



## FINANCIAL SERVICES

# Quarterly Brief

MARCH 2023

## BANKING

### Flavour-of-the-year (FOTY) topics for the 2023 calendar year

Annually, the Prudential Authority (PA) considers whether any current developments affecting regulated institutions at an industry level are of such significance that additional focus from a supervisory perspective is required. The PA has determined that for the 2023 calendar year, the FOTY topics for the discussions with the respective boards of directors and executive management of [banks](#) and [mutual banks](#) will be organisational resilience and climate-related risks. The selected institutions will receive a letter from the PA.



### Proposed revisions to IFRS 9 – Financial Instruments and IFRS 7 – Financial Instruments: Disclosures

The International Accounting Standards Board (IASB) to amend IFRS 9 - *Financial Instruments* and IFRS 7 - *Financial Instruments: Disclosures*. The exposure draft proposes to amend the requirements for settling financial liabilities using an electronic payment system; and assessing contractual

cash flow characteristics of financial assets, including those with environmental, social and governance (ESG)-linked features. The deadline to submit comments on this [exposure draft](#) is 19 July 2023.



### **Matters related to the net stable funding ratio (NSFR)**

The NSFR framework was assessed holistically to examine the feasibility of adopting the minimum standard in South Africa; the adequacy of the NSFR's calibration for South Africa; and the options available for incorporating the NSFR's principles without causing unnecessary harm to the banking sector and the economy.

This [Directive](#) serves to inform banks of the PA's decision to phase out the available stable funding (ASF) factor to zero by January 2028 in order to be fully compliant with the NSFR framework, and its assessment of the measurements factors set out in the NSFR framework related to the required stable funding (RSF).

### **Payment of annual licence fees by banks and mutual banks (Collectively referred to as banks)**

The PA noted the concern that the industry raised in the past about the potential for double-charging emanating from the transition from the payment of the annual licence fees to the payment of the annual levies once the Levies Act and the Levies Admin Act (collectively referred to as the Acts) come into effect.

In order to cater for the transition from the payment of annual licence fees to annual levies and to ensure that banks are not double charged, the PA seeks to clarify that it will refund the pro-rata surplus of the annual licence fees. This will be calculated taking into consideration the commencement date of the Acts.

On 6 December 2022, the President assented to the Acts, and these were published in the Government Gazette on 9 December 2022. A commencement date for the Acts is yet to be determined.



### **Proposed Directive - IFRS 9 Supplementary Reporting Template**

The PA requires timely and accurate information relating to credit exposures and impairments to monitor banks' performance, asset quality and loan loss provisioning, ongoing safety and soundness, and the capital adequacy of banks, amongst others. Banks are required to complete the [IFRS 9 supplementary reporting template](#) and submit it to the PA in line with the specified timelines.

The effective date for the IFRS 9 supplementary reporting template has been determined as follows:

- Bank Solo – for the period ending 30 September 2023;
- Bank Consolidated – for the period ending 31 December 2023; and
- Controlling Company Consolidated – for the period ending 31 December 2023.



### **The South African Reserve Bank (SARB) statement on the role of the Financial Sector Contingency Forum (FSCF)**

In response to queries relating to the role of the FSCF, specifically around plans to prepare for the unlikely event of a regional or national grid failure, the SARB issued a [statement](#) outlining the FSCF's role to identify and mitigate risks that could threaten the functioning and stability of the financial system including a response to the prolonged electricity outage.



### **Proposed Directive: Thresholds amounts related to the revised standardised and internal ratings-based approaches**

In response to the Basel Committee on Banking Supervision (BCBS) revised standardised approach (STA) and internal ratings-based (IRB) approach for credit risk, the PA issued proposed amendments to the Regulations relating to Banks (Regulations) to incorporate the respective requirements specified in the revised STA and IRB approach for credit risk issued by the BCBS into the Regulations. Among other matters, the revisions include new and adjusted threshold amounts used in

the classification of credit risk exposures, the calculation of the minimum required capital and reserve funds, and regulatory reporting.

Accordingly, the purpose of this [proposed directive](#) is to specify the appropriate threshold amounts to be used by banks when implementing the various requirements of the revised STA and IRB approach and the liquidity risk and interest rate risk in the banking book (IRRBB) frameworks.



# RETIREMENT FUNDS

## Section 14 transfer applications: Enhancement of the FSCA's online submission processes

To ensure that no relevant information is missing and that all necessary documents are provided for in the filed Section 14 application, the Financial Sector Conduct Authority (FSCA) [enhanced its online submission system](#) with effect from

1 February 2023. The enhancements include additional fields, a checklist of all the required information and documents, ability to capture multiple participating employers, amongst others.

## Guidance Notice on the application of Section 14(7) of the Pension Funds Act, 1956 (PFA)

The objective of the [Guidance Notice](#) is to ensure a consistent understanding and application of section 14(7) of the PFA. The guidance notice provides guidance on provisions of different pieces of legislation read together, to support consistent interpretation and application of sec-

tion 14(7) of the PFA and other intermediary remuneration provisions in the Long-term Insurance Act Regulations (the LTIA Regulations) and the General Code of Conduct for authorised Financial Services Providers and Representatives, 2003 (FAIS General Code).

## Determination of format of documents in respect of requirements related to the payment of pension fund contributions (Determination)

Subsequent to the publication of FSCA RF Notice 14 of 2022, the FSCA learnt that the formats determined in terms of that notice are not conducive to the reporting of contraventions

by funds with multiple participating employers. The FSCA has subsequently [updated the formats](#) for the notifications and reports required in terms of the Conduct Standard 1 of 2022.



## Exemption of certain funds from the conditions in Board Notice 75 of 2009 (the Board Notice)

The FSCA published an [exemption notice](#), exempting certain funds from having to meet the conditions set out in paragraphs 9.2(a) and 9.2(b) of the Board Notice. The exemption is subject to the applicant fund meeting the conditions as

set out in paragraph 2 of the exemption notice and applies to all qualifying applicant funds that apply online on or after 1 February 2023.

# INSURANCE

## Flavour-of-the-year (FOTY) topics for insurers for the 2023 calendar year

Annually, the PA considers whether any current developments affecting regulated institutions at an industry level are of such significance that additional focus from a supervisory perspective is required. The PA has determined that for the 2023 calendar year, [the FOTY topics for insurers](#) will be organisational resilience and climate-related risks.

## SAICA IFRS 17 - Insurance Contracts event - 31 May 2023

This event will address IFRS 17 requirements and provide practical insights into of the operational challenges that arise when implementing this Standard. [Follow the link to register.](#)

## Directive: Requirement to obtain the identity of the beneficiaries of life insurance policies

This [Directive](#) serves to direct designated entities to ensure that information is obtained in respect of the beneficiaries of life insurance policies, and that the money laundering and terrorist financing (ML/TF) risk associated with the beneficiary must be incorporated into the overall assessment of the ML/TF risk posed by the client.

## Exemption for direct collection of premiums - extension of the exemption until further notice

The FSCA extended the period of the exemption provided by FSCA INS Notice 1 and 2 of 2022 until further notice. The reason for extension is that certain existing regulatory developments which potentially overlap with the development of the future conduct framework will not be progressed in isolation and will form part of the harmonisation and transition work, as cornerstones of the development of a new conduct regulatory framework and in anticipation of the Conduct of Financial Institutions (COFI) Bill.

## IFRS 17 - Insurance Contracts resources

Access the [IFRS 17 resources](#) including the guides, webinars, and educational material from the SAICA website.



# MEDICAL SCHEMES

## Regulation portal submissions

The Council for Medical Schemes' (CMS) Regulation Division has observed that most medical schemes submit applications/information required for various purposes using incorrect portals. In turn, this delays the processing of applications promptly. To reduce delays, the division has streamlined its submission process and appointed dedicated contact persons to address queries in the relevant area. The [table](#) outlines the portals and contacts when accessing and uploading documents.

## CMS Standard management accounts guidelines

The CMS updated the [standard management accounts guideline](#). This guideline is intended to provide guidance to Board of Trustees on what information should be contained within the medical scheme's standard management accounts to address their information needs.



## CMS deadline for monthly Real Time Monitoring for 2023

The CMS has published the monthly [Real Time Monitoring \(RTM\) submission deadline dates](#) for 2023. All medical schemes are directed, as per the provisions of Section 44 (5)(b) of the Medical Schemes Act 131 of 1998 (MSA) to submit the required information no later than four weeks after every month end. Any medical scheme which fails to furnish the Registrar with the requisite information, shall be liable to a penalty of R1 400 (one thousand four hundred rands), for every day for which the failure continues.

## Adjustment on fees payable to brokers with effect from 1 January 2023

The Minister of Health, Dr Joe Phaahla, approved an increase on the maximum amount payable to brokers in terms of Section 65 of the MSA effective 1 January 2023. The revised amount is now R111,18 plus value added tax (VAT).



## Categorisation of assets in terms of Annexure B to the Regulations of the Medical Schemes Act, No. 131 of 1998 (the Act)

The CMS finalised the [Guidelines](#) on categorising assets in terms of Regulation 30 of the MSA read in conjunction with Annexure B to the Regulations. The purpose of these Guidelines is to guide the categorisation 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.

## REGULATED INDUSTRIES

### Consultation on market conventions for South African Rand Overnight Index Average (ZARONIA)-based derivative instruments

The Market Practitioners Group (MPG) has published a [white paper](#) that proposes market conventions for derivative products that will use the newly launched ZARONIA as an alternative reference rate to the Johannesburg Interbank Average Rate (Jibar). This marks a significant step in the effort to reform domestic reference rates, as the white paper considers the ways in which the derivatives market will adopt a more robust interest rate benchmark. ZARONIA is based on actual transactions and is calculated as a trimmed, volume-weighted mean of interest rates paid on eligible unsecured overnight deposits.

### Approved amendments to the JSE rules

JSE [amendments](#) relating to the rules on penalties for improper conduct have been published.



### Draft Joint Standard: Cybersecurity and Cyber Resilience Requirements

The biggest challenge to every institution today is the frequency and sophistication of targeted cyber-attacks, with perpetrators worldwide continually refining their efforts to compromise systems, networks, and information. The financial sector is one of the more prominent targets for attacks. Given the growth of the threat landscape, cybersecurity risk has gained the necessary attention of the financial sector, as well as that of the PA and the FSCA (the Authorities).

Cyber-attacks can pose a major impact on financial institutions, potentially compromising their sustainability. Due to the interconnectedness of the financial system, a cyber incident or failure at one interconnected entity may not only impact the safety and soundness of that entity but other financial institutions as well. Therefore, the interconnectedness of the South African financial ecosystem and impact on the various sectors within the value chain, strengthens the need for this [Joint Standard](#).



## **REGULATED INDUSTRIES** CONT

### **Exemption of Collective Investment Schemes (CIS) Managers from Certain Requirements of section 99(1) of the Collective Investment Schemes Control Act, 2002 (CISCA)**

The FSCA has been approached by various CIS managers and other stakeholders for guidance on the requirements of Section 99 of CISCA, as this requirement was subject to differing interpretations by industry stakeholders. In addressing

these issues, the FSCA [exempts CIS managers from some of the requirements of section 99\(1\) of CISCA](#) when funds are amalgamated, subject to certain conditions, as contemplated in section 2 (2) of FSCA CIS Notice 1 of 2023.

### **2023 list of planned PA surveys and questionnaires**

From time-to-time, the PA identifies areas of focus as informed by emerging risks, themes, and trends. The PA uses various channels to solicit the required information for analysing against the priorities. For the 2023 supervisory calendar, the PA will discuss [these topics](#) within prudential meetings to be held with the regulated financial institutions' governing body members as well as heads of control functions. Some information will be solicited through questionnaires or surveys as a way of assessing the posture of the regulated institutions per priority, topic, or theme. The outcome of the various assessments will, in turn, inform the refinement and/or development of regulatory instruments and guidance.



### **Notice regarding the Publication of Draft Notice of Amendment of Board Notice 90 of 2014**

The FSCA, in conjunction with the Prudential Authority, is currently busy with a holistic review of the Determination of securities, classes of securities, assets or classes of assets that may be included in a portfolio of a collective investment scheme in securities and the manner in which and the limits and conditions subject to which securities or assets may be so included, published under Board Notice 90 of 2014 (BN90). However, the holistic review will take time and in the interim,

the FSCA wishes to address [three aspects relating to BN90](#), detailed in paragraphs 2 and 3 of the notice, as an interim step pending the finalisation of the holistic review. Following the implementation of the Amendment Notice, the FSCA will assess and evaluate the effect of the amendments on a continuous basis as part of its regulatory and supervisory responsibilities.





# VALUATIONS

## The Valuation Profession in 2023

The growing importance of sustainability and environmental, social, and governance (ESG) factors is one of the key trends that are shaping the valuation profession. Valuers will need to play a more consultative role, helping companies and investors understand the financial implications of ESG risks and opportunities, for instance as new regulation is developed, when might be best timing to make an acquisition or disposal, or whether to retrofit assets. This may also involve providing guidance on how to manage and mitigate ESG risks, or helping companies develop sustainability strategies that create value for all stakeholders. [Click here to read the article.](#)

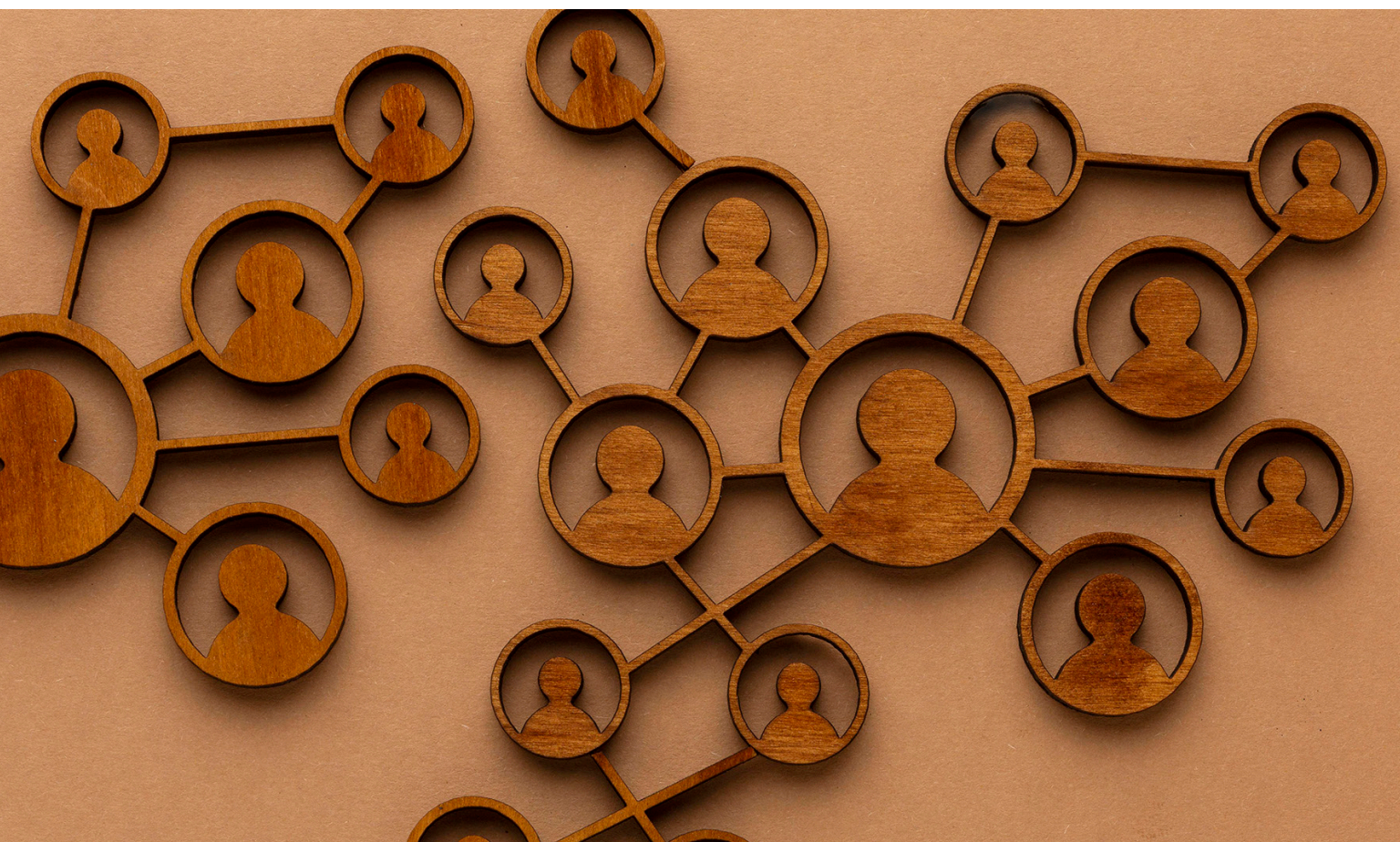


## The International Valuation Standards Council (IVSC) appoints seven new members to its Business Valuation Board

The IVSC has announced the [appointment of seven new members](#) to its Business Valuation Board (BVB). The appointments come as part of the IVSC's ongoing efforts to broaden the Board's geographic field of expertise and enhance its collective skillset. The new appointees bring a wealth of experience from a range of fields, including M&A, financial reporting, and standard setting. They are prominent in their areas of expertise and include global valuation leaders in professional bodies, global investors, and multinational firms.

## The IVSC appoints new international experts to its Standards Review Board

The IVSC is delighted to announce the [appointment of four new international experts](#) to its Standards Review Board (SRB). The new board members bring a wealth of knowledge and expertise from a range of fields, including real estate, finance, and accounting. They will play a key role in ensuring the IVS remain relevant and up-to-date in a rapidly changing market environment.



### IVSC and World Intellectual Property Organisation (WIPO) announce collaboration



The IVSC and the WIPO have signed a [Memorandum of Understanding \(MoU\)](#) to strengthen cooperation and collaboration on issues related to the valuation of intellectual property and other intangible assets. The MoU will facilitate the exchange of information and expertise between the two organisations, and will include collaboration in research and development activities, training and capacity building, and the promotion of best practices in the valuation of intellectual property and other intangible assets.

### Register to attend a webinar on the proposed updates to the International Valuation Standards (IVS)

The International Valuation Standards (IVS) are regularly updated to reflect changing market and practitioner needs, with the last update introduced in January 2022. During the month of April 2023, the IVSC's standards boards will publish an Exposure Draft detailing the proposed updates to the IVS for consultation. Anyone can respond to the consultation and the boards are eager to gather as much feedback as possible to ensure the standards reflect global best practices and are fit-for-purpose.

As part of the consultation programme, the board will host a series of three webinars in May 2023, during which the proposed updates will be discussed in more detail. Anyone can register to join these webinars and you will have the opportunity to ask questions and hear from the experts that are responsible for drafting the updates to the IVS. [Click here for registration options and to register.](#)



# IFRS FOUNDATION WORK PLAN

- [Business Combinations under Common Control](#)
- [Climate-related Disclosures](#)
- [Contractual Cash Flow Characteristics of Financial Assets \(Amendments to IFRS 9\)](#)
- [Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures](#)
- [Dynamic Risk Management](#)
- [Equity Method](#)
- [Financial Instruments with Characteristics of Equity](#)
- [General Sustainability-related Disclosures](#)
- [Goodwill and Impairment](#)
- [IFRS Accounting Taxonomy Update—Amendments to IAS 12, IAS 21, IAS 7 and IFRS 7](#)
- [IFRS Sustainability Disclosure Taxonomy](#)
- [International Applicability of the SASB Standards](#)
- [ISSB Consultation on Agenda Priorities](#)
- [Lack of Exchangeability \(Amendments to IAS 21\)](#)
- [Management Commentary](#)
- [Post-implementation Review of IFRS 9—Impairment](#)
- [Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#)
- [Primary Financial Statements](#)
- [Provisions—Targeted Improvements](#)
- [Rate-regulated Activities](#)
- [Second Comprehensive Review of the IFRS for SMEs Accounting Standard](#)
- [Supplier Finance Arrangements](#)



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Email us:

Kedibone Pilusa  
Project Director: MIB Technical  
[KediboneP@saica.co.za](mailto:KediboneP@saica.co.za)

Mthokozisi Sibisi  
Project Manager: MIB Technical  
[MthokozisiS@saica.co.za](mailto:MthokozisiS@saica.co.za)