FSB FINANCIAL STABILITY BOARD

Press release

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FSB completes peer review of South Africa

The Financial Stability Board (FSB) published today the report on the peer review of South Africa. The report examines the progress in implementing two important financial reforms for South Africa that are relevant for the broader FSB membership: interagency coordination and the regulatory structure; and regulation of over-the-counter (OTC) derivatives markets. The report also includes follow-up actions reported by the South African authorities in response to the recommendations made by the International Monetary Fund (IMF) and World Bank under the 2008 Financial Sector Assessment Program (FSAP) assessment.

The 2008 FSAP reported that South Africa's sophisticated financial system is fundamentally sound and that the regulatory framework is modern and generally effective. However, the institutional arrangements for financial regulation and supervision are relatively complex, involving multiple government agencies as well as several advisory and oversight committees and self-regulatory organisations. In 2011, the South African National Treasury issued a policy document for financial reform that proposed the adoption of a Twin Peaks model of financial regulation in order to improve prudential and market conduct regulation and thereby create a more resilient and stable financial system.[1]

The FSB welcomes the planned reforms and agrees that a shift to a Twin Peaks model provides a good opportunity for South Africa to streamline responsibilities and elevate the importance of market conduct regulation. The introduction of a new regulatory structure will require careful planning because South Africa is simultaneously tightening rules for regulated firms and expanding the perimeter of regulation to comply with new international standards.

The South African authorities have also established an interim inter-agency Financial Stability Oversight Committee (FSOC) that, when legislated, will be responsible for the oversight of the financial system from a macroprudential perspective. Internationally, the development and implementation of national macroprudential policy frameworks is at a fairly early stage, and the experience of other countries will prove useful in designing the necessary framework for the FSOC in South Africa.

The authorities have taken several steps to address the FSAP recommendations to enhance coordination and information exchange between the regulatory agencies. However, there is scope for additional cooperation between the South African Reserve Bank and the Financial Services Board with the National Credit Regulator. There has also been little progress on the establishment of a Council of Financial Regulators as a mechanism to further enhance cooperation and information sharing among agencies on financial sector policy issues.

[1] A Twin Peaks regulatory structure involves separate prudential and market conduct regulators.

South Africa, as a G20 member, has committed to implement regulatory reforms to OTC derivatives markets. The authorities have adopted a phased and carefully planned approach to implementing these reforms via a framework that has been established by the recently-adopted Financial Markets Act. The Act will become operational once the final regulations have been approved. The authorities intend to mandate reporting of all OTC derivatives during 2013 and will initially rely on incentives to fulfil the G20 commitment on central clearing. The authorities have also commissioned a report to better understand the specific characteristics of the OTC derivatives market since available information is limited.

Despite the progress made, many details of the reforms are not yet resolved. According to the South African authorities, the pace and sequencing of the reform package is driven by concerns to avoid potential adverse consequences; the previously largely unregulated nature of the market, which has slowed down the development of suitable regulatory measures; and the need to better understand the cross-border impact of OTC derivative reforms in other jurisdictions before finalising their own measures. FSB members acknowledge the importance of major jurisdictions addressing cross-border OTC derivatives issues, but note the need for all jurisdictions to put in place national legislation and regulation promptly and in a form flexible enough to respond to any cross-border consistency issues that may arise.

These factors highlight the need for jurisdictions to consult and cooperate with each other in order to promptly and adequately address cross-border OTC derivatives issues. In the case of South Africa, these issues include the extent to which South African entities will be able to use compliance with domestic regulations to satisfy the requirements of other jurisdictions.

The report includes a number of recommendations to enhance the effectiveness of inter-agency coordination and of the regulatory structure as well as to ensure the full and rapid implementation of the G20 commitments and follow-up to the FSAP recommendations on OTC derivatives.

Notes to editors

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with 65 other jurisdictions through its six regional consultative groups.

The peer review of South Africa is the the seventh country peer review conducted by the FSB and the first using the revised objectives and guidelines for the conduct of peer reviews set forth in the December 2011 *Handbook for FSB Peer Reviews.*[2] FSB member jurisdictions have committed to undergo an FSAP assessment every five years and, to complement that cycle, an FSB peer review two to three years following an FSAP. As part of this commitment, South Africa volunteered to undergo a peer review in 2012. The United Kingdom, United States, Indonesia and Germany will undergo a peer review in 2013.

Country peer reviews focus on the implementation and effectiveness of regulatory, supervisory or other financial sector standards and policies agreed within the FSB, as well as

[2] See http://www.financialstabilityboard.org/publications/r_120201.pdf.

their effectiveness in achieving desired outcomes. They examine the steps taken or planned by national authorities to address International Monetary Fund-World Bank Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) recommendations on financial regulation and supervision as well as on institutional and market infrastructure that are deemed most important and relevant to the FSB's core mandate of promoting financial stability. Country reviews can also focus on regulatory, supervisory or other financial sector policy issues not covered in the FSAP that are timely and topical for the jurisdiction itself and for the broader FSB membership. Unlike the FSAP, a peer review does not comprehensively analyse a jurisdiction's financial system structure or policies, or its compliance with international financial standards

The report published today describes the findings and conclusions of the South Africa peer review. The draft report was prepared by a team of experts drawn from FSB member institutions and led by Abdulrahman Al-Hamidy, Vice Governor of the Saudi Arabian Monetary Agency. The review benefited from dialogue with the South African authorities and from discussion in the FSB Standing Committee on Standards Implementation.

The FSB is chaired by Mark Carney, Governor of the Bank of Canada. Its Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.financialstabilityboard.org.