



South African Reserve Bank

Media statement

Tuesday, 13 February 2018

The South African Reserve Bank (SARB) has a responsibility to promote a sound and effectively regulated financial system. The SARB therefore takes a balanced approach to technological innovations, considering the potential benefits and risks of each innovation. It is against this background that the SARB recently established the Financial Technology (FinTech) Programme to strategically assess the emergence of FinTech in a structured and organised manner, and to consider its regulatory implications.

The main goal of the programme is to track and analyse FinTech developments and to assist policymakers in formulating frameworks in response to these emerging innovations.

The FinTech Programme will focus on three primary objectives:

- The first objective is to review the SARB's position on private cryptocurrencies to inform an appropriate policy framework and regulatory regime. This review will address regulatory issues such as clearing and settlement risks, exchange control impacts, monetary policy and financial stability, and other matters such as cybersecurity considerations. Through collaboration with the other regulatory bodies, matters such as tax implications, consumer and investor protection, and money laundering activities will also be addressed. The SARB expects to complete the review in the second half of 2018.
- The second objective is to investigate and decide on the applicability of innovation facilitators for the SARB. 'Innovation facilitators' is a collective term for innovation hubs, regulatory sandboxes and accelerators. The SARB hopes to have concluded its assessment of the appropriateness of innovation facilitators by the third quarter of 2018. Clear and transparent eligibility and participation criteria will be developed to assist in the consideration of applicants into a regulatory sandbox.
- The third objective is to launch Project Khokha which will experiment with distributed ledger technologies (DLTs). The aim of this project is to gain a practical understanding of DLTs through the development of a proof of concept (POC) in collaboration with the banking industry. The objective of the POC is to replicate interbank clearing and settlement on a DLT which will allow the SARB and industry to jointly assess the potential benefits and risks of DLTs. The POC involves the processing of wholesale payments using Quorum, an Ethereum enterprise DLT. The SARB is aware of multiple DLTs being experimented with globally.

ConsenSys (a world-leading expert on Quorum) is the technology partner that will assist the SARB in the design, setup of infrastructure and running of the POC. This does not imply a radical move to DLT for the country's national payments infrastructure, but rather a structured approach to understand the implication

of using a tokenised asset on DLT technology to transfer value. A public report will be released to explain all the findings, risks and benefits of the associated project during the second quarter of 2018.

These initiatives aim to assist in the formulation of appropriate policy frameworks for the possible regulation of FinTech.

Editors' notes

The SARB describes FinTech as technologies applied to financial services with the potential to disrupt current business models, applications, processes or products. In order to evaluate the regulatory implications of these innovations, a framework is used to assess the impact of these developments in terms of the underlying economic function or activity performed (e.g. deposit taking, payments, lending and investments) as opposed to the specific entity or technology being used.

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