NATIONAL COUNCIL OF PROVINCES

QUESTION FOR ORAL REPLY

QUESTION NUMBER: 152 [CO767E]

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★152. Mr D B Feldman (COPE-Gauteng) to ask the Minister of Finance:

(1) With reference to the downgrading of SA Banks by Moody's and Standard & Poor's rating agency, what steps is he taking to maintain confidence in the banking system?

CO767E

REPLY:

(1) No new steps are necessary, as the downgrades from Moody's and Standard and Poor's should not in any way adversely affect confidence in our banking system. South Africa's banking system is well regulated, enabling us to weather the global financial crisis very well and continues to be so. However, banks and other corporates could also experience a downgrade in their own corporate ratings (which are a direct consequence of the downgrade in the sovereign ratings) leading to higher costs to their funding and hence an increase in the cost of borrowing for all South African corporates and persons.

Whilst there is no need for any new action on our part, the Honourable Member is no doubt aware of the reforms we have initiated to our regulatory system after learning the lessons from the global financial crisis. In 2011, a comprehensive draft policy document *"A safer financial sector to serve South Africa better,"* was released with the 2011 Budget Statement, and approved by Cabinet. One of the key recommendations made in this review document, is the need to focus on financial stability, and to ensure overall co-ordination within a framework around macroprudential supervision. More fundamentally, as Minister, I proposed a change to the architecture of the financial regulatory system, by shifting towards a 'twin-peaks' model of financial regulation. Under the 'twin peaks', prudential and market-conduct regulation is undertaken by dedicated and separate regulators. A roadmap containing further details on the implementation of the 'twin peaks' financial regulation will be published during the course of November 2012 for consultation with a view to tabling legislation in early 2013. The prudential regulator's objective will be to maintain and enhance the safety and soundness of regulated financial institutions to protect consumers of financial services, while the market conduct regulator’s objective will be to protect consumers of financial services and promote confidence in the South African financial system. The prudential regulator, which will form part of the South African Reserve Bank, will be responsible for the prudential regulation and supervision of banks and insurers. Establishment of the new market conduct regulator will be informed by restructuring and transformation of the current Financial Services Board (FSB). The envisaged reforms will assist in improving confidence in the country’s banking system.