



FINANCIAL SERVICES

Quarterly Brief

MAY 2022

BANKING

Revised illustrative Banks Act regulatory auditor's reports

The illustrative regulatory reports have been updated for International Standard on Related Services (ISRS) 4400 (Revised), Agreed-Upon Procedures Engagements and are effective for engagements where the terms of engagement have been agreed on or after 1 January 2022. The reports are available on the [IRBA website](#). They were updated by the SAICA Basel Task Group (BTG), which is a sub-working group of the SAICA Banking Project Group (BPG), in collaboration with the IRBA and the Prudential Authority.



The Prudential Authority urges banks to conserve capital

The Prudential Authority issued [Guidance Note 2/2022](#) outlining the need for banks to act prudently when considering distributions of dividends on ordinary shares and the payment of cash bonuses to executive officers and material risk takers for the duration of the COVID-19 related uncertainty. The Authority notes that it is important for banks to

conserve their capital resources in order to continue to support the economy in this environment of heightened uncertainty. Guidance note 2/2022 comes after the Authority's withdrawal of the temporary regulatory relief which were given to banks in 2020 in response to the negative impact of the pandemic.



Financial Sector and Deposit Insurance Bills

The SARB published a [discussion paper](#) In May 2017 on designing a banking sector-funded deposit insurance scheme (DIS) for South Africa. The main objective of a DIS is to protect depositors in the event of a bank failure and enhancement of the stability of the South African financial system.

There are naturally many considerations to be made by the banking industry in terms of regulatory and financial report-

ing. SAICA will continue to engage in discussions through the Banking Project Group (BPG) to ensure that any relevant industry concerns are addressed.

Parliament has issued the [Financial Sector and Deposit Insurance Levies Bill & Financial Sector and Deposit Insurance Levies \(Administration\) and Deposit Insurance Premiums Bill](#) which were introduced in January 2022 and is inviting comments on them by 02 May 2022.

Launch of the Project Khokha 2 report

The [Project Khokha 2 \(PK2\)](#) report was released on 6 April 2022, a little over a year since PK2 was launched in February 2021. This follows the [first Project Khokha report](#) which was launched in June 2018. Project Khokha is an experimental research project, a proof-of-concept (PoC), for a wholesale payment system based on distributed ledger technology (DLT). The SARB received the inaugural 'Best Distributed Ledger Initiative' award from Central Banking Publications in Singapore in September 2018.

PK2 explored the impact of DLT on trading, clearing and

settlement in a limited proof-of-concept (PoC) environment. It also explored tokenisation of securities. The project was driven by the SARB and the Intergovernmental Fintech Working Group (IFWG) but has been a collaborative initiative including various stakeholders and industry participants such as ABSA, FirstRand, the JSE and several others.

The PK2 report provides insight into various other aspects that must be considered in the application of DLT to financial markets.

INSURANCE

Flavour-of-the-year topic for insurers

The PA communicated that succession planning is the [flavour-of-the-year topic for insurers for 2022](#). The PA outlined the approach that will be followed regarding the topic. It noted that the insurance industry is experiences ongoing changes in the business and operating environment, transformation, market disruption, innovative technologies, new business models and other forms of competitive pressures.

Insurance entities therefore ought to continually identify suitably skilled and experienced personnel who are capable of strategically steering it through the challenges brought about by such conditions as stated above.



MEDICAL SCHEMES

UPDATE: Prescribed statement of cash flows for medical schemes

The [December newsletter](#) noted the requirements of Circular 52 of 2021 of the CMS and the [letter](#) which was submitted to the Council for Medical Schemes (CMS) by the SAICA Medical Schemes Project Group (MSPG). The CMS has since responded to the letter favorably and accordingly issued [Circular 18 of 2022: Statement of Cash Flows](#). Circular 18 of 2022 informs the industry that the implementation of the classification of investment income per [Circular 52 of 2021](#) will be delayed until further stakeholder engagement has been finalised.

Imposition of levies on medical schemes

The Council for Medical Schemes (CMS) published a notice on the [imposition of levies for medical schemes](#) for the 2022/23 financial year. The levy to be paid with effect from 01 April 2022 is R42.27 per member per year, which will be

adjusted once the new levy has been approved. The CMS is awaiting approval of the new levy and will publish a notice once received, indicating the adjustment to the levy already levied to the schemes.



REGULATED INDUSTRIES

IBOR reform: replacement of the JIBAR

In August 2018, the South African Reserve Bank (SARB) published a paper, titled [Consultation paper on selected interest rate benchmarks in South Africa](#), to propose the reform of key interest rate benchmarks used in South Africa, including the Johannesburg Interbank Average Rate (JIBAR). In 2015, the SARB conducted a review and analysis of the design of the JIBAR and raised several concerns regarding the credibility of the rate. It determined that JIBAR could potentially be vulnerable to manipulation.

The paper proposed new interest rate benchmarks which the SARB would calculate and monitor. The new benchmarks aim to provide more reliable rates based on actual transactions, as opposed to JIBAR which is based on indicative rates.

Requirement to submit AML and CFT returns to the PA on a quarterly basis

The PA issued a [proposed directive](#) for entities to submit information on compliance with the FIC Act on a quarterly basis, this is in order to further the supervisor's understanding and assessment of money laundering, terrorist financing and proliferation financing risks and efficiency of associated controls.

Publication of prudential standards for financial conglomerates

The PA published [prudential standards for financial conglomerates](#) in December 2021, which came into effect on 1 January 2022. This suite includes the following prudential standards:

- FC02 – Intragroup Transaction and Exposure Requirements for Financial Conglomerates;
- FC03 – Auditor Requirements for the Holding Companies of Financial Conglomerates;
- FC04 – Governance and Risk management Requirements for Financial Conglomerates; and
- FC05 – Risk Concentration Requirements for Financial Conglomerates.

The fifth standard, FC01 – [Capital requirements for financial conglomerates](#), is undergoing a field testing process with designated financial conglomerates and volunteers with effect from 1 February 2022. This process will be concluded in a minimum of two years after which the standard will go through a formal consultation process.

The SARB established Market Practitioners Group (MPG) which is an independent body whose objective, among others, is to provide input into the design of the benchmark proposals and will also make the final decisions on the choice of interest rate benchmarks to be used as reference interest rates. The MPG has identified ZARONIA, which is the South African Rand Overnight Index Average, as a viable and preferred alternative to JIBAR.



Draft financial sector transformation strategy

The Financial Sector Conduct Authority (FSCA) has issued a [draft transformation strategy](#) which aims to outline its approach to promoting financial sector transformation within the existing policy framework i.e. the FSR Act, B-BBEE Act, and FS Code, and an approach for the regulator to promote transformation under the future COFI Act framework. In terms of the press release, the proposals will strengthen the overall framework for transformation in the financial sector, by allowing the FSCA to exercise reasonable supervisory and enforcement measures against financial institutions that do not uphold commitments to transformation.



INVESTMENT MANAGEMENT

Accounting treatment of cash held in 's104 accounts' (Advocacy)

Upon the [SAICA Investment Management Project Group \(IMPG\)](#) noting the inconsistencies in the industry on disclosure of section 104 accounts whereby some managers have deemed the bank accounts to be an asset, therefore recognising the cash on their Statement of Financial Position with a corresponding and equivalent liability to the relevant investor, while others have interpreted the legislation to imply that these accounts do not meet the definition of an asset and thus do not recognise the cash in their Statement of Financial Position. The FSCA was engaged and highlighted

that section 7.1 of the [CISCA Circular No. 17 to managers and trustees of CIS in securities](#) clears the treatment of the account and that there will be further guidance included in the updated COFI Bill.



RETIREMENT FUNDS

Retirement reforms

The national treasury published two discussion papers in December 2021 on proposed further retirement reforms. The [first paper](#) proposes the introduction of a two-pot system of retirement savings. One pot will constitute two-thirds of savings which will be preserved until retirement and the second pot will be accessible to retirement fund members in order to alleviate any loss of income, as seen during the COVID-19 pandemic.

The [second paper](#) deals with governance of umbrella funds, which are retirement funds established to allow multiple unrelated employers to participate. The paper explores measures to improve the governance of these funds in order to protect the interests of their members. It pays particular attention to commercial umbrella funds.

Revised illustrative Section 15 Retirement Fund Agreed upon Procedures Reports

The Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards (CFAS) approved the issue of the following revised illustrative Section 15 Retirement Fund agreed-upon procedures reports (revised illustrative regulatory reports), for use by registered auditors (auditors):

- Ordinary Funds;
- Umbrella Funds; and
- Retirement annuity and preservation Funds.

These revised illustrative reports have been updated for ISRS 4400 (Revised) and are effective for engagements for which the terms of engagement are agreed on or after 1 January 2022. The FSCA has also published the related exemption notice, [FSCA RF Notice 5 of 2022 - Exemption of funds from using certain prescribed formats for preparing financial statements under Section 15 of the Pension Funds Act, 1956](#). The revision of the reports was a collaborative effort between the SAICA Retirement Funds Project Group (RFPG), the FSCA as well as the IRBA. The reports are available for downloading from the [IRBA website](#).



VALUATIONS

Survey: ESG & Valuation

The IVSC launched a survey exploring the evolution of ESG considerations in the valuation process, which ran until the 30 April 2022. A dedicated working group will compile the results from the survey and publish a report. Further details are available on the [IVSC website](#).

The Importance of Valuing Intangibles

Read this [article](#) about the importance of (and challenges with) valuing intangibles.

UPCOMING 2022 EVENTS

SAICA will host specific industry events to discuss developments in those industries. The events are designed to tackle topical matters of particular interest or concern for members in those respective industries. The following events will be taking place during 2022.

1. **Banking seminar**, 27 May 2022, 09h00 – 13h00.

The objective of the seminar is to analyse and discuss recent developments impacting the banking industry. It will also have a progressive perspective by discussing the outlook of the industry. Several carefully selected expert speakers will cover various topical matters including ESG and innovation in the banking industry, among others.

Find further details and booking information [here](#).

2. **Retirement and investment seminar**, July 2022

3. **Insurance seminar**, September 2022

4. **Medical Schemes seminar**, October 2022



2022 Banking seminar

Analyse and discuss recent developments impacting the banking industry, experts unpacking banking innovation, macroeconomic landscape, transforming the workplace, scenario testing and more.

Friday, 27 May

09:00 - 12:40

R500.00 (incl 15% VAT) per member
R650.00 (incl 15% VAT) per non-member
R200.00 (incl 15% VAT) per trainee

[Follow the link to register](#)

ONLINE **BANKING**



SAICA

DIFFERENCE
MAKERS



IFRS FOUNDATION WORK PLAN

- [Business Combinations under Common Control](#)
- [Cash Received via Electronic Transfer as Settlement for a Financial Asset \(IFRS 9\)](#)
- [Classification of Debt with Covenants as Current or Non-current \(IAS 1\)](#)
- [Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures](#)
- [Disclosure Initiative—Targeted Standards-level Review of Disclosures](#)
- [Dynamic Risk Management](#)
- [Financial Instruments with Characteristics of Equity](#)
- [Goodwill and Impairment](#)
- [Demand Deposits with Restrictions on Use \(IAS 7\)](#)
- [IFRS Taxonomy Update—Initial Application of IFRS 17 and IFRS 9—Comparative Information](#)
- [Initial Application of IFRS 17 and IFRS 9—Comparative Information \(Amendment to IFRS 17\)](#)
- [Pension Benefits that Depend on Asset Returns](#)
- [Post-implementation Review of IFRS 9—Classification and Measurement](#)



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