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**2023 BUDGET REVIEW**  
**FINANCIAL SECTOR**  
**UPDATE**



**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**



## RESPONDING TO THE FATF MUTUAL EVALUATION REPORT

Since late 2022, government has engaged with the Financial Action Task Force (FATF) and its team of reviewers on South Africa's work to address weaknesses in the country's legal and regulatory framework and deficiencies in its anti-money laundering enforcement regime.

Since the FATF published its mutual evaluation report in 2021, South Africa has made considerable progress in assessing vulnerabilities in the anti-money laundering system, the risks associated with high levels of proceeds-generating crime and corruption, and the challenges of building more effective enforcement.

Nevertheless, additional work across all these dimensions is needed over the medium term. A national strategy approved by Cabinet in November 2022 prioritises efforts to build a financial system that is less vulnerable to abuse, and where abuses are effectively prosecuted. In this regard, government is strengthening supervision of financial institutions (which are generally well supervised) and a range of non-financial businesses and professions that are sometimes used to launder the proceeds of crime. These include estate agents, lawyers, providers of crypto assets and services, and dealers in high-value goods. Changes in the relevant legislation have already been made, and increased resources will be provided to supervisory bodies to strengthen oversight. Government will identify and prosecute money launderers and their enablers in the financial system.

Two laws have been enacted to address what the FATF characterises as "technical" deficiencies in the legislative framework: the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act (2022), and the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act (2022). Draft regulations for the former have been published for public comment and are expected to be finalised by April 2023.

Addressing several other concerns identified by the FATF is more complex – and here government is still engaging with the FATF on its progress. Key deficiencies identified include:

- Weak implementation of new beneficial ownership legislative requirements for legal entities like companies, trusts and non-profit organisations.
- Poor anti-money laundering controls in non-financial sectors such as the legal profession, estate agents, crypto (virtual) asset service providers and trust services providers.
- A need to sustainably increase investigations, prosecutions and asset forfeitures related to money laundering and terror financing.

At its February 2023 plenary, the FATF will pronounce on South Africa's progress and the extent to which it will face enhanced monitoring, including possible grey listing. Over the longer term, government has asked the FATF to formally reassess South Africa's compliance during its June 2023 plenary.

## ENERGY CRISIS RESPONSE AND RECOVERY MEASURES

In 2023, the National Treasury will amend the bounce-back scheme to address energy-related constraints hampering businesses' recovery from the COVID-19 pandemic. As part of the amendments:

- Government will guarantee solar-related loans for small and medium enterprises.
- Commercial banks will be permitted to borrow directly from the scheme to facilitate the leasing of solar energy equipment to small businesses.
- Small businesses installing solar will be able to borrow finance for working capital.

These amendments will be finalised by May 2023.

## RESPONDING TO CLIMATE RISKS AND WORKING TOWARDS NET ZERO

The National Treasury is working to improve the resilience of the financial system through the Climate Risk Forum and the Intergovernmental Sustainable Finance Working Group, composed of private-sector and government representatives respectively. In 2023, the Climate Risk Forum will be reconstituted as the Sustainable Finance Initiative to reflect its coverage of broader environmental, transition and social risks. Key focus areas will include climate-related disclosures, scenario development and analysis, data requirements, market development and further work on the country's green finance taxonomy – a classification governing which assets, projects and sectors may be defined as "green".

### Regulatory response to climate-related risks

In August 2022, the Prudential Authority published an advisory on climate-related risks. It is finalising indicators for piloting in 2023 to better understand and measure climate-related transition and physical risks to the financial sector. The Financial Sector Conduct Authority (FSCA) will soon publish a draft sustainable finance and investment roadmap.

### Carbon tax credit trading

In 2023, the National Treasury will consider stakeholder inputs on the possibility of a domestic market to trade tax credits created through the carbon tax. The consultation will focus on the building blocks needed to ensure seamless trading, including the legal nature of carbon credits as a financial asset; trading and post-trade market architecture; licences for private carbon credit funds; and carbon credit certification.

## PROMOTING FINANCIAL INNOVATION

### Crypto assets

The broad collapse of the crypto asset market during 2022 highlights the significant risks associated with this investment, underlining the need for a sound regulatory approach. The Intergovernmental Fintech Working Group published a position paper on regulating crypto assets in June 2021, and several frameworks have been developed in line with this approach.

In addition:

- Schedule 1 of the Financial Intelligence Centre Act (2001) has been amended to make crypto asset service providers accountable institutions. The Financial Intelligence Centre will supervise crypto asset service providers and enforce their compliance with anti-money laundering, combating of terrorist financing and combating of proliferation financing obligations.
- The Reserve Bank is working with the National Treasury to enhance the monitoring and reporting of crypto asset transactions to comply with the exchange control regulations.
- In 2023, the Intergovernmental Fintech Working Group intends to publish a position paper to address the risks posed by so-called stablecoins.

### Digital payments and broader access to the national payment system

In 2022, the Reserve Bank began developing a digital payments strategy to support its 2025 vision for the national payment system. The strategy will explore how access for non-banks in the national payment system will level the playing field, enhance payment services, lead to greater consumer choice, foster greater competition and innovation, and increase financial inclusion. The strategy will be finalised through a consultative process and published during 2023, when plans for the implementation of specific interventions will also begin.

## BOOSTING SAVINGS AND PROVIDING FOR AN ADEQUATE RETIREMENT

### Early access to retirement funds

Chapter 4 of the *Budget Review* provides details of the first phase of legislative amendments to the retirement system, which take effect on 1 March 2024. Several areas identified during the public comment process still need to be addressed, including legislative mechanisms to include defined benefit funds in an equitable manner, legacy retirement annuity funds and withdrawals from the retirement portion if one is retrenched and has no alternative source of income. The first two matters will be clarified in forthcoming draft legislation. The final matter will be reviewed as a second phase of implementation.

### Auto enrolment

In 2023, the National Treasury will finalise policy proposals on how to expand the participation and coverage of all formal and informal workers in a retirement fund without excessively burdening their disposable income. These proposals build on the National Treasury's December 2021 paper entitled *Encouraging South African Households to Save More for Retirement*. Consideration will be given to a voluntary and flexible savings scheme for informal workers.

### Governance

Legislative amendments to improve governance of retirement funds – particularly commercial umbrella funds – will be published in 2023 and tabled in Parliament thereafter.

## Unclaimed assets

In September 2022, building on joint work with the National Treasury, the FSCA published a discussion paper on the nearly R90 billion of unclaimed assets across the financial sector. One recommendation it put forward is to establish a fund into which all unclaimed assets must be transferred and managed. Alternatively, unclaimed assets could be transferred into the National Revenue Fund for the same purpose. Further consultation on the FSCA recommendations will take place in 2023. A final paper will be published in 2024.

## OTHER REFORMS

### Conduct of Financial Institutions Bill

The National Treasury has revised the Conduct of Financial Institutions Bill based on feedback from stakeholders. The bill is expected to be tabled in Parliament in early 2023. It will introduce a new legal framework for the regulation and supervision of the conduct of financial institutions, which will shift away from the institutional form to an activity-based licensing approach. A number of “new” licensing activities will be introduced to give effect to the FSCA’s expanded mandate under the Financial Sector Regulation Act (2017). A financial institution will only be granted one licence but can be licensed for more than one activity. It is envisaged that the levy due to the FSCA by a licensed financial institution will be an aggregated amount based on the type and number of activities that the licensee provides.

### Transformation and financial inclusion

The FSCA published its draft transformation strategy for the financial sector in 2022. In the first phase of implementation, the FSCA will engage with industry and other stakeholders on the current legal landscape governing transformation. In the second phase, it will set and supervise specific licensing and regulatory requirements for financial institutions in line with the relevant legislation. The FSCA has committed to following a proportionate approach that will not unduly burden small businesses. The final strategy will be published by March 2023.

### Financial education policy

In 2023, the National Treasury will publish a consumer financial education policy document for public comment. This policy document addresses consumer protection in the financial sector in the context of financial inclusion and transformation.

### Information technology governance and risk management

There has been a marked increase in cyber-attacks against financial institutions. To mitigate information technology (IT) and cyber risks to companies and consumers, the FSCA and the Prudential Authority will soon finalise joint standards aimed at ensuring better IT governance and risk management.