



South African Reserve Bank

Prudential Authority

Explanatory note: Draft financial conglomerate standards for a second round of informal consultation

The Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) empowers the Prudential Authority (PA) to designate a group of companies as a financial conglomerate as well as to regulate and supervise such financial conglomerates. Furthermore, the PA is empowered to issue prudential standards in respect of financial conglomerates that must be complied with by the holding companies of such financial conglomerates.

In July 2018, the PA released a suite of standards on financial conglomerates for informal consultation. The PA has made amendments to the standards based on the comments received during the consultation process as well as developments in the regulatory approach to financial institutions. The amended standards are now being published for a second round of informal consultation.

Due the complexities of calculating the regulatory capital for a financial conglomerate group, the PA has drafted both a technical capital standard and a principle-based capital standard for consultation. In this regard, comments **must be provided on both capital standards** in order for the PA to make an informed decision on which standard will proceed to formal consultation. It must be noted that a hybrid of the technical and principle based standards may also become an option proposed by the PA in the formal consultation.

The following standards are being published for informal consultation:

1. Prudential Standard FC01 – Capital requirements for financial conglomerates – **Technical**
2. Prudential Standard FC01– Capital requirements for financial conglomerates – **Principle-based**
3. Prudential Standard FC02 – Intragroup transactions and exposures for financial conglomerate
4. Prudential Standard FC03 – Auditor requirements for financial conglomerates
5. Prudential Standard FC04 – Governance and risk management for financial conglomerates
6. Prudential Standard FC05 – Risk concentrations for financial conglomerates

Prudential Standards FC02 and FC03 are currently based on the technical capital standard, however, comments on the impact of the principle-based capital standard will be appreciated.

A questionnaire to establish the potential impact of the above-mentioned standards will be issued to financial institutions and/or its holding companies by the PA in the coming weeks.

The reporting templates for the standard will be drafted and consulted on after the financial conglomerate standards are finalised and financial conglomerates are designated. It is envisaged that there will be transitional period between the finalisation of the financial conglomerate standards and the implementation date.

Kindly ensure that comments are captured on the attached comments template and submitted to Mr Grant Bushney at: PA-FinConglomerates@resbank.co.za on or before **8 April 2020**.

A handwritten signature in black ink, appearing to be 'DB' or similar initials, written in a cursive style.

Mr Denzel Bostander

Head: Financial Conglomerate Supervision Department

Date: 4 March 2020