



# SA INC 2010 and BEYOND

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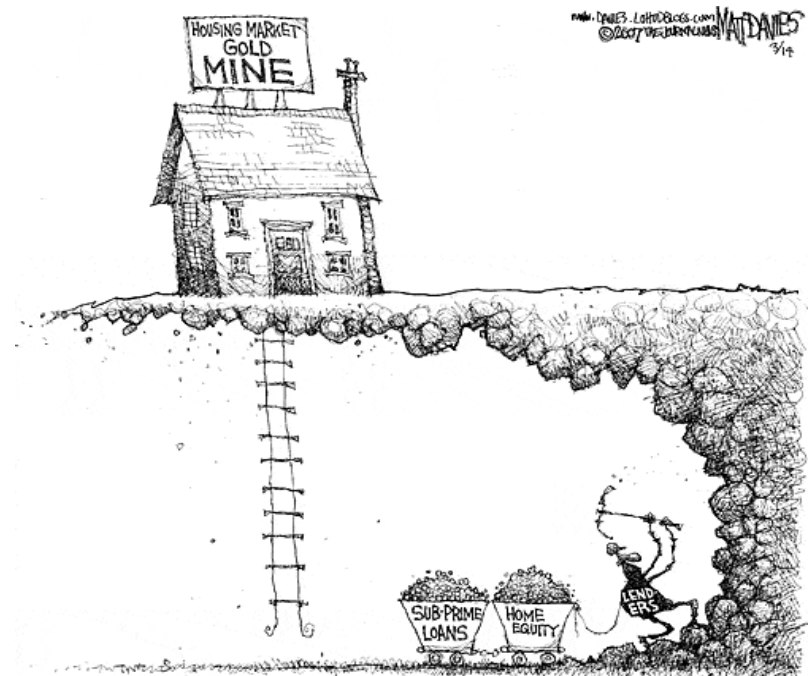
**After the global financial crisis...**  
How will our financial sector have to adjust?

Ismail Momoniat  
DDG: Tax and Financial Sector Policy  
National Treasury



••➤ The global financial crisis was a wake-up call for regulators, government and industry.

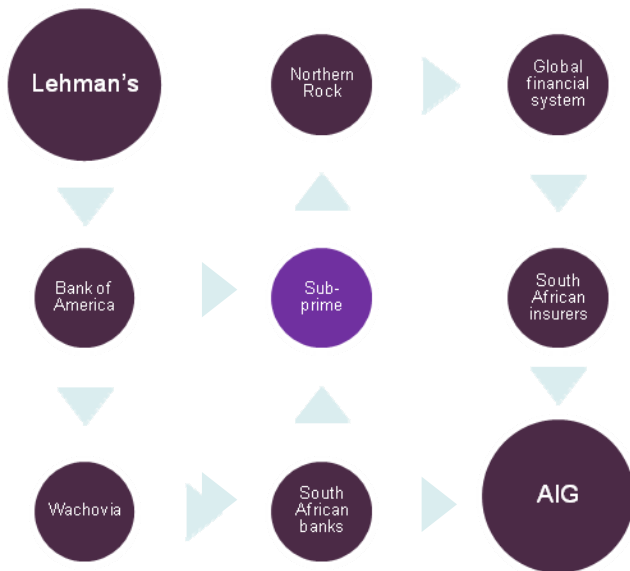
- The NICE (non-inflationary continuous expansion) was a long period of economic growth, driven in part by the industrialisation of China
- Over time, structural imbalances between emerging and developed countries developed
- This led to a boom in global credit extension, which stimulated growth in asset prices, particularly housing
- Sub-prime lending was just the trigger



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••➤ Regulators, government and industry were caught unawares



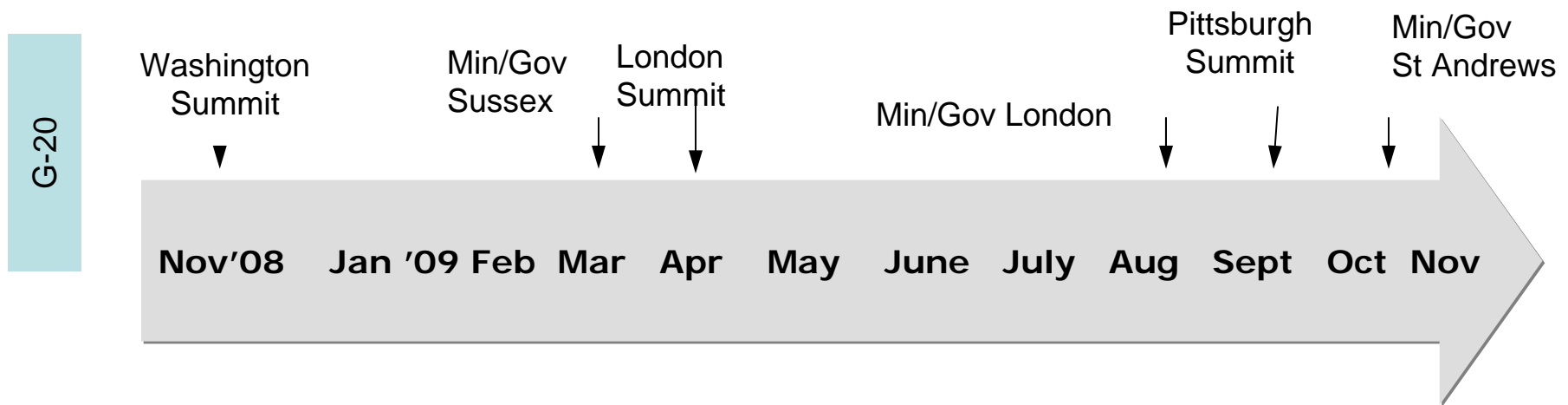
- The global financial system is a complex web of interconnected financial services firms, including banks, insurance companies, savings institutions and lenders.
- Internationally, regulation before the crisis focused on a checkbox “microprudential approach” focussing to heavily on consumer protection and the soundness of individual firms.

“Only when the tide goes out do you discover who's been swimming naked.”

Warren Buffett

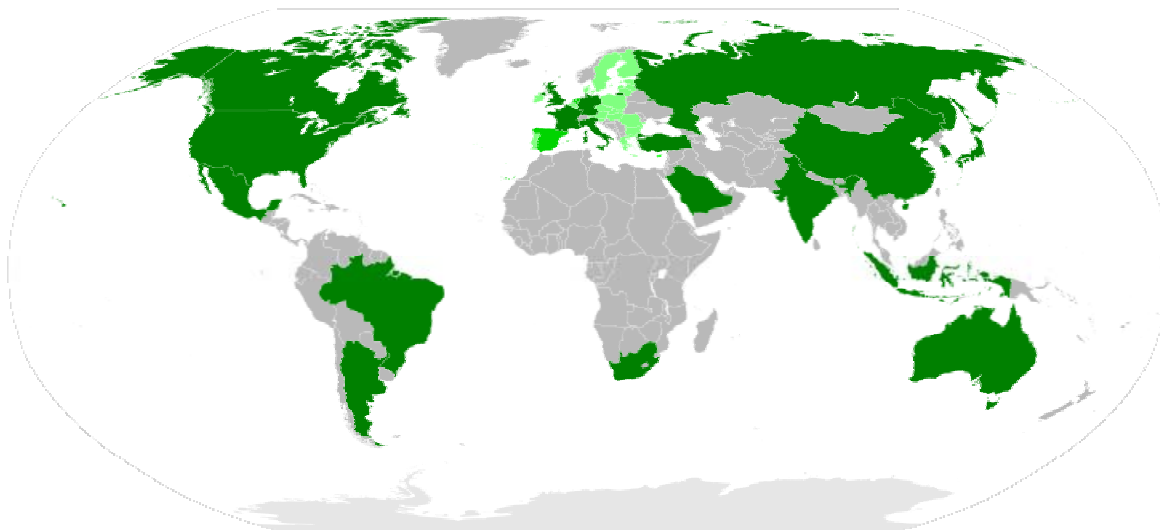


- The G-20 convened a series of meetings during 2009, and nations committed themselves to reforming the financial services industry





••➤ The Financial Stability Board has emerged as the key international regulatory body



Financial Stability Board membership:

- G-20 members
- Significant financial centres (e.g. Singapore and HK)
- Global financial institutions

Members:

- Governors: 11
- Deputy Governors: 7
- DGs: 5
- DDGs: 10

*FSB membership approach is very different from G-20 where all countries have equal voice:*

Countries with **three** seats: Brazil, Canada, China, France, Germany, India, Italy, Japan, Russia, UK, US

Countries with **two** seats: Australia, Korea, Mexico, Netherlands, Spain, Switzerland

Countries with **one** seat: Argentina, Hong Kong, Indonesia, Saudi Arabia, Singapore, South Africa, Turkey

International organisations: IMF, World Bank, BIS, OECD, ECB, EC, BCBS, IAIS, CGFS, CPSS

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••➤ G-20 and Financial Stability Board members made a number of commitments

4

Working groups

93

Commitments

8

Priorities

1. *Improving global and domestic co-ordination*
2. *Strengthening the global capital framework for banks*
3. *Making global liquidity more robust*
4. *Reducing the moral hazard posed by systemically important institutions*
5. *Strengthening accounting standards*
6. *Expanding oversight of the financial system*
7. *Re-launching securitisation on a sound basis*
8. *Promoting adherence to international standards*



## ••➤ Fin Stab Board discussions on Systemically Important

How do we address the too big to fail problem (moral hazard)?

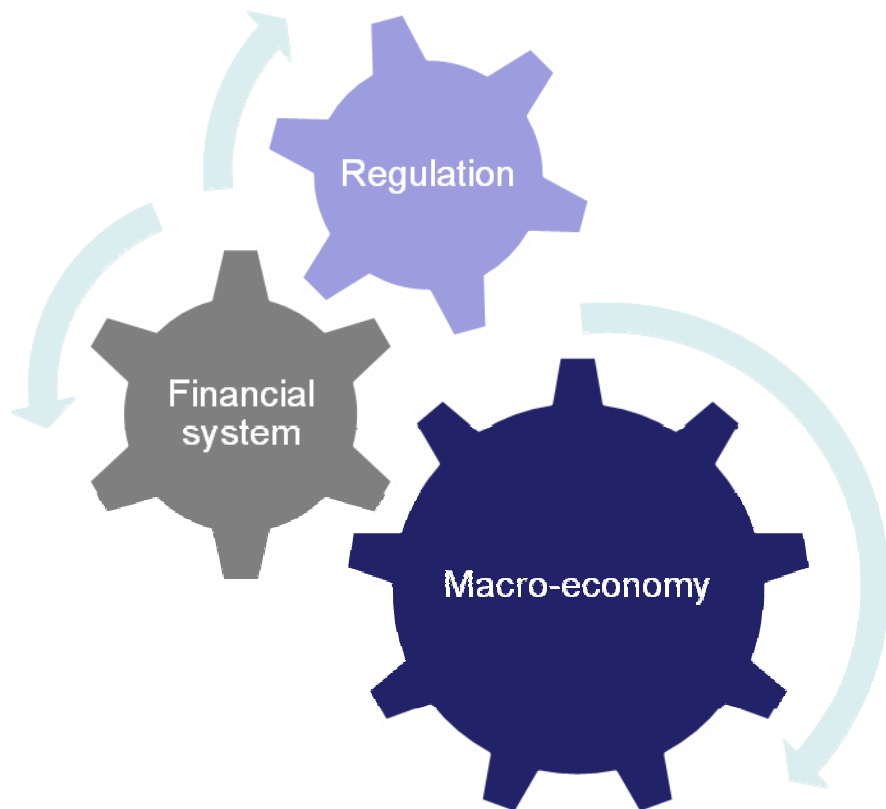
How do we define SIFIs?

- Size or Interconnectedness?
- Thresholds not fixed, depends on market conditions
- But large multinational bank v likely to be one under any defn
- **Reduce probability and impact of SIFI failure, through for eg**
  - Stronger capital and liquidity requirements
  - New leverage ratios
  - Better risk management
  - Limit the size and breadth of SIFIs
  - Reducing complexity of organisational structures (eg std alone subsidiaries)
- **Make the system better able to deal with a SIFI failure**
  - Improving resolution capabilities of authorities
  - Strengthen market infrastructure to reduce contagion risk

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## ••➤ What is this “macroprudential” approach?



Shift to a “macro-prudential” surveillance regulation entails:

- Going beyond individual firm supervision to safeguarding soundness of the financial system as a whole.
- Greater emphasis on financial soundness (e.g. Basel 3 and Solvency 2)
- Greater emphasis on links between financial services firms, e.g. between insurance and banking etc.
- Rethinking the role of capital adequacy rules, risk weights etc. in our regulatory structure.

Interconnections between regulation, the financial system and the macro-economy are key



- Expanding the scope of regulation means changing *how* we regulate and *what* we regulate:

#### How we will regulate:

- Shift away from a narrow check box approach to regulation to a more macroeconomic / systemic risk focused approach
  - Debate has moved on from unfettered financial markets!
- Greater co-ordination between national regulators from different countries
- BUT also greater co-ordination between regulators within each country

**What we regulate** - we have committed to introducing new regulations covering

- Banks and systemically important fin institutions (SIFIs)
- Hedge funds and private equity (private pools of capital)
- Credit ratings agencies
- Over-the-counter derivatives



## ••➤ What areas do we need to regulate better?

### Private pools of capital

- G-20 requires us to introduce legislation to regulate hedge funds and private equity.
- Debate is raging internationally on how to do this...
- In SA, our concern is the overlap between this requirement and our current collective investment schemes regulation - will we create regulatory arbitrage?
- Policy research will focus on developing a more holistic approach to regulating investment funds - including CIS, Hedge funds etc.

### Credit rating agencies

- Also a G-20 requirement - concern is that credit-ratings play a crucial role in our legislation, and in decisions by investors
- Credit Ratings Bill will be released to industry for comment



## ••➤ What areas do we need to regulate better?

### Over-the-counter derivatives

- The global financial crisis was partly caused by diverse, sophisticated and obscure financial products and derivative instruments
- Need to balance the need for financial innovation against the need for ensuring systemic stability
- To keep a “closer eye” on derivative trading, and to reduce some of the risks (e.g. settlement risk) the G-20 has proposed that derivative trading takes place through central counterparties (i.e. on exchange)
- Proposed Security Services Act amendments address this need



## ••➤ Other steps taken (or to be taken) by South Africa

- Forum of financial regulators
- FSAP update
- Implementing G20 and FSB resolutions on banking, compensation etc
- Shift from Exchange Controls to a more prudential and strategic approach
  - Public consultations on modernising exchange control legislation, including inward and outward investments, as announced in 2010 Budget
- Amendments to regulation 28 (Katherine Gibson)
- Recent reforms in tax legislation on retirement taxes (Keith Engel)
- Market Conduct and customer protection - how do we improve the image of the industry?



## ••➤ How will global standards be enforced?

- FSB members commit to implement agreed international standards
  - Basel 2, IAIS, IOSCO, IMF, FATAF etc
- Lead by example to promote wider application (via IMF, FTAF etc)
- IMF to conduct FSAP, FATAF does mutual evaluations
- Peer reviews
  - Thematic (eg compensation)
  - Country (following up on FSAPs? ROSCs)
- Non-cooperative jurisdictions



## ••➤ Concluding remarks

- 2010 will be a busy year - there are a number of G-20 commitments, and other reforms that we need to put into place
- Industry, regulators and government will need to work together to ensure that new international regulations improve the South African financial services industry
- “Never waste a good crisis” - opportunity to review and reflect on financial regulatory system in South Africa, not only to align to international agreements, but also to improve the system
- Is the non-banking financial industry ready to engage on post-crisis reform agenda?
- Is the non-banking financial industry ready for the developmental challenges facing SA?



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THANK YOU