



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

TABLING OF THE FINANCIAL SECTOR LAWS AMENDMENT BILL, 2020

Cabinet has approved the tabling of the Financial Sector Laws Amendment Bill, 2020 in Parliament.

The Bill is part of the Twin Peaks reform of the financial regulatory system applicable to the financial sector. It introduces a critical element to the regulatory system on how to deal with a failing bank or other systemically important financial institution, to protect financial stability in a way that reduces reliance on the fiscus. This Bill will therefore reinforce and strengthen financial stability in South Africa.

The Bill enables South Africa to meet the basic international standards following the 2008 Global Financial Crisis, as endorsed by G-20 countries and outlined in the FSB document [Key Attributes of Effective Resolution Regimes for Financial Institutions](#) (“Key Attributes”), which sets out the international standard for resolution regimes to address the problem of banks that are considered “too big to fail”. The underlying policy approach to resolution is contained in two policy papers – *Strengthening South Africa’s Resolution Framework for Financial Institutions* and *Designing a Deposit Insurance Scheme for South Africa*, which were published by the National Treasury and the South African Reserve Bank in 2015 and 2017, respectively.

The first part of the Bill introduces a comprehensive framework for resolving all banks as well as non-bank systemically important financial institutions that may be ‘too big to fail’. The second part sets out the provisions to introduce, for the first time, an explicit, industry-funded deposit insurance scheme to protect qualifying depositors’ funds up to a specified limit when a bank fails. The ‘resolution and deposit insurance framework’ contained in the Bill has a number of significant policy objectives which include:

- Public funds will no longer be the default source of funding used to bail out failing banks and other large financial institutions;
- A deposit insurance scheme will be established and managed by the South African Reserve Bank through a newly established Corporation for Deposit Insurance.
- Losses incurred due to the failure of a financial institution will in the first instance be borne (through bail-in) by shareholders and creditors who are able to properly assess their investment risks and who had benefited from profits made by the institution as a going concern;
- The South African Reserve Bank will get additional legal tools to ensure that critical services continue and that stability is maintained in the financial system in the event of a significant failure;
- Following international best practice, a modified creditor hierarchy for financial institutions falling within the scope of the envisaged framework is introduced, in terms of which covered depositors will rank as preferred creditors.

The protection of vulnerable depositors is a key element of the financial safety net in any country, and also contributes to financial stability. Qualifying deposits will be guaranteed up to an amount of R100 000 per depositor.

The certainty provided by explicit coverage, combined with clear coverage rules, will contribute to depositor confidence. This will foster an environment in which emerging banks can grow, thus enhancing competition in the banking sector.

These benefits are deemed to outweigh the cost of the depositor scheme to the banking sector, where significant efforts had been made to minimize the cost. Initial levies and premiums will amount to a combined amount of about 21 cents per year per R100 of deposits covered. This funding will be supplemented by funding in the form of interest-bearing deposits placed by banks with the Corporation for Deposit Insurance.

The Bill was previously published for public comment in 2018. The revised Bill will be published shortly after it is tabled in Parliament. National Treasury also publishes a summary of comments received, and its response to these comments.

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