



SEC RISK BASED SUPERVISION PRESENTATION

PRE-LAUNCH ENGAGEMENT

PRESENTED BY LEAH K. SIMASIKU

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SECURITIES AND EXCHANGE COMMISSION

Protecting Investors in the Capital Markets

Presentation outline



Introduction



SEC RBS approach, principles and methodology



Inherent Risks, Quality of Risk Management & Intervention



Core supervisory processes



RBS Launch and Roll out plan



Q & As

WHY RBS?

- ▶ Zambia is faced with a demand for capital and has to compete with other countries with similar demands.
- ▶ To Access this Capital, Zambia needs position as a preferred destination for this capital.
- ▶ On the other hand, Investors/ providers of capital are faced with a variety of options to take their money.
- ▶ Their choice is largely driven by perception of how safe their fund are.
- ▶ A key milestone to Zambia being a preferred destination under the draft CMMP is the achievement of an MSCI Rating as a Frontier Market.
- ▶ Implementation of the CMMP is part of the process of Zambia achieving an MSCI Rating and key to this is the implementation of a robust capital markets regulatory framework.
- ▶ Zambia also has to achieve high standards of international regulation as prescribed by standard making bodies such as the International Organisation for Securities Commissions ("IOSCO")

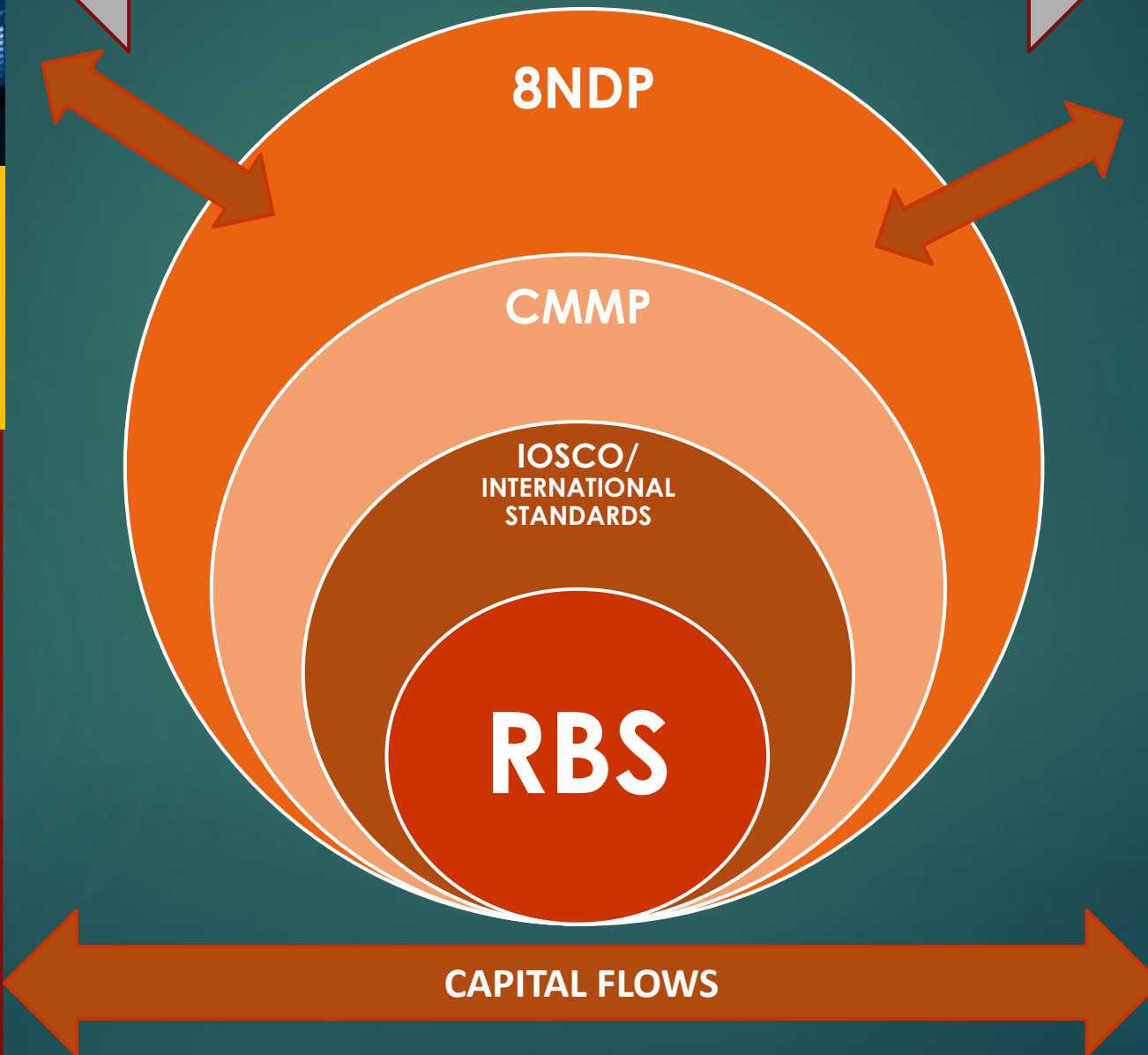


GOAL: Preferred Investment destination
"FRONTIER MARKET"



INTERNATIONAL CAPITAL PROVIDERS
PRIMARY CONCERN IS SAFETY OF THEIR FUNDS & RETURNS

- Openness to foreign ownership
- Ease of capital flows
- Efficiency of the operational framework
 - Market organization (Regulations & Information flows)
 - Market Infrastructure
- Availability of instruments
- Stability of institutional framework



ZAMBIA NEEDS CAPITAL
To implement national development programs/ agendas:

- 8NDP
- Vision 2030
- SDGS
- Green Bonds

CAPITAL MARKETS DEVELOPMENT TARGETS

- Frontier Market (MSCI)
- Market Cap/ GDP – 29%
- Market cap - \$23 Billion
- Green Bonds - \$400m
- CIS - \$250m
- ETF/ REITS - \$70m

INTRODUCTION: Strategic importance of the RBS Project



- 1) *The Commission has been using a Compliance based supervisory approach.*
- 2) *The Commission is transitioning to RBS which will focus more on risks and their mitigants.*
- 3) *The RBS Framework Policy will enable SEC achieve its statutory obligations as set out in Section 9 of the Act.*
- 4) The framework also contributes to the Commission's strategic objectives, in particular:
 - **Strategic objective 1 – Improve Investor protection** by developing legal/ regulatory frameworks and developing enhanced regulatory capacity.
 - **Strategic objective 3 – Improve stakeholder relationships** by strengthening sensitization and enforcement programs.
 - **Strategic objective 5 - Improve operational processes and systems** by re-engineering, integrating and automating requisite systems.

WHAT IS RISK BASED SUPERVISION

Risk based Supervision is a supervisory approach or framework in which supervisors focus on the risks (INHERENT RISK) which raise from the activities of a regulated entity which may in turn pose a risk to the achievement of supervisory objectives.

SUPERVISORY OBJECTIVES

- 1) Protecting investors;
- 2) Ensuring that markets are fair, efficient and transparent;
and
- 3) Reducing systemic risk.

This is done by assessing the different business areas of financial entities, the quality of the systems and the internal controls, in order to identify the major areas of concern and risk. RBS looks for a robust supervisory framework for monitoring the risk levels in the operations of financial entities.

A person in a light blue shirt is shown from the chest down, standing behind a table. They are using wooden blocks to spell out 'RISK BASED SUPERVISION'. The word 'RISK' is spelled vertically with three blocks, 'BASED' is spelled horizontally with three blocks, and 'SUPERVISION' is spelled horizontally with seven blocks. The person's hand is visible, resting on the blocks.

R
I
S
K
BASED
SUPERVISION

SEC RBS APPROACH

Principles Based Supervision

The Commission's supervisory approach is principles-based, emphasizing the use and application of sound predictive judgment in identifying and assessing risks faced by the CMO, assessing the adequacy of the CMOs' risk management processes, and determining the appropriate supervisory response/ intervention

Supervisory Intensity and Intervention

The intensity of supervision will depend on the nature, size, complexity and risk profile of a CMO, and the potential consequences to the system of the CMO's failure. It is expected that CMOs posing greater risks to investors and the public interest would require a greater supervisory intensity.

Board and Senior Management Accountability

A CMO's Board of Directors and Senior Management are responsible for the strategic management and direction of the CMO and are ultimately accountable for ensuring that the CMO and its employees perform their duties and obligations in a manner that complements the SEC's supervisory mandate.

Risk of failure of a CMO:

Operational and/or financial failure of CMOs is anticipated to happen from time to time. The SEC will endeavour to ensure that CMOs regularly demonstrate resilience and have in place or formulate recovery plans as needed. In addition, where CMOs fail or face the prospect of failure, the SEC will work with other relevant authorities to implement appropriate resolution plans. Where CMOs fail, the Commission will endeavor to ensure that there is an orderly exit of the failed CMO from capital markets.

Groupwide supervision

The Commission supervises CMOs that fall within conglomerate or group structures. In supervising such CMOs, the Commission uses information available from other regulators as appropriate.

Cross sectoral considerations

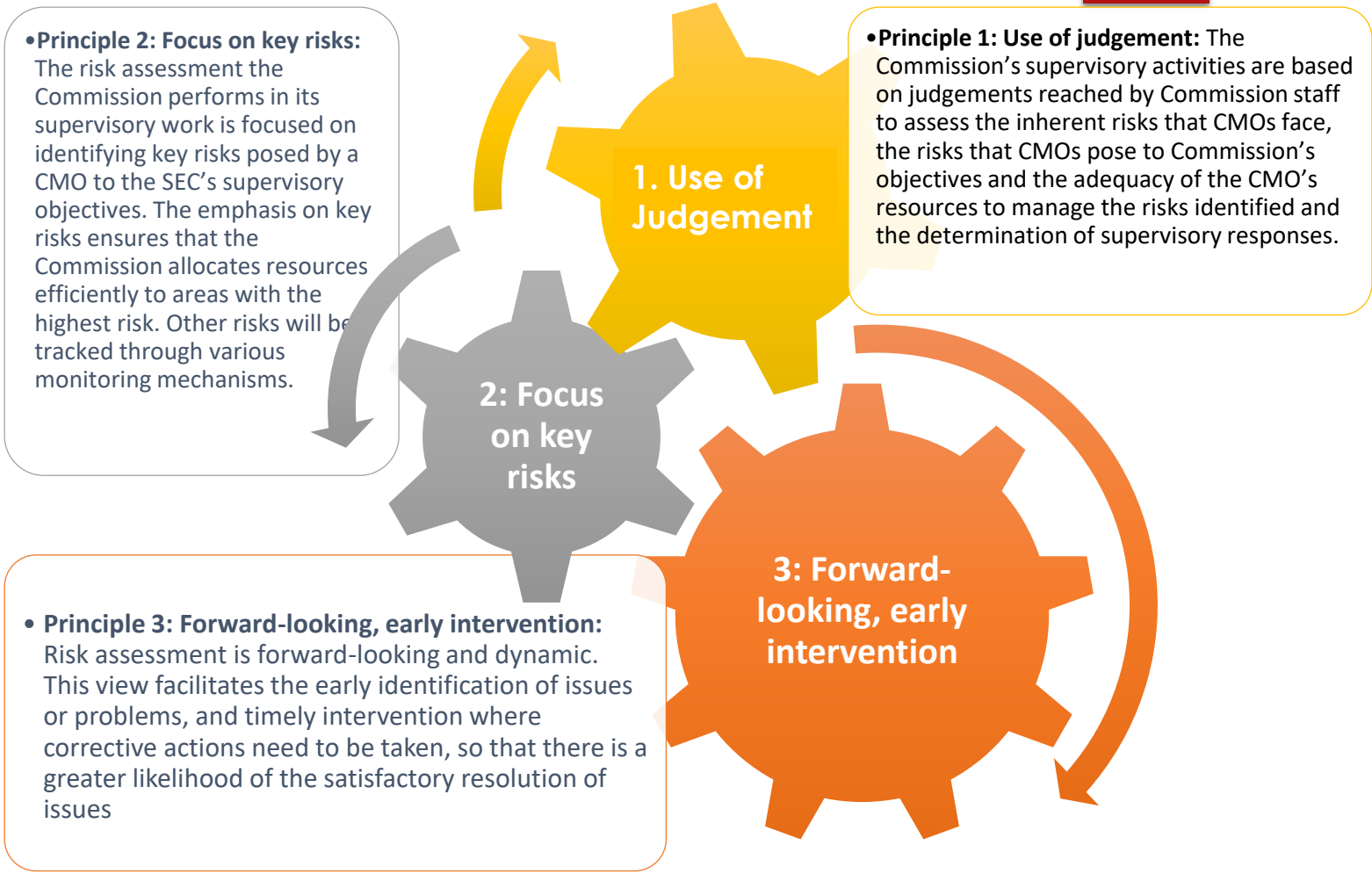
For CMOs whose activities spill over into areas regulated by other financial sector regulators such as Bank of Zambia, Pensions and Insurance Authority, the Commission takes into account the potential impact of the non-capital markets activity on the CMO.

Reliance on External Auditors and other experts:

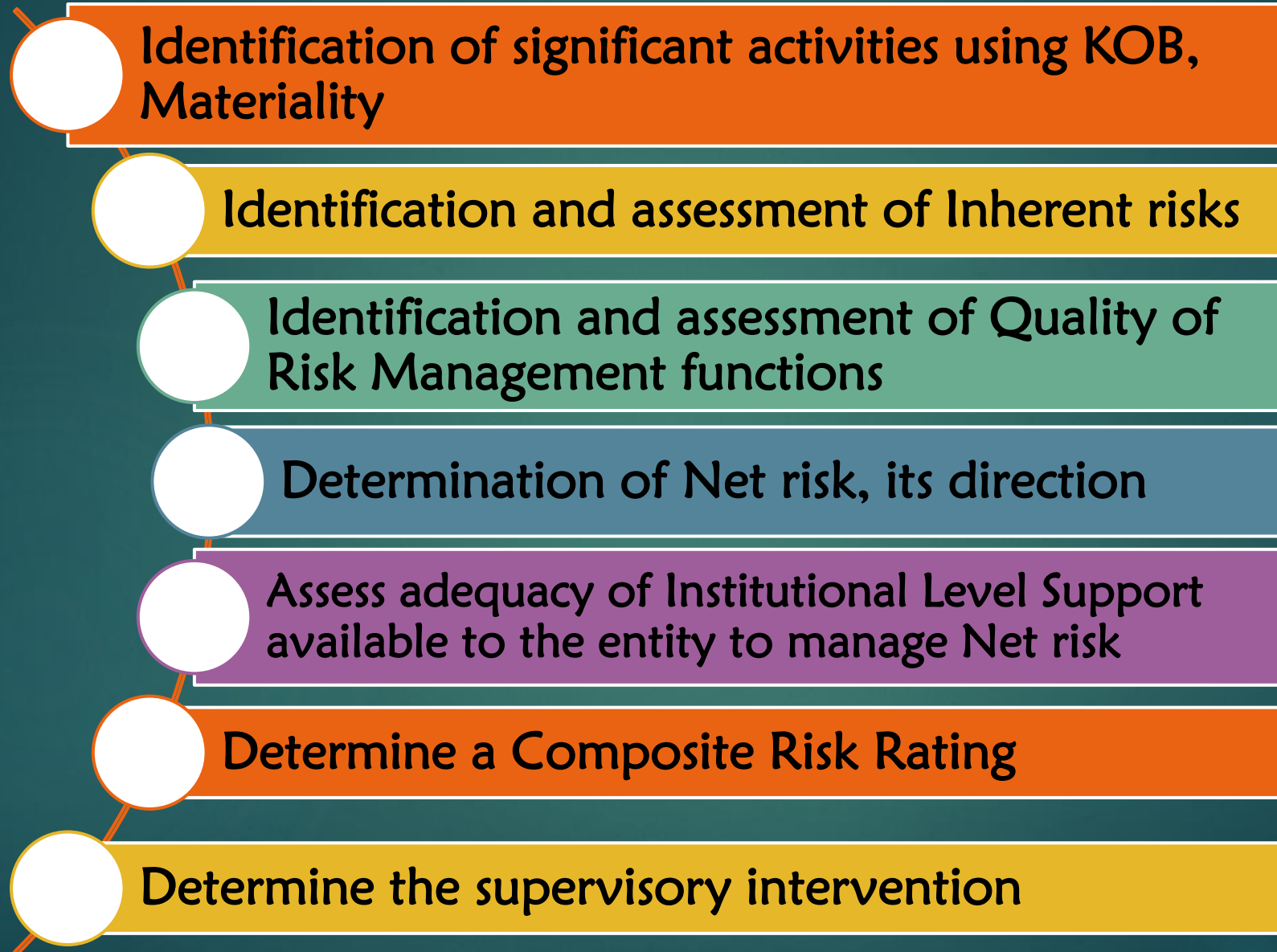
The Commission may rely on and use the work of CMOs' external auditors and experts in specialist areas such as Information technology, property valuation, fraud and forensics etc. to undertake its supervisory activities.

RELATIONSHIP MANAGEMENT

RBS PRINCIPLES



The SEC RBS methodology



INHERENT RISKS

► Inherent risk is the probability of material loss to investors due to exposure to, and uncertainty arising from, current and potential future events arising from the undesirable market conduct practices of a CMO or its representatives/agents.

Conduct Risk

Risk that the conduct of the CMO and/ or its employees will result in poor outcomes for investors and/or other stakeholders.

Credit Risk

risk arising from a counterparty's potential inability or unwillingness to fully meet its on and/or off-balance sheet contractual obligations.

Market Risk

arises from potential changes in market rates, prices or liquidity in various markets e.g., interest rates, foreign exchange, equities, commodities.

Operational Risk

arises from potential problems due to inadequate or failed internal processes, people and systems, or from external events.

Legal & Regulatory Risk

arises from a CMO's potential non-conformance with laws & regulations and contractual obligations entered into in the normal course of its business operations.

Strategic Risk

arises from a CMO's potential inability to implement its strategies, make decisions or adapt to changes in its business environment.

Money Laundering/ Terrorist Funding Risk

ML/ FT Risk is the risk that the CMO's activities result in its being used as a conduit to conduct money laundering activities and financing of terrorism.

QUALITY OF RISK MANAGEMENT

Governance
and controls

Name of QRM	Level of defense
Operational management	1st Line of defense
Risk Management	2nd Line of defense
Compliance	
Internal Audit	3rd Line of defense
Senior Management	4th Line of defense
Board of directors	5th Line of defense

SUPERVISORY INTERVENTION

Normal

Early Warning

Risk to financial viability or solvency

Future financial viability in serious doubt

Non-viable/ Insolvency imminent

The intervention rating is based on the Commission's risk assessment of the CMO known as the Composite Risk Rating ("CRR"). The CRR is the "final" rating and reflects the assessment of the entity's ability to manage the inherent risks in its significant activities after considering its financial resources (i.e., Earnings, Liquidity and Capital). Accordingly, the assessment includes a review of the quality, quantity, and availability of externally and internally generated capital.

The CRR may change if something material occurs in the risks that affects the risk rating. The time frame between the last assessment of a CMO's CRR to the next assessment is generally over a 12-month period, or until there is a material change affecting the CRR.

CORE SUPERVISORY PROCESS:

How we plan and
execute our
supervisory activities



- 1. Planning & Risk Profiling:** includes determination of significant activities and inherent risks.
- 2. Execution of supervisory activities:** focused on identified inherent risks.
- 3. Reporting and Intervention:** mainly reporting matters to be addressed by the CMO's Board and Senior management. Intervention is the Commission's supervisory actions to ensure management addresses the matters raised in the supervisory letters.



**The time is
NOW**

RBS ROLL OUT PLAN 2022

- ▶ With effect from **31st March 2022**, the Commission will migrate the Zambian Capital Markets to a Risk Based Supervision framework as outlined in the SEC RBS Policy. To ensure successful implementation of the Risk Based Supervision, the Commission shall issue by such guidelines, circulars, directives and other guidance to CMOs.
- ▶ The implementation road map focuses on three key areas:
 - ▶ Supervisory Plan – to ensure supervisory activities are carried out soon after the launch
 - ▶ Capacity building for both Industry and internally
 - ▶ PR and communications strategy – to keep the market aware about RBS developments

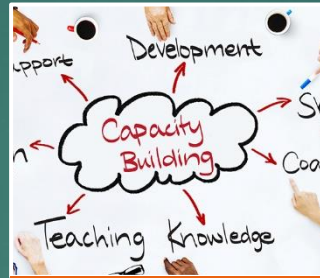
ROLL OUT PLAN 2022

Supervisory Plan



Undertake supervisory work on CMOs following launch of RBS

Capacity Building



Address capacity gaps in markets players and Staff

Stakeholder Relations



Enhance awareness of RBS by all Key stakeholders

MONTH	SUPERVISORY PLAN	START DATE	END DATE
APRIL 2022	Issue self assessment questionnaire	Apr-22	May-22
	conduct SFS assessment on CIS Funds	Apr-22	Aug-22
MAY 2022	Submission of SAQ	May-22	May-22
JUNE 2022	SAQS validation meetings	Jun-22	Sep-22
OCTOBER 2022	Consolidation of Findings	Oct-22	Dec-22
DECEMBER 2022	Inspection Plan - 2023	Dec-22	Dec-22

SUPERVISORY PLAN 2022

MONTH	CAPACITY BUILDING	START DATE	END DATE
MARCH 2022	Issue and Gazette RBS Market Announcement	Mar-22	Mar-22
	Issue draft Risk Mgt Guidelines for comments	Mar-22	Mar-22
	Weekly Engagements - Refresher on RBS	Mar-22	Mar-22
	Weekly Engagement - Risk Mgt Guidelines	Mar-22	Mar-22
	Weekly Engagement - Self Assessment Questionnaire	Mar-22	Mar-22
	Internal Training Program	Mar-22	Mar-22
APRIL 2022	Themed monthly market engagements	Apr-22	Dec-22
	Annual CMO's Workshop	Apr-22	Apr-22
	ICFOR Engagement	Apr-22	Apr-22
MAY 2022	Masterclass - Risk Management	May-22	May-22
JUNE 2022	Internal training	Jun-22	Jun-22
AUGUST 2022	Masterclass - Corporate Governance	Aug-22	Aug-22
SEPTEMBER 2022	Internal training	Sep-22	Sep-22
NOVEMBER 2022	Masterclass - TBC	Nov-22	Nov-22
DECEMBER 2022	Internal training	Dec-22	Dec-22

CAPACITY BUILDING PLAN 2022



PR AND COMMUNICATIONS PLAN 2022

MONTH	PR & COMMUNICATIONS STRATEGY	START DATE	END DATE
MARCH 2022	Roll out of RBS website	Mar-22	Mar-22
	Publish RBS FAQs	Mar-22	Mar-22
	Count down all social media sites	Mar-22	Mar-22
	Weekly sound bites	Mar-22	Mar-22
APRIL 2022	Launch event/Chairman's Breakfast	Apr-22	Apr-22
	Media Briefs by CEO (Quarterly)	Apr-22	Dec-22
MAY 2022	Awareness and Hype- Social media campaign	Apr-22	Dec-22

Q & A

QUESTIONS?



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