

MEDIA RELEASE

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Financial Regulatory Reform Steering Committee (FRRSC) to prepare detailed proposals on the overarching Twin- Peaks Bill

SAICA advises consideration should be given to whether the prudential and market conduct principles could be aligned more closely

Johannesburg, Monday, 3 June 2013 – The South African Institute of Chartered Accountants (SAICA) says it is in full support of the Twin-Peaks model reforms proposed by the Financial Regulatory Reform Steering Committee (FRRSC), stating that the objectives are in an effort to strengthen the insurance regulatory framework.

The FRRSC which comprises the National Treasury, the South African Reserve Bank (SARB) and the Financial Services Board (FSB), published in February 2013 for public comment, a summary of the proposals for implementing the Twin-Peaks model. The proposed reforms aim to maintain and enhance financial stability, consumer protection and market conduct, expanding access through financial inclusion and finally combating financial crime.

Under the Twin-Peaks model, the financial services industry and related structures will have two regulators, namely, a prudential regulator, which will operate within the reserve bank, and a new market conduct regulator, which will be established from within a restructured FSB.

Yusuf Dukander, Financial Services project director at SAICA says the Twin-Peaks model reforms, which will be complemented by on-going modifications, will make the financial sector more accessible to poor households. “These reforms will ensure that our system continues to be amongst the best regulated in the world. It further places much emphasis on the importance of market conduct regulation, which has historically played a less prominent role in certain financial sub-sectors.”

“The shift to a Twin-Peaks model approach is part of the national government’s broader financial regulatory reform agenda and these proposals were initially contained in the Government’s policy document, A safer financial sector to serve South Africa better,” states Dukander. He explains that these proposed reforms of shifting to a Twin-Peaks approach to regulation will contribute to the strong, sustainable and inclusive financial sector; which is seen as one of South Africa’s key strengths.

“SAICA supports the Twin-Peaks model reforms as outlined in the FRRSC’s summary because the institute believes that should these reforms be implemented successfully, they will produce effective regulation. The FRRSC clearly outlines areas of responsibility and accountability based on prudential and market conduct objectives for the Regulatory Authorities,” says Dukander.

Although he confirms that the Twin-Peaks model also provides more clarity on the assignment of responsibilities and the concentration of related expertise, Dukander however cautions that the implementation of any new regulatory regime has its challenges and requires careful planning. “As such the steps outlined by the FRRSC include ensuring the effective supervision and management of risks during the period of the transition to cause as minimal as possible disruption to the sector.”

Recently, the FSB released a statement which gave credence to the discussions at the 23rd World Economic Forum (WEF) on Africa, which highlighted the areas where South Africa, and the continent, is making significant progress. “One of those areas is the regulation of the financial services sector. The recently released WEF Global Competitiveness Report 2013 testifies to the fact that South Africa is making significant inroads in living up to this year’s theme, particularly in the financial services sector”, the FSB statement reads.

The objective of the prudential regulator is to maintain and enhance the safety and soundness of regulated financial institutions. As was highlighted in the latest Financial Stability Review from the SARB released on Thursday, 25 April 2013, the South African banking sector has remained adequately capitalised in the second half of 2012. The review showed that the capital-adequacy ratio as at 31 December 2012 was almost 16 percent, which is well above the minimum regulatory requirement of 9.5 percent.

The regulatory and governance agenda of the financial services industry is already complex, challenging and demanding. The SAICA submission to the FRRSC highlighted that the dual regulatory process will only add to the regulatory fatigue if it is not coordinated and managed properly. It also emphasised that a ‘one-size-fits-all’ approach that does not take into account an entities existing governance structure and business model is also less likely to

provide meaningful information than those appropriately tailored to the nature, scale, and complexity of the entity concerned. “The cost of compliance must also be factored into the benefits of standardisation.”

“The challenge will be in the design and execution of the model,” asserts Dukander, advising that consultation across key stakeholder groups will be crucial to the successful execution of the model. There needs to be clear lineage of responsibility for regulators and mechanisms in place to ensure effective and efficient coordination.

Dukander agrees this will also give the affected entity more confidence in the regulator as it will avoid duplication in reporting requirements. It will also aid the prudential and market conduct regulators to identify, rather proactively, systemic risks and place appropriate controls in place to mitigate such risks.

“Key considerations regarding the governance and accountability will be the consistency of application of principles, the effectiveness of the collaboration model, and the seamless cooperation between the regulators. There should be consideration given to whether the prudential and market conduct principles could be aligned more closely,” Dukander concludes.

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ABOUT SAICA:

The South African Institute of Chartered Accountants (SAICA), South Africa’s pre-eminent accountancy body, is widely recognised as one of the world’s leading accounting institutes. The Institute provides a wide range of support services to more than 35 000 members who are Chartered Accountants and hold positions as CEOs, MDs, board directors, business owners, chief financial officers, auditors and leaders in their spheres of business operation. Most of these members operate in commerce and industry, and play a significant role in the nation’s highly dynamic business sector and economic development.

SAICA serves the interests not only of the Chartered Accountancy profession, but also of society in general through its key objective of upholding professional standards and integrity. The pre-eminence of South African Chartered Accountants [CAs(SA)] nationally and internationally attests to the successes achieved by SAICA on a broad global canvas.

SAICA’s members enjoy the privilege of using the highly regarded and prestigious CA(SA) designation. Members of SAICA are subjected to a Code of Professional Conduct, which provides guidelines for ethical and professional behaviour. Fundamental ethical principles to which CAs(SA) are expected to achieve include:

- Integrity;
- Objectivity;
- Professional Competence and Due Care;
- Confidentiality; and
- Professional Behaviour.

SAICA members serve on international accounting bodies including; the Trustees of the International Financial Reporting (IFRS) Foundation, the International Accounting Standards Board (IASB), the IFRS Interpretations Committee, the IFRS Advisory Council and the Council of the International Federation of Accountants (IFAC). SAICA is also a member of The Global Accounting Alliance (GAA).

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