

**FSB- G20 - MONITORING PROGRESS – South Africa September 2011**

<p align="center">#</p> <p># in brackets are # from the 2010 template</p>		<p align="center"><b>G20/FSB RECOMMENDATIONS</b></p>	<p align="center"><b>DEADLINE</b></p>	<p align="center"><b>PROGRESS TO DATE</b></p> <p><i>Explanatory notes:</i></p> <p><i>In addition to information on progress to date, specifying steps taken, please address the following questions:</i></p> <p><i>1. Have there been any material differences from relevant international principles, guidelines or recommendations in the steps that have been taken so far in your jurisdiction?</i></p> <p><i>2. Have the measures implemented in your jurisdiction achieved, or are they likely to achieve, their intended results?</i></p> <p><i>Also, please provide links to the relevant documents that are published.</i></p>	<p align="center"><b>PLANNED NEXT STEPS</b></p> <p><i>Explanatory notes:</i></p> <p><i>Timeline, main steps to be taken and key mileposts (Do the planned next steps require legislation?)</i></p> <p><i>Are there any material differences from relevant international principles, guidelines or recommendations that are planned in the next steps?</i></p> <p><i>What are the key challenges that your jurisdiction faces in implementing the recommendations?</i></p>	
<p><b>I. Improving bank capital and liquidity standards</b></p>						
<p align="center">1</p>	<p align="center">(Pitts)</p>	<p align="center">Basel II Adoption</p>	<p>All major G20 financial centres commit to have adopted the Basel II Capital Framework by 2011.</p>	<p align="center">By 2011</p>	<p>South Africa has fully implemented Basel II, with effect from January 2008 and is continuously updating its regulatory practice to keep up with BCBS standards.</p>	<p>South Africa will closely monitor any reform to the Basel framework. The implementation of new proposals will take place through regulations and amendments to the Banks Act. The latest draft of these are available at <a href="http://www.reservebank.co.za">www.reservebank.co.za</a></p>
<p align="center">2</p>	<p align="center">(FSB 2009)</p> <p align="center">(Tor)</p>	<p align="center">Basel II trading book revision</p>	<p>Significantly higher capital requirements for risks in banks' trading books will be implemented, with average capital requirements for the largest banks' trading books at least doubling by end-2010.</p> <p>We welcomed the BCBS agreement on a coordinated start date not later than 31 December 2011 for all elements of the revised trading book rules.</p>	<p align="center">By end-2011</p>	<p>The Standing Committee for the Revision of the Banks Act, 1990, considered and unanimously approved draft 5 of the proposed amended Regulations.</p> <p>The proposed amended Regulations essentially incorporate the enhancements to the Basel II framework (Basel 2.5) issued by the BCBS as a package of three documents during July 2009.</p>	<p>It is envisaged that the amended Regulations will become effective 1 January 2012.towards enhancing the Basel II Framework</p>



## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

	(FSF 2008)	Monitoring of banks' implementation of the updated guidance	II.10 National supervisors should closely check banks' implementation of the updated guidance on the management and supervision of liquidity as part of their regular supervision. If banks' implementation of the guidance is inadequate, supervisors will take more prescriptive action to improve practices.		applied to their portfolios.  All banks share their liquidity plans with the supervisor. This topic was the subject of the 2009 annual meetings between the boards of directors of banks and banking groups with the bank regulators where banks are required to demonstrate how they comply with the September 2008 Basel committee publication setting out Principles for Sound Liquidity Risk Management. Banks liquidity contingency plans are regularly reviewed by the Bank Supervisors and this also forms part of the Stress testing thematic reviews which were conducted through 2009.	determine the capital buffer.  Monitoring of compliance is ongoing.  A review of liquidity risks is being undertaken by a joint task team comprising the Treasury, Bank Supervisor and financial services regulator.
	(FSB 2009)		Regulators and supervisors in emerging markets will enhance their supervision of banks' operation in foreign currency funding markets.		Exposure of the banking system to foreign currency funding is strictly regulated and there is a constraint on banks' net open positions equal to not more than 10 per cent of their regulatory capital In practice, banks' NOP positions are well below this limit.	Monitoring of compliance is ongoing.
<b>II. Addressing systemically important financial institutions (SIFIs)</b>						
5 (19)	(Pitts)	Consistent, consolidated supervision and regulation of SIFIs	All firms whose failure could pose a risk to financial stability must be subject to consistent, consolidated supervision and regulation with high standards.	Ongoing	As part of risk management, South African regulators are enlarging the scope of regulation to take into account the systemic risks. The move towards a twin peaks approach to financial regulation (outlined in our document <i>A safer financial sector to serve South Africa better</i> ) has also set out a range of proposals to broaden the scope of regulation appropriately.	On-going monitoring of international developments of appropriate standards of measurement.

## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

6 (43, 44)	(Pitts)	Mandatory international recovery and resolution planning for G-SIFIs	Systemically important financial firms should develop internationally-consistent firm-specific contingency and resolution plans. Our authorities should establish crisis management groups for the major cross-border firms and a legal framework for crisis intervention as well as improve information sharing in times of stress.	End-2010 (for setting up crisis management groups)	Awaiting finalisation of guidance from the Financial Stability Board	On-going	
	(Seoul)		We agreed that G-SIFIs should be subject to a sustained process of mandatory international recovery and resolution planning. We agreed to conduct rigorous risk assessment on G-SIFIs through international supervisory colleges and negotiate institution-specific crisis cooperation agreements within crisis management groups.	Ongoing	South Africa does not have any G-SIFIs in its jurisdiction. However, where appropriate we will apply the principles of resolution of SIFI's to our national systemically financial institutions, once finalised and adopted by the G20.		Crisis management (including cross-border crisis management) has been reviewed as part of a World Bank-sponsored study. The Treasury and the Reserve Bank have created a high-level task team to improve contingency planning.
	(Lon)		To implement the FSF principles for cross-border crisis management immediately. Home authorities of each major financial institution should ensure that the group of authorities with a common interest in that financial institution meets at least annually.		South Africa is in the process of strengthening its resolution regime. This process is an integral part of the reforms that are currently taking place in South Africa's regulatory framework towards a twin peaks model.		



## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

		coordination	a number of institutions, supervisory exchange of information and coordination in the development of best practice benchmarks should be improved at both national and international levels.		Stability Board and IOSCO. IOSCO has formed a task group mandated to look specifically into the issue of supervisory cooperation by securities regulators. The South African non-bank regulator has also concluded MOUs with other domestic regulators for the exchange of information and the enhancement of cooperation between regulators.	
10 (New)	(Seoul)	More effective oversight and supervision	We agreed that supervisors should have strong and unambiguous mandates, sufficient independence to act, appropriate resources, and a full suite of tools and powers to proactively identify and address risks, including regular stress testing and early intervention.	Ongoing	IOSCO has recently revised its Principles for Securities regulation to provide for, amongst others, the effectiveness of regulatory oversight and supervision and the involvement of securities regulators in systemic risk monitoring, management and mitigation. The IOSCO Methodology for assessment of implementation of these principles is being developed by IOSCO and South Africa is monitoring the developments to ensure compliance herewith.	Discussion document will be released on expanding the scope of regulation.
<b>III. Extending the regulatory perimeter to entities/activities that pose risks to the financial system</b>						
11 (27)	(Lon)	Review of the boundaries of the regulatory framework	We will each review and adapt the boundaries of the regulatory framework to keep pace with developments in the financial system and promote good practices and consistent approaches at an international level.	Ongoing	South Africa has formed an interagency working group to review the current scope of regulation. As part of its mandate, this working group will consider these risks and propose changes to regulations.	The South African Financial Services Board is currently involved in this process in reviewing and amending the Securities Services Act, 2004 to create a new draft Financial Markets Bill.
12 (30)	(FSF 2008)	Supervisory resources and expertise to oversee the risks of financial innovation	V.1 Supervisors should see that they have the requisite resources and expertise to oversee the risks associated with financial innovation and to ensure that firms they supervise have the	Ongoing	In the banking system, adequate steps have been taken by the Banking Supervision department to ensure the adequacy of resources so as to be able to understand the risks arising as a	South Africa has formed an interagency working group to review the current scope of regulation. As part of its mandate, this working group will consider the risks posed from financial innovation to different regulators and



## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

			ensure effective oversight is maintained when a fund is located in a different jurisdiction from the manager. We will, cooperating through the FSB, develop measures that implement these principles by the end of 2009.		relating to regulation of cross-border institutions and groups.	
15 (35)	(Lon)	Effective management of counter-party risk associated with hedge funds	Supervisors should require that institutions which have hedge funds as their counterparties have effective risk management, including mechanisms to monitor the funds' leverage and set limits for single counterparty exposures.	Ongoing	Banking institutions with exposures to hedge funds are required to manage such exposures in line with sound risk management processes and banking legislation provides sufficient powers for the bank regulator to obtain information relating to such exposures whenever it is deemed necessary. However, currently the hedge fund industry is relatively small and so there are no systemic risk issues. Nevertheless, as noted above, South Africa is in the process of reviewing hedge fund regulations, and these will reflect the need to manage counterparty risk.	Monitoring compliance is ongoing
16 (36)	(FSF 2008)	Guidance on the management of exposures to leveraged counterparties	II.17 Supervisors will strengthen their existing guidance on the management of exposures to leveraged counterparties	Ongoing	As above, banking institutions with large exposures are expected to manage these and report to the bank regulator.	Monitoring compliance is ongoing.
<b>Securitisation</b>						
17 (50)	(FSB 2009)	Implementation of BCBS/IOSCO measures for securitisation	<p>During 2010, supervisors and regulators will:</p> <ul style="list-style-type: none"> <li>• implement the measures decided by the Basel Committee to strengthen the capital requirement of securitisation and establish clear rules for banks' management and disclosure;</li> <li>• implement IOSCO's</li> </ul>	During 2010	South Africa actively participates in the work of the BCBS and IOSOC will implement the recommendations of the committee in this area. Similarly, the Financial Services Board is also a signatory to the IOSCO standards.	South Africa is continuously monitoring compliance.





## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

IV. Improving OTC derivatives markets					complex financial products.	
22 (17, 18)	(Seoul)	Reforming OTC derivative markets, including the standardisation of CDS markets (e.g. CCP); and trading of all standardized OTC derivatives on exchanges, clearing and trade repository reporting.	We endorsed the FSB's recommendations for implementing our previous commitments in an internationally consistent manner, recognizing the importance of a level playing field.	By end-2012 at the latest	South Africa is fully cooperating with resolutions made in this regard and will introduce appropriate legislation and amendments to legislation to, <i>inter alia</i> , allow for centralised clearing of OTC contracts.	Financial Markets Bill to be introduced in 2011 which will accommodate changes to the regulatory treatment of OTC contracts.
	(Pitts)	All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.	All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC derivative contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.		National Treasury, Financial Services Board, industry and Johannesburg Stock Exchange (JSE) representatives have formed a task team to discuss a way forward and how to implement the G-20 recommendations with regards to central clearing for standardised OTC derivatives and reporting of all OTC derivative trades to a trade repository.	Following the review, relevant legislation will be introduced. <ul style="list-style-type: none"> <li>▪ The document prepared by the Financial Services Board will be presented to the Regulatory Oversight Committee</li> <li>▪ The document will then first be released to Association for Savings &amp; Investment South Africa (ASISA), JSE, Strate, and Banking Association South Africa (BASA), who will all have a chance to comment.</li> <li>▪ After that, the document will be refined and released to the general public so that financial market participants can respond directly with solutions for a trade repository.</li> </ul>
	(Lon)	We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009.	We will promote the standardization and resilience of credit derivatives markets, in particular through the establishment of central clearing counterparties subject to effective regulation and supervision. We call on the industry to develop an action plan on standardisation by autumn 2009.		So far the task team has agreed the following: <ul style="list-style-type: none"> <li>▪ Having a trade repository is not a prerequisite to starting thinking about and deciding what products should potentially be standardised. However, a trade repository as a first step would help to get information and a better understanding of the OTC derivatives market, before imposing regulations with possible unintended consequences.</li> <li>▪ We need to think about how to incentivise standardisation of OTC derivatives instead of making it mandatory to standardise them.</li> <li>▪ We also need to think about</li> </ul>	

FSB- G20 - MONITORING PROGRESS – South Africa September 2011

				<p>getting OTC instruments to move from just reporting to a trade repository to being cleared centrally on a CCP. This will provide the regulator with at least some data.</p> <ul style="list-style-type: none"> <li>▪ Advantages of standardisation include easier netting.</li> <li>▪ We need to decide what information must be reported to the trade repository.</li> <li>▪ Low hanging fruit, in order to show that we are in the process of complying with the G-20 deadline, are requiring FRA's and swaps to be reported to a trade repository. People would populate a database with non-fungible, standardised information.</li> <li>▪ It may be possible for different types of transactions to be reported into different platforms, but it should be possible to integrate the data for a systemic assessment.</li> </ul> <p>With regards to a trade repository:</p> <ul style="list-style-type: none"> <li>▪ SA Financial Services Board has developed a document which: <ul style="list-style-type: none"> <li>○Presents at a high level what the regulator would like to see from a systemic risk point of view.</li> <li>○Asks the industry to come up with a detailed solution which speaks to these regulatory requirements, including the inputs that would be needed into a trade repository, as well as the process needed that would result in the required outputs.</li> <li>○Talks about a trade repository, standardisation, central clearing, as well as incentivisation. It talks</li> </ul> </li> </ul>	
--	--	--	--	---	--

**FSB- G20 - MONITORING PROGRESS – South Africa September 2011**

					about why financial market participants should want to have a trade repository, as well as why it is important from a systemic risk assessment viewpoint (which may not have immediate direct benefits for participants but longer-term indirect benefits in the form of a more stable system).	
<b>V. Developing macro-prudential frameworks and tools</b>						
23 (25)	(Lon)	Amendment of regulatory systems to take account of macro-prudential risks	Amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks and private pools of capital to limit the build up of systemic risk.	Ongoing	Current legislation for banking institutions provides the requisite powers to identify such risks. This is also supplemented by an MOU and regular interaction between the bank and non-bank regulators. South Africa has formed an interagency working group to review the current approach to prudential regulatory standards. This forms part of the working group's terms of reference, and concrete proposals to amend regulatory legislation is expected in the medium term. Further, the National Treasury is presently chairing a committee investigating structural funding and liquidity risk management in the South African financial system. The committee comprises representatives from the banking and insurance regulators, as well as representatives from the financial services industry.	The review by the working group and the structural funding committee will determine whether new legislation is necessary.

## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

24 (26)	(Lon)	Powers for gathering relevant information by national regulators	Ensure that national regulators possess the powers for gathering relevant information on all material financial institutions, markets and instruments in order to assess the potential for failure or severe stress to contribute to systemic risk. This will be done in close coordination at international level in order to achieve as much consistency as possible across jurisdictions.	Ongoing	<p>South Africa is currently reviewing legislation on information gathering. The preliminary outcome of the review indicates that the Banking Supervisor has sufficient powers to gather relevant information. However, legislation compels the Supervisor to keep this information confidential. As such, we are considering whether or not these powers should be extended to other regulators, similarly to the Australian model, or if the information sharing responsibilities of the supervisor should be increased.</p> <p>The Financial Services Board can request any information from its regulated entities. In respect of securities, any operational risks that may cause a systemic risk will be addressed by the Financial Sector Contingency Forum (FSCF). This is a forum that is represented by, amongst others, the SA Reserve Bank, Financial Services Board and the SROs. The Financial Services Board is also a signatory to the IOSCO Multilateral MoU.</p>	A regulators roundtable was formed in 2008 to improve regulatory coordination. Government is considering a proposal to formalise the roundtable into a council of regulators. Sub-committees on financial stability, enforcement, market conduct and legislative alignment presently report to the roundtable.
25 (28)	(FSF 2009)	Use of macro-prudential tools	3.1 Authorities should use quantitative indicators and/or constraints on leverage and margins as macro-prudential tools for supervisory purposes. Authorities should use quantitative indicators of leverage as guides for policy, both at the institution-specific and at the macro-prudential (system-wide) level... Authorities should review enforcing minimum initial margins	End-2009 and ongoing	South African authorities are undertaking work on improving the approach to leverage ratios and capital requirements, in line with BCBS proposals. Currently leverage ratios are computed for the sector on a monthly basis as well as for the 5 biggest banks constituting 90% of banking sector assets. At May 2010 the total sector leverage ratio stood at 7.33 per cent,	South Africa is awaiting any further guidance from the BCBS and the Financial Stability Board.

**FSB- G20 - MONITORING PROGRESS – South Africa September 2011**

			and haircuts for OTC derivatives and securities financing transactions.		<p>compared to 5.88 in June 2009.</p> <p>The Macro prudential Unit of the Bank Supervision Department of the South African Reserve Bank uses quantitative indicators as part of its macroprudential tools to analyse the financial services sector. Improvement of the existing tools and the development of new one are ongoing. The South African Reserve Bank has also elevated its Financial Stability Committee to a level commensurate with the Monetary Policy Committee, to facilitate the implementation of macroprudential policy tools.</p> <p>The Financial Services Board is currently investigating ways to regulate the trading in certain unlisted derivatives, and this issue will be addressed in future regulations.</p>	
26 (29)	(WAP)	Monitoring of asset price changes	Authorities should monitor substantial changes in asset prices and their implications for the macro economy and the financial system.	Ongoing	The central bank monitors asset prices as part of its financial stability surveillance programme. The effects of changing prices on the banking sector are closely monitored by the Bank Supervision Department of the central bank as well as the linkage to loan impairment levels.	Currently the inflation targeting regime does not explicitly incorporate asset prices though, in common with almost all countries that use this approach. Further research into the nexus between asset prices, monetary policy and financial stability, is however required and we welcome initiatives in this regard by the G-20 and the FSB.
27 (32)	(FSF 2008)	Improved cooperation between supervisors and central banks	V.8 Supervisors and central banks should improve cooperation and the exchange of information including in the assessment of financial stability risks. The exchange of information should be rapid during periods of market strain.	Ongoing	<p>South Africa supports the development of additional mechanisms. Currently SA has a number of MoU's in place governing the exchange of information and cooperation.</p> <p>There currently exists a MOU between the South African</p>	A regulators roundtable was formed in 2008 to improve regulatory coordination. Government is considering a proposal to formalise the roundtable into a council of regulators. Sub-committees on financial stability, enforcement, market conduct and legislative alignment presently report to the roundtable.

**FSB- G20 - MONITORING PROGRESS – South Africa September 2011**

					<p>banking regulator and the South African non-bank regulator, called the Financial Services Board, which enables the sharing of institution specific information between the two regulatory bodies.</p> <p>In respect of securities, any operational risks that may cause a systemic risk will be addressed by the Financial Sector Contingency Forum (FSCF). This is a forum that is represented by, amongst others, the SA Reserve Bank, Financial Services Board and the SROs. The Financial Services Board is also a signatory to the IOSCO Multilateral MoU.</p>	
<b>VI. Strengthening accounting standards</b>						
28 (11)	(WAP)	Consistent application of high-quality accounting standards	Regulators, supervisors, and accounting standard setters, as appropriate, should work with each other and the private sector on an ongoing basis to ensure consistent application and enforcement of high-quality accounting standards.	Ongoing	IFRS has been fully implemented	Monitoring of compliance is ongoing.
29 (New)	(Seoul)	Convergence of accounting standards	We re-emphasized the importance we place on achieving a single set of improved high quality global accounting standards and called on the International Accounting Standards Board and the Financial Accounting Standards Board to complete their convergence project.	End-2011		
30 (12)	(FSF 2009)	The use of valuation reserves or adjustments by accounting standard setters and	3.4 Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when	End-2009	Awaiting guidance from accounting standard setters on the desired approach to relevant accounting standards. Banking groups, in terms of banking	As we receive guidance from international standard setters, we will amend guidance for firms on accounting standards.

## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

		supervisors	data or modelling needed to support their valuation is weak.		legislation, are obliged to comply with the Basel 2 Pillar 3 requirements.	
31 (13)	(FSF 2009)	Dampening of dynamics associated with FVA.	3.5 Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting. Possible ways to reduce this potential impact include the following: (1) Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries; (ii) Transfers between financial asset categories; (iii) Simplifying hedge accounting requirements.	End-2009	Awaiting guidance from accounting standard setters on the desired approach to relevant accounting standards. Banking groups, in terms of banking legislation, are obliged to comply with the Basel 2 Pillar 3 requirements.	As we receive guidance from international standard setters, we will amend guidance for firms on accounting standards
<b>VII. Strengthening adherence to international supervisory and regulatory standards.</b>						
32 (21, 22, 23)	(Lon)	Adherence to international prudential regulatory and supervisory standards, as well as agreeing to undergo FSAP/ FSB periodic peer reviews  (Note) Please try to prioritise any major initiatives conducted specifically in your jurisdiction.	We are committed to strengthened adherence to international prudential regulatory and supervisory standards.  FSB members commit to pursue the maintenance of financial stability, enhance the openness and transparency of the financial	Ongoing	South Africa is a signatory to all relevant conventions and standards. Remaining ROSCs from the 2008 FSAP were completed in 2010 and South Africa was found to be compliant with most standards. The results of the ROSC have been forwarded to the Financial Stability Board. South Africa underwent its second FATF assessment in 2008. The report was released in February 2009 and found that South Africa fully complied with 12 out of the 16 core and key FATF 40 + 9 Recommendations.  The remaining ROSCs of the 2008 IMF-led FSAP have been completed in 2010.	South Africa is continuously monitoring any updates to international standards to which it is a signatory.  South Africa will be peer-reviewed by the Financial Stability Board in 2012.



## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

	(WAP)		<p>sector, implement international financial standards, and agree to undergo periodic peer reviews, using among other evidence IMF / World Bank FSAP reports.</p> <p>All G20 members commit to undertake a Financial Sector Assessment Program (FSAP) report and support the transparent assessment of countries' national regulatory systems.</p>		<p>The IMF / World Bank completed an FSAP Update on South Africa during 2008, which included one ROSC. The remaining ROSCs were all completed in 2010. South Africa has forwarded the results of the ROSC to the Financial Stability Board. South African regulators are largely compliant with most regulatory standards.</p>	Completed
<b>Reforming compensation practices to support financial stability</b>						
33 (15)	(Pitts)	Implementation of FSB/FSF compensation principles	<p>We fully endorse the implementation standards of the FSB aimed at aligning compensation with long-term value creation, not excessive risk-taking. Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention. We call on firms to implement these sound compensation practices immediately.</p>	End-2010	<p>A review of compensation practices has already been completed by the banking regulator. Necessary amendments to the Regulations Relating to Banks have been introduced. These amendments will bring the Regulations in line with recommendations made by the Basel Committee on Banking Supervision in 2010.</p>	<p>Draft regulations will be issued by end-October, 2010. The Banks Act is on course for being amended by mid-2011.</p>

## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

	(Tor)		We encouraged all countries and financial institutions to fully implement the FSB principles and standards by year-end. We call on the FSB to undertake ongoing monitoring in this area and conduct a second thorough peer review in the second quarter of 2011.			
	(Seoul)		We reaffirmed the importance of fully implementing the FSB's standards for sound compensation.			
34 (16)	(Pitts)	Supervisory review of firms' compensation policies etc.	Supervisors should have the responsibility to review firms' compensation policies and structures with institutional and systemic risk in mind and, if necessary to offset additional risks, apply corrective measures, such as higher capital requirements, to those firms that fail to implement sound compensation policies and practices. Supervisors should have the ability to modify compensation structures in the case of firms that fail or require extraordinary public intervention.	Ongoing	A review of compensation practices has already been completed by the banking regulator. Necessary amendments to the Regulations Relating to Banks have been introduced. These amendments will bring the Regulations in line with recommendations made by the Basel Committee on Banking Supervision in 2010.	Draft regulations will be issued by end-October, 2010. The Banks Act is on course for being amended by mid-2011
<b>VIII. Other issues</b>						
<b>Credit rating agencies</b>						
35 (37)	(Lon)	Registration of CRAs etc.	All CRAs whose ratings are used for regulatory purposes should be subject to a regulatory oversight regime that includes registration. The regulatory oversight regime should be established by end 2009 and should be consistent with the IOSCO Code of Conduct Fundamentals.	End-2009	The Financial Services Board is in the process of proposing how credit rating agencies should be regulated in the South African markets. Implementation planned for late 2009. In respect of Credit Rating Agencies (CRA), whose ratings are used by banks in terms of Basel 2, these have, in terms of banking legislation, to be	New legislation has been proposed in the form of a Credit Rating Agencies Bill, which is expected to be introduced to Parliament in 2011

**FSB- G20 - MONITORING PROGRESS – South Africa September 2011**

					approved by the banking regulator and such approval is subject to annual review.	
36 (38)	(Lon)	CRA practices and procedures etc.	<p>National authorities will enforce compliance and require changes to a rating agency's practices and procedures for managing conflicts of interest and assuring the transparency and quality of the rating process.</p> <p>CRA's should differentiate ratings for structured products and provide full disclosure of their ratings track record and the information and assumptions that underpin the ratings process.</p> <p>The oversight framework should be consistent across jurisdictions with appropriate sharing of information between national authorities, including through IOSCO.</p>	End-2009	These requirements will be included as part of the CRA regulations that will be promulgated in terms of the CRA Act	The CRA Act is expected to be introduced to Parliament in 2011.
37 (39)	(FSB 2009)	Globally compatible solutions to conflicting compliance obligations for CRA's	Regulators should work together towards appropriate, globally compatible solutions (to conflicting compliance obligations for CRA's) as early as possible in 2010.	As early as possible in 2010	The legislation provides for CRA's that are fully compliant in appropriate with foreign jurisdictions to operate in South Africa only subject to registration. Regular reports on their adherence to the rules in foreign jurisdictions will be required	The CRA Act is expected to be introduced to Parliament in 2011.
38 (40)	(Seoul)  (FSF 2008)	Reducing the reliance on ratings	<p>We also endorsed the FSB's principles on reducing reliance on external credit ratings. Standard setters, market participants, supervisors and central banks should not rely mechanistically on external credit ratings.</p> <p>IV. 8 Authorities should check that the roles that they have assigned to ratings in regulations and supervisory rules are consistent</p>	Ongoing	The role of credit ratings in key pieces of legislation (particularly the Banks Act and the Pension Funds Act) is being reviewed. The intention is to shift away from a system where credit ratings are taken as given towards a system where the relevant institution performs its own judgement, and only uses information from the credit ratings agency as one of many inputs.	Ongoing Regulation 28 of the Pension Funds Act (the governing legislation for all retirement products) which governs asset spreading requirements for retirement funds, has removed rating bands out of the regulation - ratings can be used but should not be relied upon in isolation and should be supported by appropriate due diligence

**FSB- G20 - MONITORING PROGRESS – South Africa September 2011**

			with the objectives of having investors make independent judgment of risks and perform their own due diligence, and that they do not induce uncritical reliance on credit ratings as a substitute for that independent evaluation.			
<b>Risk management</b>						
39 (48)	(Pitts)	Robust, transparent stress test	We commit to conduct robust, transparent stress tests as needed.	Ongoing	South Africa requires banks to undertake regular stress tests. Both bottom-up stress tests (by individual banks, based on a common prescribed scenario) and top-down stress tests are conducted.	Thematic stress testing reviews, culminating with the benchmarking of each banking group's practices against the BCBS 2009 publication setting out principles for sound stress testing were undertaken at the major banking institutions during the current year. The thematic reviews include a demonstration of how the results of such stress tests have been used to determine the capital buffer
40 (49)	(Pitts)	Efforts to deal with impaired assets and raise additional capital	Our efforts to deal with impaired assets and to encourage the raising of additional capital must continue, where needed.	Ongoing	South African banks are well capitalised with a mandated capital adequacy ratio of 9.5 per cent. Currently, banks are capitalised to well above this ratio (14.4 per cent as of May 2010)	South Africa is continuously monitoring compliance
41 (53)	(WAP)	Enhanced risk disclosures by financial institutions	Financial institutions should provide enhanced risk disclosures in their reporting and disclose all losses on an ongoing basis, consistent with international best practice, as appropriate.	Ongoing	Currently banks are required to report losses monthly, in line with the requirements of Basel II pillar 3, which are part of banking legislation. South Africa supports initiatives by the BCBS and elsewhere to improve the reporting standards. South Africa is fully compliant with International Financial Reporting Standards.	South Africa is continuously monitoring compliance.
<b>Others</b>						
42 (46)	(FSF 2008)	Review of national deposit insurance arrangements	VI.9 National deposit insurance arrangements should be reviewed against the agreed international principles, and authorities should strengthen arrangements where	Ongoing	There is no formal deposit insurance system (retail deposits are implicitly guaranteed).	A formal DI under consideration and substantial technical work has been undertaken, including ensuring that the system is aligned to the FSF/FSB principles

## FSB- G20 - MONITORING PROGRESS – South Africa September 2011

			needed.			
43 (55)	(Pitts)	Development of cooperative and coordinated exit strategies	We need to develop a transparent and credible process for withdrawing our extraordinary fiscal, monetary and financial sector support, to be implemented when recovery becomes fully secured. We task our Finance Ministers, working with input from the IMF and FSB, to continue developing cooperative and coordinated exit strategies recognizing that the scale, timing and sequencing of this process will vary across countries or regions and across the type of policy measures.	Ongoing	Not relevant as government interventions during the financial crisis were limited.	Not relevant

**Origin of recommendations:**

Seoul: The Seoul Summit Document (11-12 November 2010)

Pitts: Leaders' Statement at the Pittsburgh Summit (25 September 2009)

Lon: The London Summit Declaration on Strengthening the Financial System (2 April 2009)

Tor: The G-20 Toronto Summit Declaration (26-27 June 2010)

WAP: The Washington Summit Action Plan to Implement Principles for Reform (15 November 2008)

FSF 2008: The FSF Report on Enhancing Market and Institutional Resilience (7 April 2008)

FSF 2009: The FSF Report on Addressing Procyclicality in the Financial System (2 April 2009)

FSB 2009: The FSB Report on Improving Financial Regulation (25 September 2009)