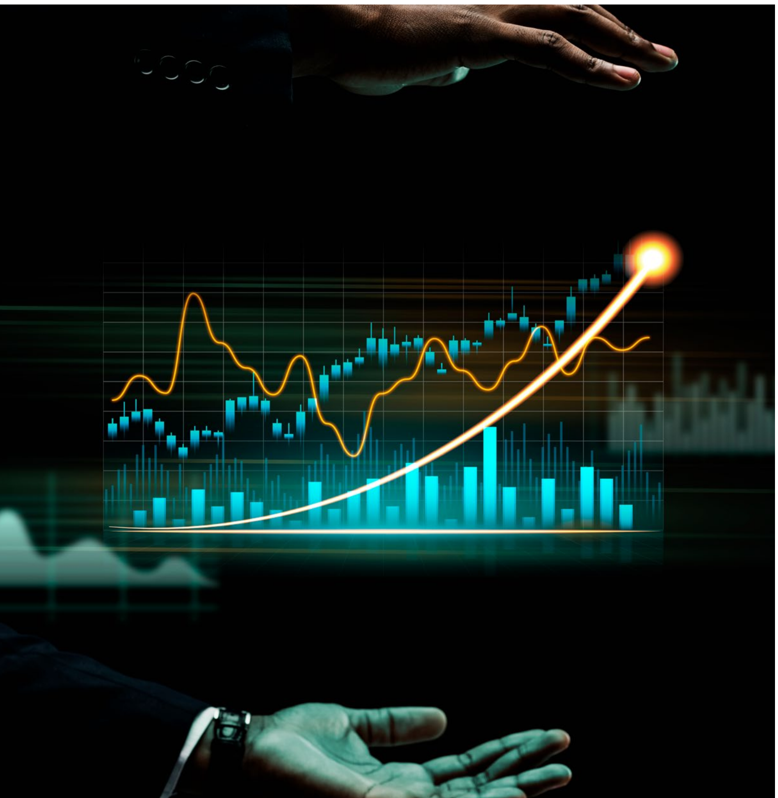
The PA proposes to incorporate the revised market risk and credit valuation adjustment (CVA) standards into the domestic regulatory framework. The frameworks will be implemented in South Africa with effect from 1 July 2025. These draft Standards details prescribe the requirements for market risk and credit valuation adjustment in line with sound practices and processes of risk management. It is the responsibility of the board of a bank to ensure that the bank meets the requirements set out in this Standard on a continuous basis. Comments by 20 December 2023

Publication of the South African Overnight Index Average (ZARONIA) interest rate benchmark for use by market participants

The observation period has ended, market participants may use ZARONIA as a reference rate in financial contacts going forward. ZARONIA reflects the interest rate at which rand-denominated overnight wholesale funds are obtained by commercial banks. It is based on actual transactions and calculated as a trimmed, volume-weighted mean of interest rates paid on eligible unsecured overnight deposits.

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

This communiqué details the key observations (deficiencies) identified by the PA through its AML/CFT/CPF supervision of Accountable Institutions. The PA expects Accountable Institutions to take note of the deficiencies and to scrutinise their AML/CFT/CPF frameworks with a view of enhancing their risk management and compliance programmes where deemed necessary.



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

Information Technology is at the centre of many financial institutions concerning how they conduct their business and deliver financial products and services to their customers. When critical systems fail and customers cannot access financial products and services, the business operations of a financial institution may immediately come to a standstill.

It is against this background that the PA and the Financial Sector Conduct Authority (FSCA) published a Joint Standard out the principles and minimum requirements for information technology (IT) governance and risk management that financial institutions must adhere to, in line with sound practices and processes in managing IT.

Proposed Directive-Reporting Requirements in terms of regulation 46 of the Regulations relating to Banks (Regulations)

Banks are directed to perform an audit, review or limited assurance engagement on the respective regulatory returns specified in regulation 46(6) of the Regulations, in accordance with the detailed audit matrix provided in Annexure 1 of this proposed Directive for reports submitted to the PA in relation to engagements for financial years ended on or after 30 September 2023. These reports shall be rendered in accordance with the illustrative regulatory reports published by the IRBA from time to time.

Prudential Communication: Draft Budget, Fees and Levies

This Prudential Authority Fees Determination sets out the fees payable and ancillary information related to payment of fees payable in respect of the functions performed by the PA in terms of the Financial Sector Regulation Act, 2017, and other relevant financial sector laws.

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

This paper investigated the presence of herding in the ZAR market and found that herding was present only in extreme markets. It used both the standard herding tests and Sim and Zhou's (2015) quantile-on-quantile regressions. The results showed that monetary policy announcements induced herding behaviour only in the bear market. Generally, herding responses are rational and do not contribute to higher market volatility. This result is in line with the literature, which shows that the SARB's monetary policy communication and credibility has improved. As in any economic analysis, there is always scope for improvement. Future analysis could distinguish between expected and unexpected monetary policy shocks and could use alternative weights to calculate currency returns.

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

The PA acknowledges the important role CFIs and co-operative banks plays in providing financial services to its members. It is therefore important that a framework is created which allows the PA to effectively regulate and supervise CFI and co-operative banks. The PA therefore publishes these draft Prudential Standards for public consultation. Comments by 29 February 2024

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

Banks are **not required to obtain prior approval** from the Financial Sector Conduct Authority (FSCA) before taking a decision to close a branch and/or remove an ATM.

However, to ensure that the FSCA is able to properly execute its mandate to promote fair outcomes for financial customers, the FSCA does expect a bank to notify it within a reasonable period after a decision has been taken to close branches or remove ATMs, temporarily or permanently, as follows:

- In the case of planned branch closures or ATM removals, whether temporary or permanent, a bank will be expected to provide the FSCA, on an annual basis, with details of the bank's strategy relating to the planned closures or removals, including steps taken to ensure that such closures or removals do not adversely impact fair outcomes to financial customers; and
- In the case of unplanned branch closures or ATM removals, whether temporary or permanent, a bank will be 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 ensure that the needs of vulnerable customers remain protected during such closures or removals.

INSURANCE

Proposed liquidity risk return for non-life insurers

Prudential Standard FSI 6 (Liquidity Risk Management) sets out the calculation of the liquidity shortfall of an insurer which is an indicator of the potential magnitude of the liquidity risk an insurer may be exposed to under severe stress. The Prudential Authority (PA) is in the process of amending FSI 6, together with the accompanying returns for the insurance industry. Accordingly, the PA issued the proposed amendments to the liquidity risk return (LIQ annual return). The attached return relates to non-life insurers and will be applied on a solo basis and is proposed to be submitted on a monthly basis to the PA. The PA will communicate with the industry on the implementation date in due course.

Prudential Communication 7 of 2023 - Completion of Quantitative Reporting Templates (QRTs) following the implementation of IFRS 17

The current version of the QRTs are not aligned to IFRS 17 requirements, as this version of the QRTs were designed in accordance with the requirements of IFRS 4. This Prudential Communication provides interim guidance to licensed insurers in completing the current version of the QRTs whilst the PA considers potential amendments to the current version of the QRTs in accordance with the requirements of IFRS 17. In addition, the PA notifies licensed insurers that the current version of the QRTs will not be amended in accordance with IFRS17 requirements in 2023. Potential changes to the QRTs will be considered by the PA for implementation with effect from January 2024 and will be communicated to insurers in advance of implementation.

Climate related risk practices and disclosures for Insurers

The PA developed guidance notices on climate-related risk practices and disclosures for insurers. The purposed of these Guidance Notices is to illustrate approaches that should be considered in managing an insurer's climate-related risks and to provide guidance to insurers regarding climate-related disclosures, taking into consideration the recommendations of the Taskforce for Climate-related financial disclosures and the International Sustainability Standards Board.

Position Paper on the Prudential Authority Government Bond Curve Review

This paper aims to set out the basis for, and the findings of, a review conducted about the current curve construction methodology and constituent data set that underlie the PA government bond curve (PA curve), which is published monthly. Alternative curve construction methodologies have been researched with the aim to compare them with the current methodology and recommend changes as deemed necessary to achieve an optimal methodology and data set to adopt.

Draft Exemption of Microinsurers

The Financial Sector Conduct Authority (FSCA) is proposing to exempt all microinsurers from Rule 2A.6.1 of the Policyholder Protection Rules (Long-Term Insurance), 2017 (LT PPRs), subject to the conditions as set out in the draft Notice, in order to align the regulatory framework with the intended policy objectives of promoting market development and competition, and enhancing financial inclusion by enabling microinsurers to provide affordable and accessible policies to vulnerable and low-income consumers. The proposed exemption will level the playing field between traditional insurers and microinsurers and is intended to promote further market developments within the microinsurance sector and deepen financial inclusion through competitive pricing.

Replacement of the quarterly reporting template for branches of foreign reinsurers

The purpose of this Prudential Communication was to inform all branches of foreign reinsurers of amendments to the quarterly Quantitative Reporting Templates (QRT) to address discrepancies identified within the return related to several row or column labels. Branches of foreign reinsurers were requested to utilise the new version of the quarterly QRT (IA_Q_B_QRT_v1.1) commencing with the Q2 2023 quarterly submission

RETIREMENT FUNDS

Clarification regarding format for submission of Annual Financial Statements and Regulation 28 Quarterly Reporting Returns

This Communication provides clarification to the pension funds and other stakeholders, on the format to be used when submitting annual financial statements and Regulation 28 quarterly reports to the Financial Sector Conduct Authority (FSCA) for financial years ending in 2023.

The FSCA wishes to clarify that since the Regulatory Reporting Standard has not yet been finalised, funds must continue to prepare annual financial statements in accordance with the requirements of Board Notice 77 (including the existing Schedule IB). Funds with January, February and March 2023 financial year ends may apply for extensions where audits are underway with presentations to the boards.

Draft Interpretation Ruling (-) of 2023 (RF) on the Application of Section 37C of the Pension Funds Act, 1956

The purpose of this communication was to inform stakeholders of the FSCA's intention to revoke Interpretation Ruling 1 of 2020 (IR 1 of 2020) and replace it with the draft Interpretation Ruling (-) of 2023(RF) (draft Interpretation Ruling). The draft Interpretation Ruling confirms the interpretation as set out in IR 1 of 2020 but clarifies the correct legal position by the addition of a new paragraph and the deletion of any reference to unclaimed benefits and members of unclaimed benefits funds in relation to the application of section 37C.

The new FSCA Trustee Training Toolkit (TTK) for board members of Retirement Funds and Determination of dates for completion

In order to ensure that board members exercise their fiduciary duties efficiently and effectively and in trying to ensure good governance, education and training of board members, the FSCA considered it necessary to develop a more comprehensive TTK to better equip trustees in exercising duties. All board members are required to complete the new TTK irrespective of whether the completed the old TTK. Board members of pension funds who were appointed on or before 26 September 2023 must complete the first 11 modules of the new Trustee Training Toolkit, within six months from the date of publication of this notice.

All new board members of pension funds appointed or elected after the date of publication of this notice must complete the first 11 modules of the Trustee Training Toolkit, within six months from the date of appointment or election.

Draft Prudential Standard – Regulation 28 Quarterly Reporting Requirements for Pension Funds

The FSCA retains the view that there is a need to implement holistic (unaudited) quarterly reporting on assets in terms of Regulation 28 in conjunction with the current quarterly "exception reporting" approach. As such, The FSCA published this draft Prudential Standard (holistic reporting Prudential Standard) for public consultation, which incorporates both non-compliance reporting and reporting on assets held in compliance with Regulation 28. Comments by 31 January 2024.

REGULATED INDUSTRIES

Prudential Authority Fees Determination (Determination)

The Prudential Authority (PA) published the Determination which sets out the fees payable to the PA in respect of the performance of specific functions. The PA will publish the method and manner for the payment of the fees, as well as the process to be followed when submitting an application on their website.

Margin Requirements Model Application Suite

The Joint Standard 2 of 2020: Margin requirements for non-centrally cleared over the counter derivative transactions, require all providers that intend to apply for the use of the quantitative portfolio margin model (QPMM) for the computation of initial margin requirements and/or the risk-sensitive quantitative model-based haircut approach (RQMHA) for the computation of collateral haircuts, respectively, to submit an application to the Authorities for approval.

The purpose of this communication is to communicate the availability of an updated application suite for use in applications to the Financial Sector Conduct Authority (FSCA) and the PA (collectively referred to as the Authorities)

Draft position paper on Open Finance

In 2020 the FSCA published an assessment of the Open Finance landscape, including an international review and survey of local industry participants, fostering engagement amongst stakeholders. Drawing on these learnings, the FSCA is aiming for an approach to Open Finance in South Africa that drives sustainable innovation, financial inclusion and competition, while at the same time protecting financial customers. This draft Position Paper sets out the FSCA's proposed policy position on Open Finance and confirms the intended direction of the FSCA regarding the future regulation of Open Finance from a conduct and consumer protection perspective. It also sets out recommendations in respect of, amongst others, appropriate risk mitigation by participants in the Open Finance ecosystem

Draft Mergers and Acquisition Guide

In October 2023 SAICA published the Draft Mergers and Acquisition Guide (Draft Guide) for public comment which aims to provide valuable insights and guidance for companies contemplating acquisitions or mergers. It is tailored to support small and medium-sized entities lacking dedicated in-house expertise in these transactions. The consultation process has been finalised and the draft guide has been updated with comments received. The draft guide in now being reviewed and is anticipated to be published in the first half of 2024.

Criminal record verification of certain designated persons and significant owners

The FSCA is in a process to verify certain information about financial institutions, including criminal records of specific individuals. An independent service provider, namely Managed Integrity Evaluation (Pty) Ltd (MIE), was appointed to undertake the verification of records such as qualifications and criminal records, on behalf of the FSCA. Impacted individuals will receive a link from MIE via the latest contact details as recorded on the FSCA system in order to make a booking at the closest zone or office on a suitable date and time. Individuals are reminded to bring along their official identification documents (ID book/card or passport) to the appointment.

Information request on Open Finance-related activities performed by financial institutions and third-party providers.

Financial institutions and Third-Party Providers that participate in Open Finance were requested to furnish information to the FSCA by completing an online information request form available on the FSCA's website. Where a financial institution contracts with a Third-Party Provider to provide Open Finance Services to its financial customers, such contractors must complete the information request. Please take note that financial institutions and Third-Party Providers that do not participate in Open Finance, do not need to submit to the FSCA.

Discussion Document: Development of a framework for the regulation and supervision of financial benchmarks

The Discussion Document provides an update on the regulatory developments underway. It describes the work by the FSCA to date and the planned future steps, as well as providing context on how this work relates to that of the South African Reserve Bank on the reforms of interest rate benchmarks and interbank offered rates. It further requests detailed information from industry players, in the form of a questionnaire for completion, on the scope and operations of benchmark administrators and the types and categories of indices being used in the financial sector in South Africa.

MEDICAL SCHEMES

IAS1 impact on ISA700 auditor report template

The Council for Medical Schemes (CMS) published the revised [ISA700 auditor report template] effective for financial years ending 31 December 2023.

The International Auditing and Assurance Standards Board (IAASB) issued guidance on narrow-scope amendments to International Accounting Standard (IAS) 1, Presentation of Financial Statements. The Independent Regulatory Board for Auditors (IRBA) subsequently issued updated pronouncements regarding the above change and its impact on illustrative audit reports, which include those applicable to medical schemes. The conforming amendments become effective for audits on or after reporting years ending 31 December 2023

IFRS 17 Insurance Contracts - Direct attributable expenditure

The International Financial Reporting Standard (IFRS) 17: Insurance Contracts became effective for financial year-end beginning on or after 1 January 2023. Medical schemes were therefore required to make significant changes in their reporting for the 2023 financial year. The CMS in developing the 2023 Annual Statutory Returns (ASR) required engagement with the industry on various reporting matters to ensure consistency of reporting across medical schemes. In this circular, the CMS engaged the industry on Directly Attributable Expenses.

Imposition of approved levies for Medical Schemes 2023/24

The notice on the imposition of levies dated 12 May 2023 notified that once approval has been received for the new levy, the CMS will make adjustment to the levy already levied to schemes. The CMS has approved an adjustment levy amount of R2.34 to the levy published in the previous notice. The new approved levy is R46.40.

Induction Programme for Trustees of closed schemes

The CMS hosted a two-day Induction Programme for Board of Trustees of closed medical schemes on 1-2 November 2023. The Induction Programmes for Trustees will be used as a pre-requisite to register for the Advanced Leadership Programme for Trustees offered by the Gordon Institute of Business Science (GIBS) in collaboration with the CMS. The Advanced Leadership Programme for Trustees will commence in January 2024.

Authorisation of Auditors and IFRS advisors 2023

The Standards for Authorisation of auditors and IFRS advisors remains unchanged from the prior year. All audit firms, individual auditors and IFRS advisors who were previously granted authorisation for the audit of medical schemes for the financial year ending 31 December 2022's authorisation period, had been extended to include the audits of financial years ending 31 December 2023 and 2024 respectively. No application forms or annual declarations are required in relation to these authorisations. The circular detailed the authorisation process, including document requirements for all new audit firms for the 2023 and 2024 financial years.

International Financial Reporting Standard (IFRS)17 – Statement of financial position

IAS 1 states that: "When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations".

The CMS is of the opinion that a clearly identifiable operating cycle exists in the medical schemes industry based on the definition on the business of a medical scheme and other relevant sections in the Medical Schemes Act 131 of 1998 (MSA) as well as preliminary operation data. The purpose of the Circular was to engage with the industry on the impact this has on the development of the 2023 ASRs.

Imposition of levies for Medical Schemes 2024/25

The CMS proposed a levy amount of R48,62 per principal member per year for the 2024/25 financial year. The proposed levies are imposed for the purpose of meeting the general regulatory and administrative costs of the CMS and the functions of the Registrar of Medical Schemes.

Annual Statutory Return (ASR) Specification for 2023

In this circular, the CMS engaged the industry on the specifications of the ASR for the 2023 financial year.

With the introduction of IFRS 17, many parts of the ASR required substantial changes. In drafting the specifications, a balance between IFRS 17 changes, regulatory information needs, and IT resource constraints pertaining to the development of changes were sought. The changes that will be made to the return will be prioritised per technology resource capacity constraints. The final specifications will be published in January 2024

VALUATIONS

Prudential Property Value: Our Efforts to Ensure Transparency and Consistency

The Basel Committee on Banking Supervision (BCBS) published in December 2017 new requirements for the valuation of real estate for lending purposes in the context of the 'Standardised Credit Risk Assessment Approach' (SCRA). These requirements are part of a new set of international banking supervisory rules known as 'Basel III Framework' and apply since 1 January 2023 to large and internationally active banks. The International Valuation Standards Council (IVSC) wishes to engage with relevant stakeholders on the concept of Prudential Value and comments should be sent to aaronsohn@ivsc.org

IFRS FOUNDATION WORK PLAN

- Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27)
- Post-implementation Review of IFRS 15 Revenue from Contracts with Customers
- Financial Instruments with Characteristics of Equity
- Climate-related and Other Uncertainties in the Financial Statements
- Business Combinations—Disclosures, Goodwill and Impairment
- 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)
- IFRS Accounting Taxonomy Update—Common Practice (Financial Instruments) and General Improvements
- https://www.ifrs.org/content/ifrs/home/projects/work-plan/payments-contingent-on-continued-employment-during-handover-periods-ifrs-3.html

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