

# Prudential regulation

The PA continues to execute its mandate of promoting the safety, soundness and integrity of regulated financial institutions and market infrastructures and protecting financial consumers from the risk that these institutions may fail to meet their obligations.

The PA regularly assesses and reviews whether the scope of regulation and subsequent risks identified are mitigated. It continues to enhance risk-based, outcomes-focused and forward-looking supervision for the growth and sustainability of the sectors under its ambit.

For the year under review, the majority of financial institutions were well capitalised and remained resilient, despite operating in a difficult environment of stagnant economic growth, intensifying geopolitical tensions, extreme weather conditions and rapid technological change.

The PA has seen financial institutions repositioning themselves to remain competitive, including offering new financial products, becoming increasingly digital, partnering with financial technology firms and using artificial intelligence (AI) to better utilise customer information and build risk management models.

In 2023, the PA selected two flavour-of-the-year topics: organisational resilience and climate-related risks, to assess financial institutions' ability to absorb and adapt in a changing environment as well as their response to risks related to climate change.

In February 2023, the FATF added South Africa to the list of jurisdictions under increased monitoring, citing deficiencies in meeting international standards relating to the prevention of money laundering, terrorist financing and proliferation financing. Significant progress has been made towards the remediation of action items and all stakeholders are actively engaged to ensure South Africa is removed from the greylist at the earliest possible time.

## Regulatory Strategy progress:

### Strengthening and enhancing the regulation and supervision of deposit-taking institutions

#### Banks

On 21 September 2023, following extensive consultation during 2022/23, the PA made amendments to the Regulations relating to Banks (Regulations) related to credit risk, operational risk, the exposure definition of the leverage ratio framework and the output floor.

These proposed amendments include the remaining Basel III post-crisis reforms issued by the BCBS for member jurisdictions. The implementation date of the amended Regulations is 1 July 2025.

The draft Prudential Standards on Market Risk and the draft Prudential Standard on Credit Valuation Adjustment were also issued for public comment. The PA is currently reviewing the comments received. The implementation of the draft standards is 1 July 2025.

#### Mutual banks

The PA plans to develop seven prudential standards for mutual banks covering governance and risk management, operational risk management, credit risk, liquidity risk, interest rate risk in the banking book, capital and economic returns. These will be published for further comment in 2024.

#### Co-operative financial institutions and co-operative banks

The PA drafted four prudential standards covering registration and operational requirements, governance, risk management and financial soundness.

### Implementing the financial conglomerate regulatory and supervisory framework and effectively supervising financial conglomerates

The draft Prudential Standard FC01: Capital Requirements for Financial Conglomerates is still undergoing field testing, which is expected to continue during 2024. The PA's Supervisory Framework for Financial Conglomerates is already in use and will undergo refinements to incorporate details of the capital requirements standards for financial conglomerates being FC02: Intragroup Transactions and Exposures, FC03: Auditor Requirements, FC04: Governance and Risk Management and FC05: Risk Concentration. The PA is monitoring the implementation of the prudential standards that came into effect on 1 January 2022.

## Strengthening and enhancing the prudential regulatory and supervisory framework for market infrastructures

- The development of a regulatory framework for central clearing, in alignment with G20 requirements in terms of which OTC derivative transactions should be cleared through a counterparty, is in progress.
- Frameworks about the licensing of external FMI have been published for comment.
- The draft Joint Standard on Minimum Requirements for the Recovery Plans of Market Infrastructures has been reviewed by the PA and FSCA's policy governance channels.
- Comments from the PA, SARB and FSCA on the Financial Markets Act Amendment Bill were incorporated by National Treasury.

## Strengthening and enhancing the regulatory and supervisory framework for significant owners

During 2023, a number of applications for significant ownership of financial institutions were processed. The PA is monitoring the significant ownership framework and annual assessments of the fitness and propriety of significant owners of specific financial institutions.

## Strengthening and enhancing the regulatory and supervisory frameworks for insurers

- The proposed **Public Disclosure Standard for Insurers**, issued in terms of section 45 of the Insurance Act 18 of 2017 (Insurance Act), requires insurers to publicly disclose prescribed quantitative and qualitative information.
- The proposed **Liquidity Risk Management Standard for Insurers** will be circulated for public consultation during 2024.
- The **Joint Standard on Outsourcing** was tabled in Parliament in December 2023.
- The PA shared with the industry a high-level, interim approach to index-based or parametric insurance. This is a form of insurance where claim payments are based on values obtained from an index that serves as a proxy for losses. The PA will consider licensing applications for index-based products under section 5(4) of the Insurance Act, which permits insurers to offer these products as business other than insurance business, provided the PA gives its approval.

## Supporting financial innovation and new technologies

The PA promotes responsible innovation through its continued participation in the Intergovernmental Fintech Working Group (IFWG).

The BCBS consulted the PA on amendments to its standard on the prudential treatment of crypto-asset exposures. The amendments focus mainly on the composition of reserve assets for stablecoins and a due diligence requirement.

## Implementing the PA's approach to transformation and financial inclusion

### Financial inclusion:

The PA finalised its regulatory and supervisory approach to supporting financial inclusion, following the release of National Treasury's Financial Inclusion Policy Framework titled 'An Inclusive Financial Sector for All'.

### Transformation:

The PA monitors insurers' adherence to their transformation plans. It has also engaged banks on their commitments and progress made under the Financial Sector Charter Code.

## Enhancing anti-money laundering and combating the financing of terrorism (AML/CFT) supervision and implementing the FATF Mutual Evaluation recommendations

Following the greylisting of South Africa, the FATF JG issued an action plan requiring various stakeholders to address specific deficiencies. One outstanding action item within the PA's ambit is ensuring that supervised entities that are found to be non-compliant with the Financial Intelligence Centre Act 38 of 2001 (FIC Act) are issued with proportionate, dissuasive and effective sanctions.

The PA has processed several enforcement matters relating to FIC Act non-compliance, which have been presented to the Prudential Authority Regulatory Action Committee (PARAC) for final decision-making. Additionally, the PA monitors the progress of remedial action taken by banks and life insurers over the financial year to ensure that the entities are demonstrating a change in compliance behaviour.

Feedback from the FATF's regional JG responsible for reviewing and analysing progress made has been largely positive, indicating that the actions undertaken are sustainable.



## The PA funding model

The SARB has been funding the PA from its resources since the PA's establishment in 2018. For the financial year under review, the PA implemented various pieces of legislation related to the collection of levies to fund its operations. The funding model of the PA is based on the principle of cost recovery and the PA only collects levies to run its operations effectively.

The PA issued assessment notices to all supervised entities, setting out the levy amount and the due date for payment. This was the first time that the PA collected levies from the industry. Even with the levies, the SARB will continue to fund an estimated 37% of the PA operations, while industry levies will fund the remaining balance.

In preparation for the 2024/25 financial year, the PA published its budget and other relevant documents for industry consultations in December 2023, marking the first time such action had been taken. The PA is in the process of finalising its fee proposals for the 2024/25 financial year. Once the PA fee has been finalised, all other fee instruments will be repealed and replaced with a single PA Fees Determination.

## Johannesburg Interbank Average Rate and South African Rand Overnight Index Average Rate

The Johannesburg Interbank Average Rate (Jibar) is being replaced by the South African Rand Overnight Index Average Rate (ZARONIA). The smooth transition from Jibar to ZARONIA is crucial for South Africa's financial markets, with over R46 trillion in various financial instruments still referencing Jibar.

Surveys conducted by the PA and the SARB's FMD in 2023 showed this significant Jibar exposure, particularly in derivatives (93% of total exposure), with the three-month Jibar being the most common referenced rate. The surveys also indicated a need for better communication and definitive timelines for the transition to ZARONIA.

For 2024, a priority is to ensure that major clearing houses can process ZARONIA-based derivatives efficiently. The MPG has endorsed market conventions for ZARONIA-linked products and is working to align market infrastructure with the new benchmark. The SARB is also publishing additional ZARONIA indices.

## The PA's communication with industry

### Annual industry engagements

Regular industry engagements offer a way for the PA to interact with senior executives from regulated entities; officials from its sister regulator, the FSCA; and representatives from industry bodies and auditing firms. Four engagement sessions were held during February and March 2024, bringing together over 600 people. Key issues included a progress update on the FATF greylisting action items, risks related to digitalisation, climate-related risks as well as governance trends. The PA also shared its observations on the outcomes of the two flavour-of-the-year topics for 2023.

The PA also published four newsletters focusing its work, new and upcoming activities, stakeholder engagements as well as local and global trends.



## Governance structure

### PRUDENTIAL COMMITTEE

**Chairperson**  
Governor of the SARB

**Members**  
DGs, with one of the DGs also being the CEO of the PA

**Standing invitees:** The four PA HoDs and the Head: Financial Stability Department (FinStab)

The FSR Act prescribes the governance structure, including the PruCo, resources, financial management and reporting obligations of the PA.

The PruCo met 11 times and held a strategy session for the 2023/24 financial year.

### Functions

The PruCo provides oversight on the management and administration of the PA. Among other key activities conducted during the reporting year, the committee:

- made the Prudential Standard RA01: Stays and Resolution Moratoria, which became effective on 1 June 2023;
- made the Prudential Standard RA02: Transfer of Assets and Liabilities of a Designated Institution in Resolution, which became effective on 1 June 2023;
- approved the proposed amendments to the CBA for inclusion in the Omnibus Bill that was prepared by National Treasury;
- approved the amended Joint Standard 2 of 2020 through Joint Standard Amendment 1 of 2023 and the making of the standard in respect of margin requirements for non-centrally cleared OTC derivative transactions, which was done in terms of section 42(b)(vi) of the FSR Act;
- approved the draft Joint Standard on Outsourcing and accompanying documents for submission by the Minister of Finance to Parliament;
- Approved, for public consultation, draft 2 of the proposed amendments to the Regulations, addressing the standardised approach for credit risk, internal ratings-based approaches to credit risk, revised operational risk framework, revised leverage ratio framework and the output floor;
- approved for public consultation the amendments to the Commercial Paper Exemption Notice 1994 and accompanying documents;
- approved the development of the Joint Standard: IT Governance and Risk Management and accompanying documents, which standard is expected to come into effect in 12 months' time from the date of publication;
- approved for public consultation the draft Prudential Standard on Market Risk and the draft Prudential Standard on Credit Valuation Adjustment;
- approved for public consultation the draft Joint Standard: Criteria applicable to an external central counterparty or external trade repository;
- approved for public consultation the draft Prudential Standard on Flac Instrument Requirements for designated institutions; and
- approved for public consultation the proposed PA budget and levies documents for the 2024/25 financial year.