



Prudential Authority Industry Quarterly Newsletter

30 September 2021

Introduction

Open communication is crucial to the harmonious collaboration between the Prudential Authority (PA), as well as the financial institutions and market infrastructures it regulates and supervises. The PA strives to share information about matters that impact the financial industry, using different communication channels for optimal engagement. As a result, this PA Quarterly Newsletter has been established, with the objective of improving communication with stakeholders and ensuring that communication remains regular and relevant.

Prudential Authority Annual Report

We have pleasure in drawing your attention to the *Prudential Authority 2020/21 Annual Report* which covers market developments as well an overview of the PA's progress on, inter alia:

- the PA's strategic focus areas;
- steps taken to enhance anti-money laundering and countering the financing of terrorism;
- outcomes from the PA's ongoing supervision;
- the PA's funding model;
- the International Monetary Fund and World Bank Financial Sector Assessment Program (FSAP); and
- the PA's target operating model.



Financial conglomerates' designation criteria

A financial conglomerate is designated in terms of section 160 of the Financial Sector Regulation Act 9 of 2017. The process of designating a financial conglomerate is the responsibility of the PA and is ongoing in nature. In September 2020, a document titled 'Financial conglomerate designation criteria' was published on the South African Reserve Bank website, outlining the criteria followed to designate a financial conglomerate in South Africa.

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Matters related to the requirements for measuring and controlling large exposures

The PA issued proposed amendments to the Regulations relating to Banks on 29 July 2020 which, among other things, incorporate the revised large exposures framework into the Regulations relating to Banks (proposed Regulations). The proposed Regulations provide the PA with enabling provisions to specify conditions or limits in writing for measuring and controlling specific types of large exposures. The revised implementation date of the proposed Regulations is 1 January 2022.

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Position paper on crypto assets

The Intergovernmental Fintech Working Group, through the Crypto Assets Regulatory Working Group, has published a position paper on crypto assets. The paper confirms that crypto assets will be brought into the South African regulatory purview in a phased and structured manner.

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Regulatory and prudential publications

In consultation with the insurance industry, the actuarial team within the PA finalised a number of guidance notices in the first half of 2021. Guidance notices assist insurers with their compliance with the requirements of the Prudential Financial Soundness Standards for Insurers (FSIs). The guidance notices have since been published and are available on the PA's website.

Guidance Notice 1 of 2021

On 3 March 2021, the PA published guidance on the iterative approach for determining the solvency capital requirement using the technical provisions, including the risk margin.

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Guidance Notice 2 of 2021

On 8 April 2021, the PA published Guidance Notice on FSI 4.3: Non-Life Underwriting Risk Capital Requirement.

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Guidance Notice 3 of 2021

On 7 June 2021, the PA published Guidance Notice on FSI 4: Calculation of the Solvency Capital Requirement Using the Standardised Formula.

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Revisions to the standardised approach for credit risk

In March 2020 the Basel Committee on Banking Supervision announced that its oversight body, the Group of Central Bank Governors and Heads of Supervision, had endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of COVID-19 on the global banking system.

The announced measures include a deferral of the implementation timeline of the outstanding Basel III standards (which included the revised standardised approach for credit risk) by one year. As per Guidance Note 7 of 2020, the PA intends to implement the revised standardised approach for credit risk in South Africa on 1 January 2023.

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Credit risk models-related policies

The PA issued a consultation paper titled 'Policy guidance on credit risk models-related matters' to solicit comments from industry on various matters related to the internal ratings-based minimum requirements. After consultation, the policies in this document will form the basis of a guidance note, which the PA intends to issue in terms of section 6(5) of the Banks Act 94 of 1990 by December 2021.

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The PA Transformation Programme

The PA is on a journey to become a best-in-class prudential regulator. Through the PA Transformation Programme, the PA seeks to modernise its supervisory approaches through several initiatives, including upgrading its information technology systems and infrastructure. Central to this journey is the empowerment of its staff with the best tools available globally to enable them to fulfil their functions and enhance the quality of supervision.

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Enforcement matters

The statutory objective of the PA is best achieved by combining supervisory activities with well-targeted regulatory actions, where necessary, to address non-compliance or suspected non-compliance with the Financial Sector Regulation Act 9 of 2017, Financial Intelligence Centre Act 38 of 2001, as amended (FIC Act) and financial sector laws. Between January and June 2021, the PA considered 56 matters of non-compliance in respect of its regulated and supervised entities relating to reporting, prudential, governance as well as FIC Act-related requirements.

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