SAICA
THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

FINANCIAL SERVICES

Quarterly Brief

SEPTEMBER 2022

BANKING

Consultation on draft Prudential Standards on Market Risk and Credit Valuation Adjustment and related documentation

The Prudential Authority (PA) intends to implement the Basel Committee on Banking Supervision's (BCBS) Revised Market Risk Framework and the Revised Credit Valuation Adjustment (CVA) Framework (Revised Frameworks) in South Africa on 1 January 2024. In an effort to ensure adequate engagement and that the potential impact, costs, and benefits of the Revised Frameworks are duly considered and measured, the preparation of a statement of expected impact forms an integral part of the process of proposing new regulatory instruments. As part of the aforementioned processes, the PA drafted quantitative impact study (QIS) templates and qualitative questionnaires to be completed by all banks and other relevant persons, togather the necessary quantitative and qualitative information that the PA requires to assess and conclude upon the potential impact of the Revised Frameworks. Banks are urged to complete templates and questionnaires on or before **31 October 2022**.

Matters related to fit and proper assessment requirements pertaining to directors and executive officers

The Directives is intended for Banks to make available criminal background check reports when submitting a statement relating to the attributes of a serving or prospective director or executive officer to the Prudential Authority (PA).

The requirement is in line with Section 60(5)(a) of the Banks Act which requires that every bank give the PA written notice of the nomination of any person in respect of the appointment as CEO, director or executive officer by furnishing the PA with the information prescribed in regulation 42 of the Regulations.

Whereby particulars of each person to be appointed in a key position, in the form of a completed statement relating to the attributes of a serving or prospective director or executive officer (form BA 020) together with a CV.

New Framework for implementing monetary policy

The South African Reserve Bank (SARB) is ready to commence the transition to a new monetary policy implementation framework from 8 June 2022. The SARB will soon change to a new Monetary Policy Implementation Framework (MIPF). The reformed MPIF is detailed in a separate paper, A new framework for implementing monetary policy in South Africa, which is intended to be the basic reference for understanding the new framework. SARB intends to implement the new MPIF over a 12-week period, starting on 8 June 2022. The major change to the current monetary implementation framework is the introduction of quotas, which will allow banks to earn the policy or repurchase (repo) rate on excess reserves, up to given limits.

Working paper: The cost of complying with Basel III liquidity regulations for South African banks

The paper construct historical estimates of the aggregate banking sector balance sheet and show that a less dramatic adjustment was required by the South African banking sector than in advanced economy jurisdictions (in part reflecting national discretion applied in the definitions used in the regulations). Specifically, construct an aggregate measure of high-quality liquid asset holdings by South African banks and discuss the shift in bank balance sheets to meet the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements. It also develop an updatable methodology for estimating the costs of Basel liquidity regulations using market and supervisory data, and cross-check estimates against actual estimates from banks based on a once-off survey that we conducted.

Public awareness of the deposit insurance

Corporation for Deposit Insurance (CODI) aims to protect and enhance financial system stability, working in collaboration with other financial safety net participants, in particular the SARB, in fulfilling its financial stability mandate. Its scheme, the deposit insurance scheme (DIS) exists to build public confidence in the banking system and contribute to financial stability by protecting depositors from suffering major losses in the event of a bank failure.

CODI will communicate with the public, and specifically qualifying depositors, to make them aware of the protection CODI offers, as well as the limitations of this protection.

Revised Basel implementation dates

The PA proposes a revision to the implementation dates of the outstanding regulatory reforms in South Africa.

The Basel Committee on Banking Supervision (Basel Committee) has issued various new or amended frameworks, standards or requirements for implementation by member jurisdictions. These are the outstanding components of the Basel III post-crisis reform package which addresses the shortcomings identified in the pre-crisis regulatory framework and provides a regulatory foundation for a resilient banking system that supports the real economy.

Based upon, among others, industry comments and requests, quantitative impact studies, progress by member jurisdictions of the Basel Committee to implement the reforms, regulatory responses to the outbreak of Covid-19, and other matters related to implementation complexity, the PA proposes a revision to the implementation dates of the outstanding regulatory reforms in South Africa as set out in the Directive.

Matters relating to liquidity risk:

The PA is clarifying the ambiguity in interpretation and application with respect to industry exposures to liquidity risk. With the implementation of the liquidity coverage ratio LCR) net stable funding ratio (NSFR) there were interpretive-related matters that arose related to the liquidity risk returns. The Prudential Authority (PA) has become aware that there is some ambiguity in the interpretation and application of various matters related to respective exposures to liquidity risk. In terms of Reg 37(7), the PA clarifies that Banks do not need to apply for condonation if they have sufficient liquidity buffers at the group level to compensate for banking entities within the group that are unable to maintain the required minimum LCR and NSFR requirements in a particular foreign jurisdiction. The Directive also clarifies Reg 29 requirements, aligning the prescribed holding period and enabling the PA to monitor whether a bank will meet the liquid asset requirement over the prescribed holding period.

Completion of return relating to operational risk (Form BA 410)

The directive highlights specific matters on completion and submission for quarterly operational risk BA 410 return and is meant to ensure consistency in terms of operational risk reporting. It states that banks that adopted the standardised approach (TSA) and the alternative standardised approach (ASA) for the calculation of its required amount of capital and reserve funds in respect of operational risk, are required to also complete and submit the form BA 410 and the minimum gross loss thresholds are provided for reporting purposes.

Effective date for the capitalisation requirements of the revised market risk and credit valuation adjustment frameworks

PA proposed an implementation date for the revised market risk and credit valuation adjustment CVA frameworks of 1 January 2024. As such, the respective prudential standards on market risk and CVA will be finalised and effective from 1 January 2024. However, due to the indication that various jurisdictions are likely to postpone the implementation of the revised market risk and CVA frameworks beyond 1 January 2024, the PA will determine the effective date for the capitalisation requirements of the frameworks following the implementation of the regulatory frameworks. The effective date for the capitalisation requirements will be determined in line with other major jurisdictions and trading partners of South Africa. The revised market risk and CVA frameworks will include a provision for transitional arrangements.

Proposed Directive-Reporting requirements in terms of regulation 46

This incorporates the changes brought about as a result of the finalisation of the large exposures framework and the total loss absorbing capacity (TLAC). It replaces D3/2021 dated 12 March 2021.

Correspondent banking risk management practices

This is aimed at providing guidance on anti-money laundering and counter terrorist financing risk management practices related to correspondent banking relationships. The Financial Action Task Force (FATF) Recommendation 10 states that financial institutions (FIs) should be prohibited from keeping anonymous accounts or accounts in obviously fictitious names. It further states that FIs should be required to undertake customer due diligence measures in certain circumstances. While Recommendation 16 states that countries should ensure that FIs include required and accurate originator information, and required beneficiary information, on wire transfers and related messages, and that the information remains with the wire transfer or related message throughout the payment chain. In assessing adequacy of policies, processes, and procedures relating to its risk assessment or internal control systems, the PA may require the strengthening of such systems.

Business risk assessments

The Guidance Note highlights practices related to the formulation of appropriate business risk assessments contributing to effective money laundering and terrorist financing and proliferation financing risk management.

Financial Action Task Force (FATF) Guidance on the risk-based approach in the banking sector clearly stipulates that the risk assessment forms the basis of a bank's risk-based approach. It must enable the bank to understand how, and to what extent, it is vulnerable to money laundering, terrorist financing and proliferation financing risks. It necessitates an evidence-based and informed categorisation of risk at various levels, which will help banks determine the level of AML/CFT or counter-proliferation financing (CPF) resources necessary to mitigate that risk.

Matters Assessment of money laundering, terrorist financing and proliferation financing risk in the banking sector

The PA undertook the banking sector risk assessment to dentify the money laundering, terrorist financing and proliferation financing risks in the sector, and to assist in developing a collective view of these risks and further assist in appreciating the risks across the banking sector to aid its supervisory activities as appropriate. This assessment focused on the money laundering, terrorist financing and proliferation financing risks identified within the banking sector for the period 1 October 2018 to 31 December 2020.

Overview of the South African Reserve Bank's policy framework for the provision of emergency liquidity assistance to banks

The paper is aimed at informing the public of the SARB's policy stance on the provision of emergency liquidity assistance (ELA) to banks. The policy framework of the SARB focuses on idiosyncratic requests for ELA and provides for, among others, the criteria, legal requirements and collateral guidelines that should be in place to enable the efficient provision of ELA, when needed. The provision of ELA is underpinned by the SARB's other functions, namely the administration and oversight of the national payment system, management of money market liquidity, implementation of monetary policy, as well as the regulation and supervision of financial institutions.

RETIREMENT FUNDS

Arrear contributions: An alert to retirement funds and employers

FSCA alert retirement funds and employers regarding arrear contributions by retirement funds and employers. The Authority is currently compiling the list and checking the accuracy of the value of arrear contributions and intends to publish those in arears.

Request for information related to retirement funds paid-up members

In order to obtain the necessary and relevant up-to-date information from all retirement funds and administrators relating to benefits of paid-up members the FSCA has requested all retirement funds and administrators, on an ongoing basis, to provide the requisite information relating to benefits of paid-up members. The request comes as an effort to enhance the Unclaimed Benefit Search Engine hosted at the Authority's site. Different timelines have been communicated in the Notice.

Conduct Standard 1 of 2022: Requirements Related to the Payment of Pension Fund

In supervising compliance with Regulation 33, the Authority has identified a need to standardise the manner and format of reporting by principal officers and/or authorised persons, and boards of funds, insofar as it relates to various matters falling within the ambit of section 13A of the Act and Regulation 33. Authority has identified a need to standardise the manner and format of reporting by principal officers and/or authorsed persons, and boards of funds, insofar as it relates to various matters falling within the ambit of section 13A of the Act and Regulation 33. Along with undesirable practices and/or outcomes, where the board of a fund outsources its responsibility to recover outstanding contributions from an employer to an attorney or third party. Lastly the potential drafting improvements that can clarify various of the requirements contained in regulation 33. The Conduct Standard is intended to come into operation 6 months after the date of publication.

Exemption of certain funds from requirements of Section 9A and 16

Section 9A of the PFA requires every registered fund to have its financial condition investigated and reported on by a valuator in terms of section 16 of the PFA, to appoint a valuator. Section 16(1) of the PFA requires that a registered fund shall, at least once in every three years, cause its financial condition to be investigated and reported upon by a valuator, and shall deposit a copy of such a report with the Authority, and shall send a copy of such report or a summary thereof, prepared by the valuator in a form prescribed and signed by the valuator, to every employer participating in the fund. Certain funds are exempt from valuator reports as required by Section 9A and 16(1) of the PFA due to practical challenges.

MEDICAL SCHEMES

Quarterly Statutory Returns Submission for 2022

Council for Medical Schemes (CMS) informs Principal Officers and statutory return users that the quarterly statutory return online program will be available live on their website as of 26 August 2022. Schemes will be given three weeks from date of going live in which to verify/request changes to Part 1.

The deadline for Part 1 changes for Q2 of 2022 is **16 September 2022**.

Final Limited Administrator Accreditation Framework

The Limited Administrator Accreditation Framework is applicable to all entities providing limited administration services to medical schemes and its effective date of implementation is **1 October 2022**, with all affected entities applying for limited administrator accreditation by no later than 31 December 2022. The comments received from industry following the publication of the draft Limited Administrator Accreditation Framework with Circular 20 of 2022 have been analysed and incorporated where appropriate.

Induction Programme for Trustees

CMS is hosting a two-day Induction Programme for Board of Trustees of medical schemes. The workshop will be on from **18 – 19 October 2022.** These sessions are aimed at among others, providing guidance to newly appointed members of the Board of Trustees on the following: Introduction to the Medical Schemes Act; Compliance with the Medical Schemes Act; Accreditation of brokers and healthcare providers; Complaints and Adjudication procedures; Financial soundness of a medical scheme and the Overview of COVID-19.

Revision pertaining to appointment of brokers by a member and/or employer

CMS is revising Circular 20 of 2010 specifically the appointment of brokers by members and/or employer as stipulated in Regulation 28(7) of the MSA, this is informed by numerous enquiries and complaints from brokers and other interested parties seeking further clarity on the interpretation of Regulation following the publication of Circular. The Circular indicates that a member can appoint a new broker to replace a broker previously appointed by the member. It further states that when a member has been admitted to a medical scheme without the assistance of a broker, no other person or entity that can represent a member is acting as an agent in appointing a new broker. In their proposal, amongst other things they propose that the employer must appoint a minimum of 3 brokerages to allow employees the freedom to choose any of the appointed brokerages as and when the employee so wishes.

General concerns noted during the analysis of the 2021 Annual Financial Statements (AFS) and Annual Statutory returns (ASR)

The purpose of this circular is to bring to your attention common problems and issues identified during the analysis of the AFS and ASR in order to enhance quality, standardisation and uniformity regarding proper disclosure, reduce or minimise errors and establish good financial reporting for the industry. Key areas of concern noted were; Report of the Board of Trustees; Statement of Cash Flows; Investments; Compliance monitoring and Reporting of non-compliance matters.

Guidance on benefit changes and contribution increases for 2023

Schemes are urged to submit a dated and certified resolution of their respective Board of Trustees (BoTs) with the wording "Certified as having been adopted in terms of the rules" together with a summary of the changes and a copy of the rules with tracked changes of the proposed amendments to the respective benefits and/or contributions to fast track the review process. The format for tracked changes can either be shown in the margin in balloons or as underlined/strikethrough of the text to ensure that the submission is apparent. The deadline for medical schemes to submit applications for new benefit options and EDOs scheduled to take effect from 1 January 2023, is 1 September 2022 and 1 October 2022 for contribution and benefit changes.

Authorisation of Auditors and IFRS advisors

The CMS would like to inform auditors and International Financial Reporting Standards (IFRS) advisors that the online Auditor Authorisations and Approval Portal is now available on their website 2022 applications. They are in the process of developing a new auditor authorisation methodology and system, which will be based on Audit Quality Indicators (AQIs). Extended stakeholder engagement will follow in October and November 2022. It is envisaged that this new methodology will be implemented in 2023. The process and deadlines have been highlighted.

Brokers and Brokerages earning a commission in their own health or medical scheme policies

The CMS clarified its position regarding the recent communication sent by Discovery Health (Pty) Ltd (an accredited medical scheme administrator) to all affected brokers, informing them that they may not earn commission on their own health or medical scheme policies unless they appoint an alternative broker by the end of this month. In their correspondence, the administrator had indicated that they were communicating a directive received from the CMS. All affected schemes and administrators who act on behalf of medical schemes must immediately terminate any arrangements in terms of which any broker is receiving broker commission, whether directly or indirectly, related to their own health/medical scheme policy, and confirmation was to be provided to the CMS by 30 June 2022.

Risk assessment of money laundering and terrorist financing in the life insurance sector

In line with Recommendation 1 of the Financial Action Task Force (FATF) Recommendations the PA undertook a risk assessment on the life insurance industry for the purpose of better understanding the money laundering, terrorist financing and proliferation financing risks within the life insurance sector. The assessment excluded reinsurers and the non-life insurance sector. It is aimed at assisting the life insurers that fall within the purview of the PA's supervision to become aware of the collective money laundering, terrorist financing and proliferation financing risks. Based on the assessment of the criminal threat environment, inherent vulnerabilities in the subsector and consequences associated with criminal threats. The overall money laundering, terrorist financing and proliferation financing risks rating of the life insurance sector was found to be medium.

IFRS 17 Assessment Report

The PA has issued a report on its findings on the implementation of the IFRS 17 Insurance Contracts. The reports covers aspects such as project management and governance, Technical aspects, Impact assessment, IT landscape, Financial reporting amongst other items.

COLLECTIVE INVESTMENT SCHEMES

Exemption of Managers of Collective Investment Schemes from certain requirements of section 99(1) of CISCA

CIS managers and other stakeholders approached the FSCA to consider issuing an interpretation ruling in respect of section 99 of CISCA as it has been subject to differing interpretations by industry stakeholders.

Some stakeholders contended that section 99 could be interpreted to mean that only investors in the original scheme or portfolio are required to consent to an amalgamation and that investors in the target/receiving scheme or portfolio will be protected by receiving appropriate and accurate information on the proposed amalgamation to enable them to make an informed decision on the possible impact thereof on their investment and to exercise their rights.

FSCA issued draft Exemption stipulating the proposed conditions of the exemption which considers costs of conducting a ballot amongst other considerations.

Exemption of Managers of Collective Investment Schemes from certain Requirements in Board Notice 92 of 2014

Exemption granted to CIS Managers from the requirement to obtain a signed application form or contract from an investor when receiving electronic applications from investors.

The Notice on Advertising, Marketing and Information Disclosure Requirements for CIS requires that a manager must obtain a signed application form or a contract from an investor. However, Board Notice 92 is silent on the format, in this regard, when a CIS manager provides an investor with the opportunity to complete and submit an application form or contract electronically on an online platform, that investor must sign the application form or contract by using an advanced electronic signature, as defined in the ECTA.

REGULATED INDUSTRIES

Requirement to submit anti-money laundering and counter-financing of terrorism risk returns on a periodic basis

This Directive serves to direct supervised entities to on a periodic basis, submit information linked to the assessment of compliance with its obligations in terms of the FIC Act to the PA. In terms of section 45 of Financial Intelligence Centre Act 38 of 2001 (the FIC Act), it is the responsibility of the PA as a supervisory body to ensure that it supervises and enforces compliance with the provisions of the FIC Act by accountable institutions falling within its supervision. The PA, in seeking to further its understanding and assessment of money laundering, terrorist financing and proliferation financing risk, and the efficiency of associated controls in the banking and life insurance sector requires that information at an institutional level be provided to the PA on a regular basis. Timelines and frequency of submission are included in the Directive, along with consequences of none submission. The submission are affective from date of publishing directive i.e. June 2022.

JSE Amendments impact on actively managed exchange traded funds (AMETF)

The JSE intends to amend its listings requirements to expand the current Section 19 offerings by including specific requirements for the listing of AMETF.

Margin requirements for non-centrally cleared over-the-counter derivative transactions

The joint Standard amendments. The Authorities, PA and FSCA, find it necessary to make amendments to Joint Standard pertaining to provisions enabling reporting from providers as well as financial institutions that are counterparties; enabling the imposition of appropriate risk mitigation requirements by providers wanting to make use of non-cash collateral and refining the phasing-in of the initial margin requirements and aligns terminologies to the Financial Sector Regulation Act amongst other amendments.

Request For Information Relating To Ownership Of Certain Financial Institutions

The purpose of this Notice is to request certain Financial Service Providers (FSPs) and Managers, that are also designated as accountable institutions in terms of the FIC Act, to provide information to the FSCA relating to the ownership of such institutions. There are FSPs that are excluded from this request. The e-portal will be available for submission of information under this RFI from 15 August 2022. Impacted financial institutions must ensure that all information has been submitted by no later than 30 September 2022.

Amendment of the rules on proceedings of the office of the ombud for financial services providers

The amendments include the revision of the current maximum compensation limit for the FAIS Ombud, which is no longer appropriate as it has not kept up with inflation or the financial realities in the market. Also, the current limit of the FAIS ombud is out of kilter when compared to other ombuds in the financial sector, thereby creating inconsistencies.

Draft amendment of the exemption of certain persons from joint standard 1 of 2020

Given the size and complexity of some of the institutions (e.g. financial services providers other than a CIS) as well the practicality of complying with the Joint Standard, exemptions were granted. The FSCA issued for comment draft amendments proposing to amend the Exemption to ensure that significant owners of FSPs are subject to the requirements in the Joint Standard pertaining to honesty, integrity, reporting and procedures for assessing fitness and propriety. This will ensure that, amongst other things, regulatory measures aimed at preventing criminals or their associates from controlling financial institutions exist. The proposed amendment to the Joint Standard aligns to the FSCA's objective of identifying owners of financial institutions more effectively, and is viewed as an urgent interim step to address a finding reflected in the FATF MER, pending further legislative amendments that will create an enabling framework for the regulation and supervision of beneficial owners holistically.

IFRS FOUNDATION WORK PLAN

- Business Combinations under Common Control
- Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9)
- Climate-related Disclosures
- Contractual Cash Flow Characteristics of Financial Assets (Amendments to IFRS 9)
- Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures
- Disclosure Initiative—Targeted Standards-level Review of Disclosures
- Dynamic Risk Management
- Equity Method
- Financial Instruments with Characteristics of Equity
- General Sustainability-related Disclosures
- Goodwill and Impairment
- IFRS Sustainability Disclosure Taxonomy
- IFRS Taxonomy Update—2022 General Improvements and Common Practice
- ISSB Consultation on Agenda Priorities
- Lack of Exchangeability (Amendments to IAS 21)
- Lease Liability in a Sale and Leaseback
- Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)
- Management Commentary
- Multi-currency Groups of Insurance Contracts (IFRS 17 and IAS 21)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Post-implementation Review of IFRS 9—Classification and Measurement
- Post-implementation Review of IFRS 9—Impairment
- Primary Financial Statements
- Provisions—Targeted Improvements
- Rate-regulated Activities
- Second Comprehensive Review of the IFRS for SMEs Accounting Standard
- Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition
- Supplier Finance Arrangements

LET US KNOW WHAT YOU THINK!

How helpful did you find the content of this newsletter?

Click here & tell us more

Follow us!

SAICA
THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

Email us:

Kedibone Pilusa
Project Director: MIB Technical
KediboneP@saica.co.za

Mthokozisi Sibisi
Project Manager: MIB Technical
MthokozisiS@saica.co.za