

Bank Supervision Department

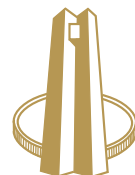
Annual Report 2017



South African Reserve Bank

Bank Supervision Department

Annual Report 2017



South African Reserve Bank

Vision

A sound, well-functioning and internationally competitive banking system.

Mission

To promote the soundness of the banking system and contribute to financial stability.

Business philosophy

Market principles inform all our activities and decisions, and we strive to act with professionalism, integrity, credibility and impartiality at all times. We liaise with each individual bank through a single point of entry – a relationship manager, assisted by a team with diverse competencies. We follow a risk-based supervisory approach and our objective is to add value. We place emphasis on empowering our staff to ensure that all interaction and service delivery is characterised by professionalism, and a high premium is placed on ethical behaviour at all levels of activity. A relationship of mutual trust between the Bank Supervision Department and all other key players is regarded as essential and is built up through regular open communication. In our endeavours to foster a stable banking sector, we contribute to creating the foundation for sustainable growth in the economy.

Purpose of the *Annual Report*

Legal basis for the *Annual Report*

The *Annual Report* is issued in terms of section 10 of the Banks Act 94 of 1990, which prescribes the following:

10. Annual report by Registrar

- (1) The Registrar shall annually submit to the Minister a report on his or her activities in terms of this Act during the year under review.
- (2) The Minister shall lay a copy of the report referred to in subsection (1) upon the Tables in Parliament within 14 days after receipt of such report, if Parliament is then in ordinary session, or, if Parliament is not then in ordinary session, within 14 days after the commencement of its next ensuing ordinary session.

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This issue of the *Bank Supervision Department Annual Report 2017* focuses mainly on the 12-month period ending 31 December 2017. However, selected developments up to the time of finalisation are also reported on. Data presented were updated on 14 February 2018.

This is the final report that will be issued under the Bank Supervision Department banner. The report on banks will continue to be documented through the *Prudential Authority Annual Report*. This report is also available at: <http://www.resbank.co.za> (refer to Prudential Authority link).

ISSN 1811-4431



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Chapter 1: Registrar of Banks' review

1.1 Introduction

The mandate of the Bank Supervision Department (BSD) within the South African Reserve Bank (SARB) is to promote the safety and soundness of the banking system. This is done through the effective application of international regulatory and supervisory standards. BSD's approach to supervision is based on mutual trust, open communication and an intensive, risk-based assessment of culture, governance and prudential standards applied in banks. This contributes to a stable and growing economy.

The year under review is significant for BSD for two reasons. First, BSD issued two new commercial banking licences and one cooperative banking licence. Second, BSD worked tirelessly to prepare for the launch of the Prudential Authority (PA) on 1 April 2018.

As part of a global move towards greater oversight of the financial sector, BSD was responsible for gradually implementing the Basel III framework in South Africa. The Basel III framework includes a combination of macroprudential and microprudential policies that are designed to make the financial sector more resilient to shocks. Macroprudential and microprudential policies are really two sides of the same coin in that they use largely the same tools (capital, liquidity, etc.) but focus on different areas. Macroprudential policy is concerned with the stability of the entire financial system, while microprudential policy focuses on individual institutions.

During the year under review, good progress was made in placing the 'new' African Bank on a sustainable footing and under the curatorship of Residual Debt Services (RDS) (which houses the bad loans removed from the bank at the time of curatorship). The new bank has made good progress with the execution and delivery of its strategy, which includes diversifying its product offering to become a retail bank, widening its customer base and broadening its distribution channels. RDS has continued to recover amounts due in respect of the residual book.

BSD is a designated supervisory body responsible for supervising and enforcing compliance with the Financial Intelligence Centre Act 38 of 2001 (FIC Act). As a supervisory body and a significant partner in the Financial Intelligence Centre's (FIC) drive to ensure increased levels of compliance, 2017 was a milestone year for BSD in the world of anti-money laundering and combating the financing of terrorism (AML/CFT) with the promulgation and implementation of the FIC Amendment Act. This amendment introduced a fundamental change towards a risk-based rather than a prescriptive rules-based approach to AML/CFT. Administrative sanctions were imposed on several banks due to weaknesses in their control and compliance systems.

During the review period, the growth rate in banking sector assets remained in an upward trajectory. Banks remained adequately capitalised, with capital adequacy ratios (CARs) well above the minimum statutory requirements. While the liquidity coverage ratio's (LCR) minimum requirement increased to 80% with effect from 1 January 2017, banks were able to comply, mainly due to an increase in high-quality liquid assets.

There have been significant developments on the regulatory front, with a milestone being reached in the process of ushering in a new financial system regulatory architecture, the so-called Twin Peaks model. The Twin Peaks reform process is a journey that was long in the making. While, in general, South Africa has a modern and prudent financial sector that has the interests of all customers and citizens at heart, there are too many cases of abuse and exploitation in the sector, and the risks that the sector poses to the economy is still immense. Effective regulation will help make the financial sector more responsive to the needs of all South Africans.

On 21 August 2017, the Financial Sector Regulation Act 9 of 2017 (FSR Act) was signed into law. The passing of the FSR Act is the culmination of collaboration on financial sector reform by the SARB, National Treasury and Financial Services Board (FSB) over the past decade, and

marks an important milestone on the journey towards a safer and fairer financial system that is able to serve all citizens.

The FSR Act gives effect to three important changes to the regulation of South Africa's financial sector. First, it gives the SARB an explicit mandate to maintain and enhance financial stability. Second, it creates a prudential regulator, which will be known as the Prudential Authority, or PA, located within the SARB. The PA will be responsible for regulating banks, insurers, cooperative financial institutions, financial conglomerates and certain market infrastructures. Third, the FSR Act establishes what is called a market conduct regulator, which will be known as the Financial Sector Conduct Authority (FSCA), which will be located outside of the SARB.

In addition to these three significant changes to the regulatory landscape, there are several important principles that underpin the new FSR Act. Key among those is the need to: strengthen the positive impact that the financial sector has on society and the economy; minimise the social and fiscal impact of bank and other failures; promote financial inclusion and transformation; and support competition, innovation and diversity in the sector. To prepare for the establishment of the PA within the SARB, 63 staff members from National Treasury and the FSB joined BSD in October 2017.

This is the final report that will be issued under the BSD banner. As we usher in a new landscape, we thank all team members for their commitment in this process. We look forward to the new regulatory chapter that awaits the financial sector. In addition to the legislated principles guiding the PA's approach to supervision, there is an overriding objective of harmonising and integrating the approach to prudential supervision across sectors. This journey will continue to be documented through the PA Annual Report.

1.2 Bank Supervision Department's strategic focus areas

Strategic focus areas (SFAs) direct the activities of BSD to focus resources where the need is most pertinent. BSD reviews its SFAs within the framework of the strategic objectives developed by the SARB. In doing so, it takes into additional consideration the stability and performance of banks within the context of a constantly changing external environment, changes emanating from international regulatory developments, and emerging trends in the South African banking sector.

Substantial progress was made in achieving the objectives of the SFAs, which included:

- ensuring the safety and soundness of the banking system through compliance with prudential standards and supervisory requirements;
- ensuring appropriate entry into and exit from the banking system through the issuance and retraction of licences as well as approvals to expand or contract operations;
- representing South African interests and concerns at regional and international committees on banking-related regulatory and operational matters; and
- focusing on the establishment of the PA under the Twin Peaks framework¹ through regulatory and organisational development.

BSD's strategy up to March 2018 will be overtaken by the PA's strategy from 1 April 2018. Initially, activities will focus primarily on ensuring the ongoing promotion of the safety and soundness of the banking sector in the context of the implementation and overall transition of the PA with its associated organisational and procedural adjustments.

1. The Twin Peaks approach recognises the different skills required for prudential and market conduct regulation. Prudential regulation is designed to maintain the safety and soundness of financial institutions, while market conduct regulation governs the treatment of the customer of a regulated institution.

1.3 High-level overview of key banking sector trends

1.3.1 Introduction

The number of entities that has been registered with, and report data to, BSD since 2007 is presented in Table 1.1. Detailed commentary regarding the entities registered or licensed with BSD as at 31 December 2017 is presented in appendices 1–4 and 6.

Table 1.1 Banking entities registered in South Africa

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Registered banks and local branches											
Banks*.....	19	19	18	17	17	17	17	17	17	17	19
Of which: banks under curatorship.....	0	0	0	0	0	0	0	1	1	0	0
Local branches of foreign banks.....	14	14	13	13	12	14	14	14	15	15	15
	33	33	31	30	29	31	31	31	32	32	34
Other											
Controlling companies.....	16	16	16	16	16	16	16	16	16	16	18
Banks in final liquidation	2	2	2	2	2	2	2	2	2	2	2
Mutual banks.....	2	2	2	2	2	3	3	3	3	3	3
Cooperative banks.....	0	0	0	0	2	2	2	2	2	2	3
Representative offices.....	46	43	42	41	43	41	43	40	40	36	31

* Includes active banks and banks exempted by the Registrar of Banks (with effect from 1 July 1996) in terms of the Supervision of Financial Institutions Rationalisation Act 32 of 1996 and section 1(cc) of the Banks Act 94 1990

The aggregate statistics in this report relate exclusively to the sum of figures for banks and the local branches of foreign banks, but exclude figures for mutual banks, cooperative banks, representative offices, controlling companies and banks under curatorship or in final liquidation.

1.3.2 Total asset structure of the South African banking sector

The balance sheet structure of the South African banking sector is presented in Figure 1.1. South Africa's banking sector is dominated by five large banks, which collectively held 90.5% of the total banking sector assets as at 31 December 2017 (31 December 2016: 90.7%). Local branches of foreign banks held 5.9% of banking sector assets as at the end of December 2017 (December 2016: 5.8%), while other registered banks collectively represented 3.7% (December 2016: 3.5%).

Figure 1.1 Total asset structure of the South African banking sector

R millions

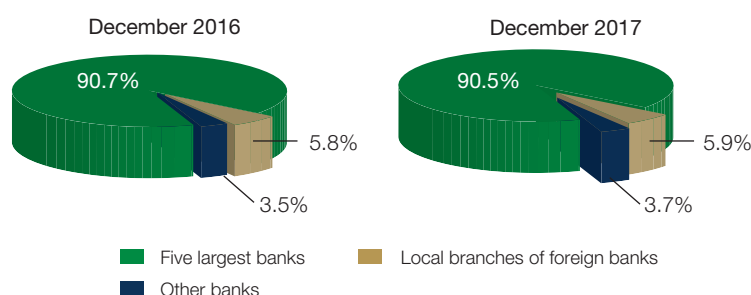


Table 1.2 Selected indicators for the South African banking sector

	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017
Balance sheet					
Total assets (R billions).....	4 877	4 941	4 947	5 119	5 157
Total assets: year-on-year growth (per cent)	0.96	1.65	2.08	5.49	5.75
Gross loans and advances (R billions).....	3 708	3 783	3 774	3 870	3 802
Gross loans and advances: year-on-year growth (per cent) ...	2.98	1.68	2.07	4.85	2.54
Total equity (R billions)	401	408	433	441	455
Profitability					
Cost to income (smoothed) (per cent).....	55.07	55.24	55.59	55.72	56.65
Return on equity (smoothed) (per cent).....	17.69	17.30	16.62	16.59	15.96
Return on assets (smoothed) (per cent).....	1.32	1.34	1.31	1.34	1.31
Capital adequacy					
Common equity tier 1 capital adequacy ratio (per cent)	12.43	12.61	13.02	13.27	12.88
Tier 1 capital adequacy ratio (per cent).....	12.86	13.04	13.47	13.83	13.43
Total capital adequacy ratio (per cent).....	15.93	16.06	16.49	16.83	16.22
Leverage ratio (per cent).....	6.20	6.29	6.71	6.70	6.62
Liquidity					
Liquidity coverage ratio (per cent).....	107.83	111.29	119.76	114.11	119.02
Credit risk					
Impaired advances (R billions).....	106	108	109	107	108
Impaired advances as a percentage of gross loans and advances (per cent)	2.86	2.84	2.90	2.77	2.84
Specific credit impairments as a percentage of impaired advances (per cent)	43.88	44.20	44.13	43.65	42.57
Portfolio credit impairments as a percentage of gross loans and advances.....	0.70	0.73	0.74	0.74	0.74

Note:

This table presents an overview of the financial and risk information, compiled by means of the aggregation of data submitted during 2016 and 2017 from individual South African-registered banks (including domestic branches of international banks but excluding offshore branches and subsidiaries of South African banks, mutual banks and cooperative banks). Information represents aggregated bank-solo information. Smoothed refers to calculations based on a 12-month moving average. Information is subject to change without notice. Banking sector data is available at <http://www.resbank.co.za> (refer to Prudential Authority link).

Total banking sector assets amounted to R5 157 billion at the end of 2017 compared to R4 877 billion at the end of 2016. The annual growth rate in banking sector assets accelerated to 5.7% at the end of 2017 (December 2016: 1.0%). The growth in banking sector assets in 2017 was apparent through increases in loans and advances, investment and trading securities, short-term negotiable securities, and derivatives.

The overall growth in gross loans and advances remained slow in 2017, on the back of a subdued macroeconomic environment. As at the end of December 2017, gross loans and advances recorded an annual growth of 2.5% compared to 3.0% at the end of 2016. The growth rate receded towards the end of 2017, as evidenced by a decline in the growth of term loans, foreign currency loans and specialised lending. Slow growth in respect of home loan advances was evident throughout 2017, as this category grew, on average, by 3.0% year on year.

Banking sector assets were mainly funded by deposits, current accounts and other creditors, which constituted 86.4% of banking sector liabilities at the end of December 2017 (December 2016: 87.6%). Derivatives and other trading liabilities as well as term debt instruments represented

7.4% and 4.0% respectively of total liabilities at the end of December 2017 (December 2016: 6.2% and 4.1% respectively). As at the end of December 2017, deposits comprised mainly fixed and notice deposits (28.5%), current accounts (20.9%) and call deposits (19.0%). Wholesale funding remained the largest source of funding to the banking sector and represented 44.1% of total funding as at December 2017 (December 2016: 41.0%). Retail deposits represented 26.3% of banking sector funding at the end of December 2017 (December 2016: 26.6%).

The banking sector remained profitable in 2017, despite a slow growth in operating profit. The 12-month moving average operating profit growth rate decreased throughout 2017, reaching 2.4% year on year in December 2017 (December 2016: 20.7%), mainly due to a decline in the growth of net interest income and an increase in operating expenses. The 12-month moving average return-on-equity (ROE) ratio deteriorated in 2017, ending the year at 16.0% (December 2016: 17.6%), while the return-on-assets (ROA) ratio remained relatively stable at 1.3%. The 12-month moving average cost-to-income ratio deteriorated to 56.6% at the end of 2017 (December 2016: 55.1%).

Banks (on a bank-solo basis) remained adequately capitalised in the year under review, with their CARs well above the minimum statutory requirements. The common equity tier 1 (CET 1), tier 1 and total CAR increased to 12.9%, 13.4% and 16.2% respectively at the end of December 2017 (December 2016: 12.4%, 12.9% and 15.9% respectively). The increase in CARs in 2017 was mainly driven by an increase in capital supply due to earnings and equity increases (mainly CET 1 capital). The leverage ratio remained above the minimum requirement of 4.0% in 2017, increasing slightly to 6.6% at the end of the year (December 2016: 6.2%).

The LCR remained elevated and above the minimum requirement of 80.0% in 2017. The LCR increased to 119.0% at the end of December 2017 (December 2016: 109.5%), as banks continued to accumulate stocks of high-quality liquid assets.

As at the end of 2017, impaired advances amounted to R108.0 billion compared to R106.0 billion at the end of 2016. The annual growth rate of impaired advances increased towards the end of 2017, reaching 1.9% in December 2017 (December 2016: -5.7%). The ratio of impaired advances to gross loans and advances, a key indicator of credit quality in the banking sector, remained relatively stable in 2017 and was 2.9% at the end of December 2017 (December 2016: 2.8%).

Specific credit impairments amounted to R46.0 billion at the end of 2017 compared to R46.5 billion at the end of 2016. The ratio of specific credit impairments to impaired advances (known as the coverage ratio) decreased towards the end of 2017, reaching 42.6% in December 2017 (December 2016: 43.9%), owing to a slight decrease in specific credit impairments coupled with an increase in impaired advances.

1.4 Authorisation to establish a bank, and the registration and cancellation of the registration of banks

1.4.1 Applications for authorisation to establish a bank in terms of section 12 of the Banks Act 94 of 1990

As indicated in the 2016 *Bank Supervision Annual Report*, the Registrar of Banks (Registrar) granted Postbank Limited's application for authorisation to establish a bank, submitted in terms of section 12 of the Banks Act 94 of 1990 (Banks Act). Postbank Limited also submitted its application for registration as a bank in accordance with the provisions of section 16 of the Banks Act, which application is under consideration by the PA.

1.4.2 Applications for registration as a bank in terms of section 16 of the Banks Act 94 of 1990

During 2017, the Registrar approved two institutions' applications for registration as a bank, submitted in terms of section 16 of the Banks Act. The following institutions were registered as banks in terms of section 17 of the Banks Act in the year under review:

- Commonwealth Bank of South Africa Limited trading as TymeDigital by CommonwealthBank SA; and
- Discovery Bank Limited.

1.4.3 Applications for authorisation to establish a mutual bank in terms of section 10 of the Mutual Banks Act 124 of 1993

During 2017, the Registrar approved one institution's application for authorisation to establish a mutual bank, submitted in terms of section 10 of the Mutual Banks Act 124 of 1993 (Mutual Banks Act), namely Neo Labs (Pty) Limited in respect of Bank Zero Mutual Bank. This institution may, at any time during the 12 months from the date of the granting of the authorisation, apply to the Registrar for registration as a mutual bank, provided that the aforementioned authorisation has not been revoked in terms of section 12 of the Mutual Banks Act and that certain specified conditions have been met.

1.4.4 Applications for authorisation to establish a cooperative bank in terms of section 6 of the Cooperative Banks Act 40 of 2007

The Registrar also approved an institution's application for authorisation to establish a cooperative bank, submitted in terms of section 6 of the Cooperative Banks Act 40 of 2007, namely Ziphakamise Savings and Credit Cooperative Bank.

1.5 Group structures: the approval of local and foreign expansions by South African banking groups

The number of applications approved by BSD in terms of section 52 of the Banks Act since 2007 is reflected in Table 1.3.

Table 1.3 South African banking sector: number of approvals for local and foreign expansions granted in terms of section 52 of the Banks Act 94 of 1990

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Local	12	15	10	16	19	12	19	13	40	15	11
Foreign*	25	19	26	22	27	14	21	25	19	13	16
Total	37	34	36	38	46	26	40	38	59	28	27

* Excludes transactions undertaken by Investec Plc

1.6 Enforcement

1.6.1 Introduction

During 2017, BSD continued to exercise its enforcement powers in terms of the Banks Act with regard to illegal deposit taking and to discharge its supervisory responsibilities in terms of the FIC Act. With regard to the latter, BSD conducted supervisory inspections of banks' control measures for AML/CFT. The SARB consequently imposed administrative sanctions on selected banks, which included financial penalties and the requirement that certain remedial actions be taken. Administrative sanctions were imposed, not because banks had been found to have facilitated transactions involving money laundering and/or the financing of terrorism, but because of weaknesses in their control measures.



1.6.2 Administrative sanctions imposed for AML/CFT non-compliance

In terms of the FIC Act, the SARB, through BSD, is mandated to supervise and enforce banks' compliance with the FIC Act. The FIC Act also stipulates that a supervisory body may impose an administrative sanction on an accountable institution for its failure to comply with the provisions of the FIC Act.

In line with its supervisory mandate, BSD conducted inspections at a number of banks with the aim of assessing whether appropriate measures and controls were in place to ensure compliance with the relevant provisions of the FIC Act.

Based on available facts and the findings of these inspections, BSD imposed administrative sanctions in terms of the FIC Act with a combined value of R77.5 million. In addition, the banks were directed to take remedial action to address the identified deficiencies. Table 1.4 provides a breakdown of the administrative sanctions imposed in the year under review.

Table 1.4 Penalties imposed on banks in 2017

Bank	Non-compliance	Administrative sanction
China Construction Bank Corporation – Johannesburg Branch	<p>Not identifying and verifying customers' details (better known as Know Your Customer, or KYC, requirements)</p> <p>Not keeping records of customer identification and verification information</p> <p>Failing to report certain cash transactions above R24 999.99 to the FIC</p> <p>Failing to implement adequate processes and working methods in relation to the sanctions screening of customers to ensure that the bank complies with its reporting duties</p> <p>Inadequate controls and working methods pertaining to the reporting of suspicious and unusual transactions.</p>	<p>A financial penalty of R75 million (R20 million suspended for three years)</p> <p>A directive to take remedial action</p>
VBS Mutual Bank	<p>Not identifying and verifying customers' details (better known as Know Your Customer, or KYC, requirements)</p> <p>Failing to report certain cash transactions above R24 999.99 to the FIC</p> <p>Failing to implement adequate processes and working methods in relation to the sanctions screening of customers to ensure that the bank complies with its reporting duties</p> <p>Inadequate controls and working methods pertaining to the reporting of suspicious and unusual transactions</p>	<p>A financial penalty of R2.5 million (R2 million suspended for one year)</p> <p>A directive to take remedial action</p>

It should be noted that the decision to impose administrative sanctions was not based on any evidence that China Construction Bank Corporation – Johannesburg Branch or VBS Mutual Bank had facilitated transactions relating to money laundering and/or the financing of terrorism.

1.6.3 Illegal deposit taking

The Banks Act empowers the Registrar to control certain activities of persons who conduct the business of a bank without being registered as a bank. The 'business of a bank' is

comprehensively defined in the Banks Act, and can be broadly summarised as the acceptance of, soliciting of, or advertising for, deposits from the general public as a regular feature of the business.

The legal nature of money is such that when one person hands over an amount of money to another person to invest on that person's behalf, the money (physical notes and coin) generally becomes the property of the person receiving the money and hence part of his/her estate. In the case where such a person loses the money, steals the money or becomes insolvent or dies, the person that handed over the money merely has a (unsecured) claim against the other person or his/her estate. This of course places the person who handed over the money in a very precarious position. Therefore, in order to promote the safety and integrity of the banking system and to protect the general public, deposit-taking activities and the entities authorised to conduct such activities (i.e. banks) should be regulated and supervised to such a high degree, in accordance with international standard-setting bodies, that unregistered persons are prohibited from conducting deposit-taking activities.

In its previous *Bank Supervision Annual Report*, BSD mentioned the nationwide public awareness campaign it had embarked on in an effort to warn would-be participants against the risks of 'investing' with unregistered persons in what is usually marketed as get-rich-quick investments with no risk and high returns. The general public should be aware that operators do not start schemes to make investors rich but rather schemes are started, in contravention of the Banks Act, to lure investors to invest as much money as possible to benefit the operator.

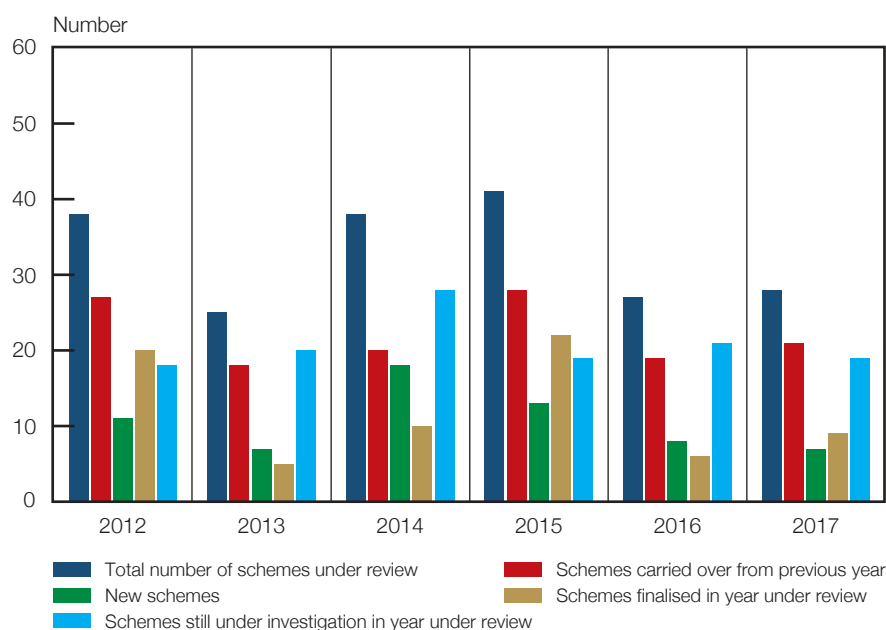
A five-year review of schemes investigated from January 2013 to December 2017 is depicted in Table 1.5 and Figure 1.2 below. During this period, BSD appointed temporary inspectors and, in some cases, repayment administrators in respect of 53 cases. A total of 52 schemes were finalised during the above-mentioned five years. In 2017 BSD investigated 28 schemes, comprising 21 schemes which were carried over from previous years and 7 new schemes. As at 31 December 2017, a total of 19 schemes were still being investigated, following the finalisation of 9 schemes during the year under review.

Table 1.5 Inspections relating to illegal deposit-taking schemes

Year	Total number of schemes under review*	Schemes carried over from previous years	New schemes in year under review	Schemes finalised in year under review	Schemes still under investigation in year under review
2013.....	25	18	7	5	20
2014.....	38	20	18	10	28
2015.....	41	28	13	22	19
2016.....	27	19	8	6	21
2017.....	28	21	7	9	19

* Includes schemes carried over from previous years

Figure 1.2 Inspections relating to illegal deposit-taking schemes



1.7 Regulatory developments affecting the domestic banking sector

1.7.1 Update on the implementation of a Twin Peaks model of financial regulation

The FSR Act, which enables the establishment of the PA within the SARB, was signed into law on 21 August 2017. The FSR Act sets out the mechanisms to achieve and promote financial stability, and to ensure: the safety and soundness of financial institutions; the fair treatment and protection of financial customers; the integrity and efficiency of the financial system; the prevention of financial crime; and financial inclusion, transformation of the financial sector and confidence in the financial system. It is expected that the PA will commence operations in early 2018.

The PA will incorporate the current FSB: Insurance Prudential Team, the current BSD of the SARB, and the Supervisory Team of the Cooperative Banks Development Agency. In order to prepare for the establishment of the PA, the FSB: Insurance Prudential Team and the Supervisory Team of the Cooperative Banks Development Agency were relocated to the SARB in October 2017.

The objectives of the PA, as set out in section 33 of the FSR Act, are to:

- promote and enhance the safety and soundness of financial institutions that provide financial products and securities services;
- promote and enhance the safety and soundness of market infrastructures;
- protect financial customers against the risk that those financial institutions may fail to meet their obligations; and
- assist in maintaining financial stability.

The PA will pursue a progressive realisation of its objectives, with an initial focus on banks (including mutual and cooperative banks as well as cooperative financial institutions), insurers, financial market infrastructures and designated financial conglomerates within which these institutions are located.

The functions of the PA are to:

- regulate and supervise financial institutions that provide financial products or security services and market infrastructures;
- assist the SARB, specifically in respect of financial stability, as well as work together with the National Credit Regulator and the FIC;
- cooperate with the Council for Medical Schemes on matters of mutual interest;
- support sustainable competition through cooperation and collaboration with the Competition Commission;
- support financial inclusion;
- regularly review the perimeter and scope of financial sector regulation, and take steps to mitigate risks identified to the achievement of its objective or the effective performance of its functions;
- conduct and publish research relevant to its objective; and
- cooperate with its counterparts in other jurisdictions and participate in international regulatory, supervisory, financial stability and standard-setting bodies.

The PA will be able to issue prudential standards, in addition to the sector-specific legislation and subordinate legislation. The PA will also be able to issue joint standards with the FSCA on matters where either authority has the power to make standards.

The FSR Act places an obligation on financial sector regulators to collaborate and cooperate in order to assist in maintaining financial stability as well as to ensure a better outcome for financial customers.

The approach of the PA will be pre-emptive, outcomes-focused and risk-based. In as far as practicable in the Republic of South Africa, the PA will take international regulatory and supervisory standards into account.

1.7.2 Mandatory audit firm rotation rule issued by the Independent Regulatory Board for Auditors

High levels of audit quality, enhanced by auditor independence, are important prerequisites to sound reporting and oversight, and hence crucial in assisting BSD in fulfilling its mission to promote the soundness of the domestic banking system in the interest of financial stability.

BSD therefore closely monitors developments pertaining to audit and accounting matters, as these are integral parts of its prudential supervisory approach. The Banks Act prescribes the various requirements of external auditors and audit committees of banks in order to ensure high-quality audits and independence.

The Basel Committee on Banking Supervision (BCBS) also issued various guidelines on the external audits of banks, the role of audit committees and expectations from supervisors.

In June 2017, the Independent Regulatory Board for Auditors (IRBA) issued its rule pertaining to mandatory audit firm rotation (MAFR) for auditors of all public interest entities. The main objective of its rule is to enhance auditor independence and protect public interest.

The SARB engaged actively throughout the consultation process with the IRBA and public hearings in Parliament through the Standing Committee on Finance, during which specific matters were raised that have an impact on the banking system, specifically in light of the high regulatory environment under which banks operate and the requirements imposed by BSD in terms of auditors and audit committees. An example is the requirement for large banking groups to have joint auditors and the requirement of BSD to approve the appointment of auditors after conducting a fit-and-proper assessment, together with the various requirements placed on, and oversight of, the audit committees of the banks.

Although the SARB in principle fully supports initiatives to strengthen auditor independence, BSD has raised some specific aspects that could negatively impact on the banking system and matters that require further research.



The SARB continued to engage with the IRBA after the release of its rule and will continue to engage with the oversight body to mutually refine the MAFR rule to ensure no negative or unintended consequences materialise on the banking sector as a result thereof.

1.7.3 Update on International Financial Reporting Standard 9

International Financial Reporting Standard 9 (IFRS 9) became effective for financial years commencing on or after 1 January 2018. It replaces International Accounting Standard 39 (IAS 39) and has a significant impact on the way in which provisions for credit losses will be calculated. While IAS 39 was based on an incurred loss approach (a loss event would need to happen before a provision could be raised), IFRS 9 requires an expected credit loss approach to provisioning, which includes taking into account forward-looking macroeconomic information when determining the extent of provisions for credit losses (also referred to as credit impairments).

With very little time left to meet their target dates, most banks moved from the planning phase to the implementation and testing phases of the IFRS 9 project during 2017. The South African Institute of Chartered Accountants (SAICA) IFRS 9 Implementation Working Group, which consists of representatives from banks, audit firms, the IRBA and the SARB, continued to meet on a regular basis in 2017 to discuss the application of the standard, including the modelling and disclosure requirements. Discussion papers on a number of IFRS 9 topics were prepared by the group and these will serve as a point of reference for the banking sector going forward.

IFRS 9 is a complex accounting standard that leaves substantial room for interpretation. Different approaches, methodologies and assumptions may result in vastly different impairment numbers. For that reason, BSD's focus in 2017 was on understanding banks' IFRS 9 impairment methodologies at a technical level. In particular, BSD discussed with the seven largest banks their methodology for determining a significant increase in credit risk, the inclusion of forward-looking macroeconomic information in the impairment calculation, the definition of credit-impaired assets, the determination of 12-month and lifetime probability of default, and the write-off definitions. BSD also enquired on the governance processes adopted by banks, both during the implementation phase and once the standard becomes effective. Banks also updated BSD on the progress made on implementation, any challenges encountered as well as the expected impact on their financial position and capital adequacy.

In addition to the discussions mentioned above, BSD conducted a qualitative survey of all banks, including the branches of foreign banks. The aim of this survey was to obtain information about IFRS 9 impairment methodologies and policies adopted by the smaller banks. The BCBS's guidance on credit risk and accounting for expected credit losses served as the basis for the questionnaire.

In October/November 2017, BSD also performed an IFRS 9 quantitative impact study (QIS). As part of this QIS, banks were requested to provide the expected impact of IFRS 9 on their total impairments and CARs. The objective of the QIS was to obtain an understanding of the extent of the 'day one' impact on total impairments, impaired advances and CARs. Based on the results of the QIS, BSD was satisfied that the impact of IFRS 9 would not be so severe as to threaten the stability of individual institutions. While the survey and the QIS provided important information, BSD understood that, as banks were still finalising their IFRS 9 models at the time, the information was only preliminary and that changes in models and assumptions could result in actual numbers that differ from what was reported in terms of the QIS.

In March 2017 the BCBS issued its guidance on the regulatory treatment of accounting provisions regarding the interim approach and transitional arrangements. BSD subsequently issued Directive 5 of 2017 (Regulatory treatment of accounting provisions: interim approach and transitional arrangements, including disclosure and auditing aspects) which directs banks on how to treat accounting provisions under IFRS 9 for regulatory purposes. In terms of this directive, banks may elect to phase in the capital impact of IFRS 9 over a three-year period. Furthermore, the directive requires the opening retained earnings, after making adjustments for IFRS 9, to be audited in terms of International Auditing Standard (ISA) 805 within five months of adopting IFRS 9. As indicated in the directive, this audit report will be solely for the use of BSD for the purposes of duly discharging its supervisory responsibilities.

On 26 and 27 September 2017 the SARB, in conjunction with the Association of African Central Banks (AACB) hosted a workshop on IFRS 9 implementation for African regulators. The workshop was attended by 25 delegates representing 16 African jurisdictions and organisations, and was well received. It covered the most important aspects relating to IFRS 9 and provided a platform for regulators to exchange views and experiences.

The work on IFRS 9 is expected to continue in 2018 with BSD engaging with banks and auditors, both locally and internationally, and playing a part in ensuring the robust implementation of the standard by the South African banking sector.

1.8 Key international developments, recommendations and focus areas

South Africa is committed to the development of an effective and efficient global financial regulatory architecture. In this regard, the SARB is a member of, and actively participates in, relevant and strategic international forums, including the Group of Twenty (G20) and the Financial Stability Board. As such, influencing the global financial reform agenda has been an integral part of its work. Since the commencement of the global financial crisis in 2007, the international financial reform agenda has focused mainly on the development of adequate responses to the causes and effects of the crisis.

The new global financial reform agenda has significantly informed the focus of the BCBS, of which BSD is a member. BSD subscribes to the full, timely and consistent implementation of internationally agreed reforms. This is done in a way that acknowledges and takes into account domestic economic and financial system conditions.

The core elements of the G20's comprehensive programme of reforms comprise the following:

- building a more resilient global financial system;
- ending the 'too big to fail' conundrum;
- making derivative markets safer; and
- transforming shadow banking into a more resilient, market-based finance.

In this regard, the BCBS issued a number of documents in 2017,² which have a significant impact on the regulation and supervision of banks and banking groups. The relevant requirements will be incorporated into the regulatory framework over the next few years, in accordance with the internationally agreed timelines, with due consideration for domestic economic and financial system conditions, and the implementation by other member countries.

The following list highlights the regulatory and supervisory matters addressed in some of these documents:

- Frequently asked questions on market risk capital requirements (issued on 26 January 2017).
- Basel III framework: the net stable funding ratio: frequently asked questions (issued on 24 February 2017).
- Pillar 3 disclosure requirements: consolidated and enhanced framework (issued on 29 March 2017).
- Regulatory treatment of accounting provisions: interim approach and transitional arrangements (issued on 29 March 2017).
- Prudential treatment of problem assets: definitions of non-performing exposures and forbearance (issued on 4 April 2017).
- Basel III framework: the liquidity coverage ratio: frequently asked questions (issued on 8 June 2017).
- Range of practices in implementing the countercyclical capital buffer policy (issued on 22 June 2017).

2. The key matters communicated by the BCBS in respect of these documents and requirements are summarised in Appendix 8.



- Implications of FinTech developments for banks and bank supervisors: consultative document (issued on 31 August 2017).
- Basel III framework's definition of capital: frequently asked questions (issued on 19 September 2017).
- Implementation of the net stable funding ratio and treatment of derivative liabilities (issued on 6 October 2017).
- Identification and management of step-in risk (issued on 25 October 2017).
- Basel III framework: finalising post-crisis reforms (issued on 7 December 2017).

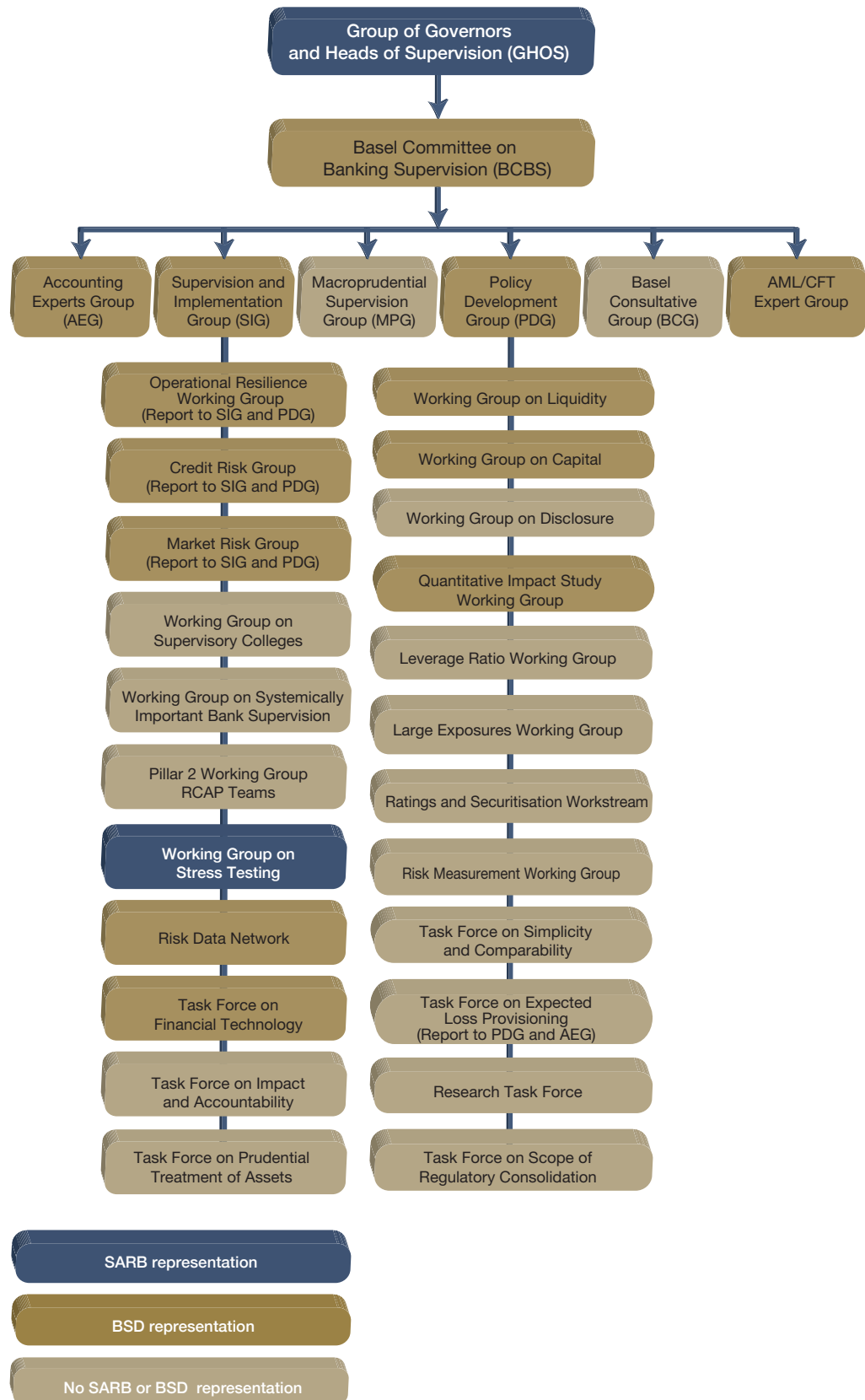
1.9 Participation in international regulatory and supervisory forums

BSD participated in a number of international regulatory and supervisory forums during the period under review. Participation in forums that form part of the BCBS structures is described in section 1.9.1. Participation in other international forums is set out in section 1.9.2.

1.9.1 Basel Committee on Banking Supervision

BSD represents South Africa on the BCBS and on several of its subcommittees. Representation is aimed at influencing the formulation of global regulatory standards so that the distinct financial and social environment that South African institutions are exposed to is recognised in the rules with which BSD expects South African banks to comply. Participation in forums that form part of the BCBS structures is described in figure 1.3 on the next page.

Figure 1.3 Structure of the Basel Committee on Banking Supervision, 2017



Source: Bank for International Settlements

1.9.1.1 Accounting Experts Group

The Accounting Experts Group (AEG) is a subcommittee of the BCBS that takes an active role in the development of international accounting and auditing standards by standard-setting bodies such as the International Accounting Standards Board (IASB), the Federal Accounting Standards Board (FASB) and the International Auditing and Assurance Standards Board (IAASB). The aim of the AEG is to ensure that these standards and practices promote sound risk management at banks, support market discipline through transparency, and reinforce the safety and soundness of the banking system. The AEG also develops prudential reporting guidance where necessary.

The AEG held four meetings in 2017 during which it discussed many topical accounting and auditing issues. The agenda during the year continued to be dominated by the implementation of IFRS 9 and the impact thereof on banks' regulatory capital. The AEG's work stream on expected credit losses conducted a survey among AEG member jurisdictions with a view to understanding differences in interpretation and implementation. The AEG is also very interested in high-quality audits of accounting provisions and is therefore actively monitoring the work of the IAASB with regard to the revisions to ISA 540 on accounting estimates. Another area of interest for the AEG is the proposed change to the governance structure of the IAASB as discussed in the consultative paper³ issued by the IAASB's Monitoring Group.

3. Available at https://www.iosco.org/about/?subsection=monitoring_group

1.9.1.2 Supervision and Implementation Group

The Supervision and Implementation Group (SIG) is the peer review committee of the BCBS. Its mandate is to help foster financial stability by supporting the strong national and international regulation and supervision of banks. It has two primary objectives, namely to:

- foster the timely, consistent and effective implementation of BCBS standards and guidelines; and
- advance the improvement in practices in banking supervision, particularly across BCBS member countries.

1.9.1.3 Working Group on Operational Risk/Operational Resilience Group

The Working Group on Operational Risk (WGOR) was a working group under the SIG and the Policy Development Group (PDG). Its focus included operational risk policy and implementation issues. It was disbanded in late 2016.

WGOR was replaced in late 2017 with the formation of the Operational Resilience Group (ORG). The initial scope of the ORG will relate to cyber-risk but the group will subsequently build on this work to consider further operational resilience. The ORG will additionally be responsible for issues related to the revised standardised approach for operational risk.

1.9.1.4 Market Risk Group

During 2016, the BCBS agreed to merge the Trading Book Group (TBG) and the Standards Implementation Group on the Trading Book into a single working group – the Market Risk Group (MRG). The new group will address both policy and implementation-related aspects of the market risk framework. This will include the revised market risk standard, counterparty credit risk standard and the credit valuation adjustment standard. The MRG will report to both the PDG and SIG, depending on the issue. Participation in the MRG is open to representatives of the BCBS, of which South Africa is a member.

The global financial crisis exposed significant flaws and issues in the regulatory capital approach to market risk and trading activities. While some of the issues have been addressed in the revisions to the market risk capital framework that was released in July 2009, the BCBS agreed that a fundamental review of the framework was required, in particular whether or not the distinction between the banking and trading books should be maintained, how trading activities

are defined, and how risks in the trading books (and, possibly, more general market risk) are captured by regulatory capital. It is in this regard that the TBG embarked on what came to be known as the ‘fundamental review of the trading book’ (FRTB).

During 2016, the BCBS published the final standard on the fundamental review⁴ which attracted intense debate on certain topics within the framework by the banking fraternity. The MRG undertook to address the unclear aspects emanating from the framework, which included the finalisation of the profit and loss attribution test, the development of a simplified standardised approach to market risk, and interpretative guidance on the finalised market risk standards in the form of responses to frequently asked questions (FAQs). Additionally, the MRG provided assistance for the quantitative impact studies that were conducted throughout the year. The revised implementation date for the FRTB is 1 January 2022.

1.9.1.5 Regulatory Consistency Assessment Programme teams

The BCBS established a comprehensive Regulatory Consistency Assessment Programme (RCAP) in 2012 to monitor and assess its members’ adoption and implementation of its standards under the Basel III framework. The full, timely and consistent adoption and implementation of the Basel standards is critical to improve the resilience of the global banking system, promote confidence in prudential ratios, and to encourage a predictable and transparent regulatory environment for internationally active banks.

BCBS members are assessed on their capital standards as well as on their liquidity standards. In the period under review, the BCBS assessed the European Union’s implementation of the LCR. Specialists from BSD were selected by the BCBS to lead and support the work of the European Union’s assessment team. The assessment team was led by BSD, and comprised a technical expert from Australia and from Indonesia.

1.9.1.6 Risk Data Network

The Risk Data Network (RDN) is a work stream under the SIG that was established in 2016. The main objective of the RDN is to develop and maintain a framework, and to monitor banks and supervisors’ compliance with the Principles for Effective Risk Data Aggregation and Risk Reporting (Principles).

The RDN has been monitoring the implementation of the Principles since its publication in January 2013. During the period 2013–15, three reports were published. In 2016 work continued, but with a stronger focus on supervisory evaluations and adopting an evidence-based approach to monitoring. In July 2016, supervisors were asked to complete a questionnaire to assess their banks’ progress on compliance with the Principles. The supervisory assessments formed the basis of a report that was published in March 2017.

During the period under review, the approach and focus of an implementation and monitoring exercise for 2017 was developed and a decision was taken that it would be similar to the one carried out in 2016 (i.e. conducted via a questionnaire and with a focus on supervisory evaluations).

Given that the implementation deadline for the Principles had lapsed, it was proposed that the 2017 questionnaire should adopt a more targeted approach to explore the incremental progress made in the implementation of the Principles by banks and the supervisory consequences conveyed or actually taken.

The questionnaires were received during the latter part of 2017 and work commenced to draft and publish the results in a public report, which is expected to be published in 2018.



1.9.1.7 Task Force on Financial Technology

The Task Force on Financial Technology (TFFT) reports directly to the SIG. The main purpose of the TFFT is to assess risks and supervisory challenges in relation to innovation and technological changes that affect banking. The task force's work during the period consisted of two main phases, namely to (i) outline the current financial technology (FinTech) landscape and supervisory approaches, and (ii) identify the implications of FinTech developments for banks and challenges for effective supervision. The TFFT wrapped up its fieldwork during 2017 and started drafting a publication on the work conducted, which is expected to be issued publicly in the first quarter of 2018.

1.9.1.8 Policy Development Group

The PDG assesses the proposed changes to banking regulations developed by its subgroups and other work streams of the BCBS. The group serves the BCBS by identifying issues, commissioning research, overseeing quantitative analysis, and making recommendations on policy to the BCBS. It also reviews emerging supervisory issues aimed at promoting a sound banking system and high supervisory standards. The PDG has several executive subgroups and workgroups reporting to it on a wide range of risk and capital issues. BSD is represented on the PDG and on many of the subgroups where the subject matters are relevant to South Africa.

1.9.1.9 Working Group on Liquidity

The primary focus of the Working Group on Liquidity (WGL) is policy development. The WGL also deals with the practical challenges accompanying the successful development, implementation and maintenance of a liquidity risk framework that addresses the requirements and expectations of the BCBS's regulatory requirements relating to liquidity and funding.

The WGL has, over several years, developed appropriate standards for measuring and mitigating liquidity risks in banks. Currently, the WGL deals with the two main standards relating to liquidity and funding, namely the LCR and net stable funding ratio (NSFR).

With the finalisation of the LCR and NSFR standard, and the LCR that became a prudential requirement from 1 January 2015, the focus of the WGL has shifted towards refining the broad understanding of the rules and their implementation by dealing with FAQs on the two standards and dealing with post-implementation issues of the LCR.

Furthermore, as part of its continued mandate, the WGL will be used as a forum to exchange information across jurisdictions in order to improve liquidity risk management and supervisory practices. As part of this process, the WGL will also consider whether elements of the Principles for Sound Liquidity Risk Management, published by the BCBS in September 2008, should be updated and/or enhanced to reflect current best practices.

1.9.1.10 Working Group on Capital

The Working Group on Capital (WGC) was established in early 2013 and combines two groups that deal with issues related to capital, namely the Definition of Capital Subgroup and the Contingent Capital Working Group. These two groups merged to form the WGC, which is responsible for handling all policy issues associated with the definition of capital under Basel III and capital-like instruments.

The WGC continues to assess the relevance of the definition of capital and instruments. The Basel III definition of capital and FAQs were updated in September 2017.⁵

5. Available at <https://www.bis.org/bcbs/publ/d417.htm>

1.9.1.11 Quantitative Impact Study Working Group

The biannual international Basel III implementation monitoring by the BCBS continued in 2017, in the form of QISs.

6. Available at <https://www.bis.org/bcbs/publ/d416.htm>

In addition to the Basel III implementation monitoring, the focus of the 2017 QIS exercises was on collecting data for the assessment of policy initiatives underway. These included the impact of proposals on the fundamental review of the trading book, initiatives to enhance comparability between banks such as constraining internally modelled approaches relating to the internal ratings-based (IRB) approach, and removing the use of the modelled approach for operational risk. Furthermore, revisions were made to the standardised approach for credit risk, the counterparty credit risk framework, and the Basel III leverage ratio framework. Analyses were also done on the proposal to replace the Basel I-based floor with more risk-sensitive output-based floors.

The BCBS published the 'Basel III Monitoring Report'⁶ in September 2017. This document details the result of the QIS exercise as at 31 December 2016. The report incorporates the data of the South African participating banking groups. Furthermore, it is the intent of the BCBS to continue publishing the results of the Basel III monitoring exercise.

BSD continued with the submission of specific data obtained from the Supervisory Reporting System to enhance the analysis and monitoring of capital- and credit-related data.

The QIS Working Group will, in particular, remain responsible for the design of the capital monitoring reporting templates that contain the fully implemented Basel framework and, more recently, the final post-crisis reforms. The analysis of bank-level parameters (e.g. capital requirements, eligible capital and capital ratios) will also be done.

1.9.1.12 Credit Risk Group

The Credit Risk Group's (CRG) mandate is to address both policy- and implementation-related aspects of the credit risk framework. This will include the revised standardised approach and the IRB approaches for credit risk. The CRG is in the process of devising ways in which to monitor the impact of all the changes in the credit risk framework.

The following areas will be considered in monitoring the overall impact of the credit risk reforms (i.e. determine the contribution of credit risk approaches to the overall capital impact):

- the reforms on the risk-weighted assets variability;
- the relative calibration of the standardised and IRB approaches;
- the sensitivity of the changes to the credit risk framework on capital; and
- the evolution of bank exposures and business models attributed to the revised credit risk framework.

The CRG partially approved a report that included proposed approaches to address the aforementioned areas. This report will be discussed at future meetings for final review and approval.

1.9.1.13 Anti-money Laundering and Combating the Financing of Terrorism Expert Group

The BCBS's AML/CFT Expert Group assists both financial institutions and regulators in implementing the AML/CFT elements of the Core Principles for Effective Banking Supervision (Core Principles) in accordance with the Financial Action Task Force (FATF) standards by producing technical and practical guidance that is applicable to national and international banks and banking groups. The group also contributes to the standards set by the FATF relating to AML/CFT matters.

The AML/CFT Expert Group holds meetings twice a year. BSD participated in both meetings held in 2017 and contributed on an ongoing basis to the group's projects and initiatives.



1.9.2 Participation in other international forums

1.9.2.1 Financial Action Task Force

The FATF is an intergovernmental body that was established in 1989 and has developed the international standard for combating money laundering and the financing of terrorism.

The FATF holds three plenary meetings per year during which key decisions are taken.

BSD was represented at all three FATF plenary meetings held in 2017, and also participated in working group discussions and policy development.

During 2017, BSD also participated in a FATF public sector consultation forum on correspondent banking and money value transfer services during which feedback was provided and discussions held on the de-risking of correspondent banking relationships.

1.9.2.2 Community of African Banking Supervisors of the Association of African Central Banks

The Community of African Banking Supervisors (CABS) is a committee of the Bureau of the AACB Governors. At the August 2017 meeting of the AACB Governors, the SARB was nominated as the Chair of the AACB and as a result became the chair of CABS, which consists of two working groups, namely the Working Group on Cross-border Banking Supervision, chaired by the SARB, and the Working Group on Crisis Management and Banking Resolutions, chaired by the Central Bank of Nigeria.

During 2017, the CABS Working Group on Cross-border Banking Supervision meeting was held in Pretoria, South Africa. In strengthening the information sharing among supervisors on the African continent, members developed an information-sharing template to be housed on the AACB website. The template and the platform will be refined on an ongoing basis to improve the quality of data available to banking supervisors. The objective is to create a platform where experiences are shared and ideas discussed among banking supervisors in order to promote the strengthening of effective supervision of cross-border banking operations in Africa.

The sharing of information and workshops conducted are crucial in harmonising the supervisory frameworks and for formulating sufficient methods to improve cross-border supervision on the African continent.

In terms of the CABS capacity-building initiatives, the Working Group on Cross-border Banking Supervision conducted a workshop on IFRS 9 in September 2017 and an AML workshop in December 2017. Both workshops were held at the SARB Head Office in Pretoria.

1.9.2.3 Information Technology Supervisors Group

BSD was granted full membership status of the Information Technology Supervisors Group (ITSG), an independent and cooperative international working group for prudential information technology (IT) supervisors which is not affiliated to the BCBS or its subcommittees.

The mandate of the group includes supervisory aspects and 'lessons learned' from on-site and off-site reviews as well as other supervisory engagements, with special attention given to the supervisory practices, tools and assessment frameworks used.

In addition to the provision of an ongoing communication platform, an annual conference is organised. The following key themes were discussed at the meeting held in 2017:

- IT supervisory evolutions and/or concerns per jurisdiction;
- cybersecurity (remained on the agenda from 2016 due to its prevalence and heightened importance);

- FinTech;
- system resilience and recovery; and
- the macro IT risk landscape.

1.10 Participation in international surveys

During the year under review, BSD participated in the following international surveys and questionnaires:

- Financial Stability Board: Questionnaire on the effects of derivative reforms
- Implementation of policy recommendations to address-shadow banking risks in securities lending and repos
- Compensation Monitoring Contact Group: Questionnaire on compensation
- Financial Institutions Group (FIG): FinTech – regulatory responses
- World Bank: Survey on the mobile money framework
- International Financial Consumer Protection Organisation (FinCoNet): Survey on practices and tools required to support risk-based supervision in a digital age
- FinCoNet: Survey on digitalisation of short-term high-cost lending – supervisory challenges to promote responsible lending
- Financial Stability Board: Consultation on international audit standard-setting arrangements
- Financial Stability Board: Responsibility mapping on corporate governance
- International Banking Federation: Survey on financial technology regulation
- Standing Committee on Supervisory and Regulatory Cooperation: Survey on cybersecurity
- Survey on the joint SIG–FSI project on supervisory approaches and the allocation of resources
- International Monetary Fund (IMF): Financial Access Survey (2017 test module)
- Institutional responsibilities for financial sector supervision and financial stability
- World Bank: Survey on bank regulation and supervision
- G20: Process survey
- BCBS: Updating the previous IMF survey on the regulation and supervision of banks' international operations

1.11 Participation in domestic regulatory and supervisory forums

In the year under review, BSD continued to serve on, and participate in, numerous domestic committees, forums, task groups and working groups to consult with financial industry participants and bodies, external audit bodies, government departments and other financial regulatory authorities on relevant matters.

These institutions and bodies include National Treasury, FSB, Banking Association South Africa (BASA), SAICA, NCR, FIC, and the IRBA and its Committee for Audit Standards.

BSD has interacted actively with these institutions and bodies and will continue to leverage off the networks developed to discuss matters that could impact on financial stability.



1.12 Regional cooperation and interaction

1.12.1 Eastern and Southern Africa Anti-Money Laundering Group

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) is a FATF-styled regional body that was established in 1999 and has a membership of 18 countries, including South Africa as one of the founding members.

In September 2016 the ESAAMLG Task Force of Senior Officials approved a proposal by the Working Group on Risk, Compliance and Financial Inclusion to conduct a survey on the termination of correspondent banking relationships. This stemmed from the global phenomenon, referred to as de-risking, that saw a marked increase in the termination of correspondent banking relationships, particularly in developing countries, including those in the ESAAMLG region. FATF has defined de-risking as a situation where financial institutions terminate or restrict business relationships with a particular country or class of customers for a variety of reasons, including but not limited to, AML/CFT.

BSD actively participated and provided technical assistance throughout this project, and temporarily seconded a resource to be part of the ESAAMLG team that collated and analysed the survey responses and provided inputs to the final report.

The survey covered ESAAMLG member countries' private and public sector. In South Africa, 13 banks completed the survey. The report from this survey has been published on the ESAAMLG website.⁷

7. Available at <http://www.esaamlg.org>

1.12.2 Collaborative on-site meetings

BSD is committed to achieving the principles of consolidated supervision as determined by the BCBS. Core Principle 12 of the Core Principles states that an essential element of banking supervision is that supervisors supervise the banking group on a consolidated basis and adequately monitor and, if appropriate, apply prudential norms to all aspects of the business conducted by the group worldwide.

Furthermore, BSD is committed to maintaining its relationship with foreign regulators for mutual assistance, cooperation and exchange of information in fulfilment of the respective central banks' supervisory responsibilities.

Pursuant to Core Principle 12, BSD conducted nine collaborative on-site visits to the subsidiaries of locally registered banks with a banking interest in Botswana, Ghana, Lesotho, Namibia, Tanzania and the United Kingdom (including Wales and Isle of Man). The visits entailed meeting with the relevant banking supervisory authorities in each respective country for information-sharing purposes and also conducting a collaborative on-site meeting at the banking subsidiaries under their supervision, during which discussions were held with the respective executive management structures responsible for the banking entity in that country. The open and frank discussions during the meetings with the respective supervisory authorities as well as with the banking subsidiaries were informative and most useful in gaining a better understanding of the supervisory framework and processes applied in Botswana, Ghana, Lesotho, Namibia, Tanzania and the United Kingdom as well as the assessments of the respective banking subsidiaries in those countries.

1.12.3 Interaction with other regulatory authorities in the Southern African Development Community (SADC) region

BSD hosted members from the Central Bank of Angola's AML/CFT Supervision Department for a four-day technical assistance and knowledge-sharing visit. During this visit, BSD shared its AML/CFT supervisory methodologies and practices as well as its experiences in conducting domestic and cross-border joint inspections.

1.13 Issues to receive particular attention in 2018

BSD will continue to review, amend and update the regulatory and legislative framework in accordance with the latest relevant internationally agreed regulatory and supervisory standards and practices.

Other areas that will receive particular attention in 2018 include:

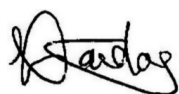
- the ongoing implementation of the PA in terms of the Twin Peaks model of financial regulation;
- the continued monitoring of the banking sector's capital adequacy and liquidity ratios as well as their compliance with relevant laws and regulations;
- the implementation of the Basel III regulatory reforms released by the BCBS;
- the continued monitoring of the implementation of both banks and the external auditors of banks relating to the IASB's IFRS 9 on accounting for expected credit losses;
- BSD's continued focus, in conjunction with the industry, in the search for a viable clearing solution for over-the-counter (OTC) derivatives;
- the further embedding of a risk-based approach framework and an AML/CFT self-assessment questionnaire, which will have to be completed by all banks and mutual banks on an annual basis;
- the implementation of solvency assessment and management (SAM) across the insurance sector and implementation readiness of IFRS 17;
- a sustained focus on IT, including digitalisation, FinTech and cybersecurity;
- the finalisation of requirements and guidelines relating to cloud computing and the offshoring of data; and
- collaboration with industry on the reporting of material IT incidents, including cybersecurity and reporting.

1.14 Expression of gratitude

I wish to acknowledge the new staff members that joined the PA family in 2017 and express my sincere appreciation to the entire team for their continued hard work and dedication. During much of 2017 there were concerted efforts in collaborating and preparing for the transitioning into the PA, and my gratitude goes out to all involved.

A special note of appreciation goes to National Treasury and the FSB for working tirelessly with the team from BSD to bring this process full circle. I look forward to our further engagements as we continue on this journey.

Finally, my gratitude goes to the executives and staff of the SARB for their guidance, input and support in making this a positive and exciting journey for all those involved.



Kuben Naidoo
Deputy Governor and CEO: Prudential Authority



2. Overview of supervisory activities

2.1 Introduction

As part of its risk-based supervisory approach, BSD monitors banks' compliance with the regulatory framework and specifically with prudential requirements. Understanding banks' risk profiles, their business models and the environment in which they operate is paramount to BSD's effective risk-based supervision. To this end, BSD follows a structured, forward-looking supervisory review and evaluation process (SREP) that incorporates on- and off-site supervision as well as quantitative and qualitative supervisory tools.

The SREP is designed to:

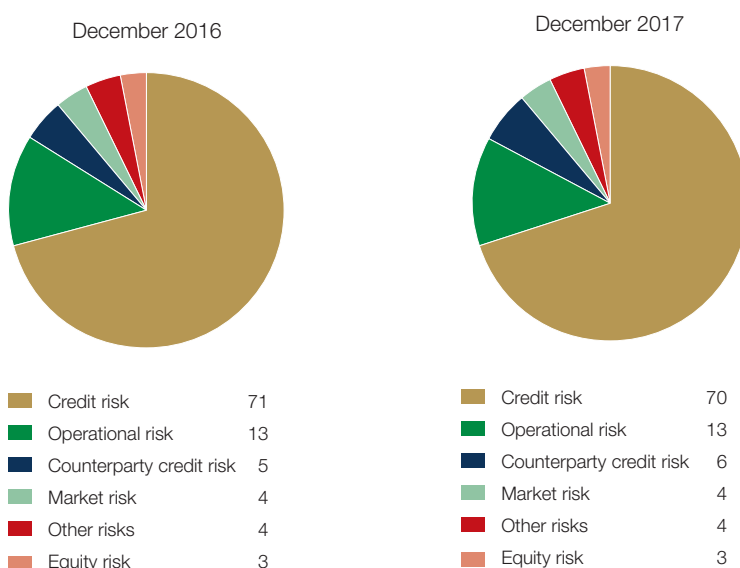
- identify the key risk factors and the build-up of risks which could impact on individual banks and the banking sector as a whole;
- assess the risk management policies, processes, practices and structures that are used to mitigate risks; and
- deploy resources accordingly to address the most critical risk areas and intervene early where required.

This chapter provides an overview of BSD's operations during the period under review at an industry level and according to aspects of bank supervision that are common across banks. These operations include work undertaken with respect to themes, risk-based reviews, consolidated supervision, and disclosure assessments.

Figure 2.1 gives an indication of the composition of risk-weighted exposure as at 31 December 2016 and 31 December 2017, reflecting Pillar 1 risks that are quantifiable in terms of the Regulations relating to Banks (Regulations) and for which the sector is required to hold regulatory capital. The banking sector is also exposed to other risks that are not quantified in terms of regulatory capital requirements, such as liquidity risk and interest rate risk in the banking book that are monitored specifically through the application of the SREP and assessed under Pillar 2 supervisory activities.

Figure 2.1 Composition of risk-weighted exposure

(Per cent)



2.2 Themes for 2017

2.2.1 Introduction

As part of its ongoing supervisory interventions, BSD identifies certain themes, or flavour-of-the-year topics, for an annual discussion with banks' boards of directors (boards). Guidance Note 2 of 2017⁸ identified the following two topics for 2017:

- risk data aggregation and risk reporting; and
- the implementation of King IV requirements.

Banks' boards were requested to make presentations and engage with BSD on each topic. A review of BSD's interactions related to these topics is detailed in sections 2.2.2 and 2.2.3.

2.2.2 Risk data aggregation and risk reporting

The Principles for Effective Risk Data Aggregation and Risk Reporting (Principles) were issued by the BCBS in January 2013. The Principles aims to strengthen banks' risk management practices by improving their risk data aggregation and risk reporting.

BSD applied the Principles on a proportional basis to all banks in South Africa and adopted these principles as an integral part of its regulatory and supervisory framework.

Focus areas for the board presentations included:

- the awareness, knowledge and understanding of the board to provide oversight of the Principles;
- the board's awareness and assessment of the bank's data architecture, data adaptability, data capability and limitations, and risk reporting practices;
- the business impact associated with the Principles, including the quantification of benefits and the interdependency between the risk and finance disciplines;
- the bank's articulation of its risk data aggregation and risk reporting expectations in line with their risk appetite in both normal and stress periods;
- investment made by the bank associated with the Principles (e.g. headcount, spend and governance structures established);
- the bank's interpretation of key terminology used (e.g. scope, legal entities, materiality, metrics, full compliance, manual processes);
- the bank's progress (e.g. milestones reached and still to be achieved, gaps identified, challenges encountered and plans to overcome these, oversight and internal accountability);
- the involvement of internal and external audit/consultants pre- and post-implementation;
- the board's process(es) adopted to ensure the periodic assessment, continued application, monitoring, improvement and embedment of the Principles in ongoing risk management frameworks.

Through these discussions, it was evident that the Principles had received a high level of attention and traction in the banks, with adequate involvement from the respective boards. The banks now have a markedly better understanding of the requirements relating to the Principles and recognise the importance of these principles as they promote informed decision making up to senior management and board level.

BSD observed the extensive investments made by banks associated with the implementation of the Principles. The establishment of appropriate governance structures and, where necessary, the creation of new positions as well as the recruitment of specialists and engagements with



consultants has assisted banks immensely. The banks are currently focusing on measures to support the embedment of the Principles in their existing risk management frameworks.

Several banks indicated that, in many instances, implementing the Principles had enhanced risk reporting and improved transparency of data limitations and data architecture applicable across lines of business. Additionally, there seems to be an improved recognition of the importance of data quality across the industry, with various banks implementing data quality issue tracking and rectifying techniques.

The banks have demonstrated an adequate interpretation of the key terminology used in relation to the Principles, such as 'metrics', 'scope', 'legal entities' and 'manual processes'. BSD did, however, detect a challenge with regard to the interpretation of 'largely compliant', 'fully compliant' and 'materially compliant', with some banks confusing these terms.

BSD will continue to focus on the Principles during the 2018 supervisory year. As part of this focus area, 'use tests' will be introduced, in which business users at banks will be required to provide feedback on the progress and implementation of the Principles within their respective roles and areas.

2.2.3 The implementation of the King Committee's report on corporate governance

The King Committee is acknowledged to be the standard-setting body for corporate governance in South Africa. BSD monitors, on an ongoing basis, developments emanating from the committee and other similar international bodies.

The *King IV Report on Corporate Governance for South Africa 2016 (King IV)* was launched on 11 November 2016 and replaces *King III*, which came into effect in 2009. *King IV* became effective on 1 April 2017.

The objectives of *King IV* are to:⁹

- promote corporate governance as integral to running an organisation and delivering governance outcomes such as an ethical culture, good performance, effective control and legitimacy;
- broaden the acceptance of *King IV* by making it accessible and fit for implementation across a variety of sectors and organisational types;
- reinforce corporate governance as a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner;
- encourage transparent and meaningful reporting to stakeholders; and
- present corporate governance as concerned with not only structure and process, but also with an ethical consciousness and conduct.

King IV focuses on an outcomes-based approach and makes clear distinctions between principles and practices. Governance outcomes are based on the categories of ethical culture, good performance, effective control, and legitimacy. Principles can be achieved by an organisation if it considers and applies recommended practices. *King IV* contains supplements which are intended to help organisations from different industry sectors and types of organisations to understand and apply the practices.

The 17 principles advocated by *King IV* are linked to governance outcomes. It was the intention of the King Committee to place greater emphasis on transparency and to ensure the principles and practices are qualitatively applied, and thus proposed an 'apply and explain approach' rather than the 'apply or explain philosophy' of *King III*.

King IV applies to all organisations and across different sectors, and can be applied on a proportional basis depending on the size, resources and business activities of the organisation.

9. The objectives were extracted from *King IV* (2016) published by The Institute of Directors in Southern African NPC (page 22). Available at: <http://www.iodsa.co.za/?page=KingIV>

Based on the value and the importance of the report, BSD identified *King IV* as a flavour-of-the-year topic. During the year under review, banks and their boards of directors demonstrated a commitment to understanding and applying the principles and practices espoused in *King IV*.

2.3 Credit risk

2.3.1 Introduction

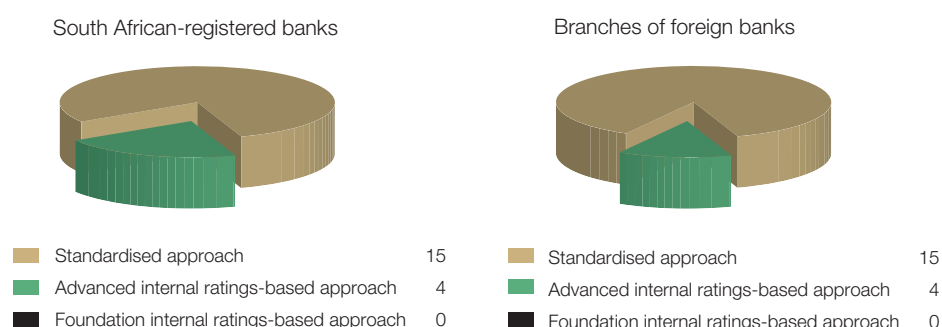
The macroeconomic environment continues to be unsupportive of meaningful and robust growth in credit extension, at least by historical standards. Although household debt metrics continue to show signs of improvement, household debt remains persistently high. Consequently, appetite for household credit remains rather sluggish. In comparison, credit extension to the corporate sector continues to grow modestly.

Under the regulatory framework employed in South Africa, banks can choose from the following three methodologies to calculate their minimum required regulatory capital relating to credit risk:

1. the standardised approach (STA), including the simplified STA ;
2. the foundation internal ratings-based (FIRB) approach; and
3. the advanced internal ratings-based (AIRB) approach.

The number of banks registered in South Africa using each of the aforementioned approaches is depicted in Figure 2.2.

Figure 2.2 Credit risk methodologies applied by banks as at 31 December 2017



2.3.2 Regulatory developments

The BCBS published a high-level summary of the Basel III reforms in December 2017. The Basel III reforms seek to restore credibility in the calculation of risk-weighted assets and help facilitate the comparability of banks' capital ratios. The implementation date for the revised STA for credit risk and revised IRB framework is 1 January 2022, and the transitional arrangement for phasing in the aggregate output floor is between 1 January 2022 and 1 January 2027.

As reported in the 2016 *Bank Supervision Annual Report*, BSD, together with National Treasury and members of the banking industry, has started a process to amend the Securitisation Notice (Government Notice No. 2, published in *Government Gazette* No. 30628, dated 1 January 2008). In conjunction with the revisions to the Securitisation Notice, BSD embarked on a process to determine the required changes to the Commercial Paper Notice (Government Notice No. 2172, published in *Government Gazette* No. 16167, dated 14 December 1994). The purpose of the revision of both these notices is to ensure that legislation facilitates the development of a sustainable funding model for South Africa by allowing certain entities of substance to access capital markets, while still ensuring the protection of the general public.



2.3.3 Model changes

During 2017, BSD received 33 notifications of non-material changes and 22 submissions of material changes to the IRB banks' rating systems. BSD continued to follow a robust review and approval process.

2.3.4 PD/LGD benchmarking exercise

The attainment of a level playing field with regard to the implementation of the AIRB approach continues to be one of the key focus areas of BSD's supervisory efforts. In pursuit of this goal, a benchmarking exercise to assess the extent of the variability of risk-weighted assets among AIRB banks' large corporate portfolios was conducted. This was a follow-up exercise to the 2012/13 exercise, but with a narrow focus on the corporate asset class.

Several factors necessitated this exercise. First, BSD had observed an increasing reliance on external data sources, particularly with the low default nature of the corporate asset class, and the general lack of internal default and loss experience to support the development of robust rating systems. Moreover, the majority of available external data sources have limited representation of emerging market economies – South Africa in particular – which in turn raises the pertinent question of whether internal risk parameter estimates produced from these sources are representative of the South African credit risk environment in general and AIRB banks' internal risk characteristics more specifically. In this regard, this benchmarking exercise aimed to gather some industry insights in order to inform supervisory actions that may be warranted to ensure that the AIRB data reported to BSD are credible, reliable and consistent with the AIRB minimum requirements in the Regulations.

Second, risk-weighted asset variability among banks has over the years focused global attention on the use of internal models, specifically in relation to low default portfolios, and the practice-based differences driving this variability. The benchmarking exercise will also assist BSD in this regard in gaining a better understanding of the diverse industry practices and the drivers of risk-weighted asset variability.

An analysis of the results has been completed and feedback will be provided internally and to participants of the exercise during 2018.

2.4 Market risk

2.4.1 Market risk environment

The year under review was characterised by market uncertainty and rand volatility, which was mostly as a result of an unstable political environment.

The rand weakened over the period by 1.3%; bonds weakened with the depreciation of the rand, but the weakening of bonds was perceived to be temporary due to the global search for yield which was still present.

On the international front, central bank announcements were critical as they directly impacted emerging markets. South Africa and other emerging markets enjoyed the benefits of a global search for yield as investors allocated large amounts of money to emerging markets. The local market saw phenomenal inflows from international participants, particularly in the bonds space. This trajectory is expected to change as the United States Federal Reserve (Fed) hikes rates within a targeted range of 1.25–1.5%.

South Africa experienced a ratings downgrade to sub-investment grade by Standard & Poor's in November, while Moody's Investors Service placed South Africa on a downgrade review. The market reaction to the downgrade was fairly muted as a downgrade by at least one rating agency was largely priced in. The news resulted in a positive bias across asset classes, including a rally in bonds and an appreciation of the rand.

Following the delivery of the *Medium Term Budget Policy Statement* in October 2017, and the forecast for growth being revised downwards from 1.3% to 0.7%, the rand decreased by almost 4%, followed by decreasing bond prices and increasing yields.

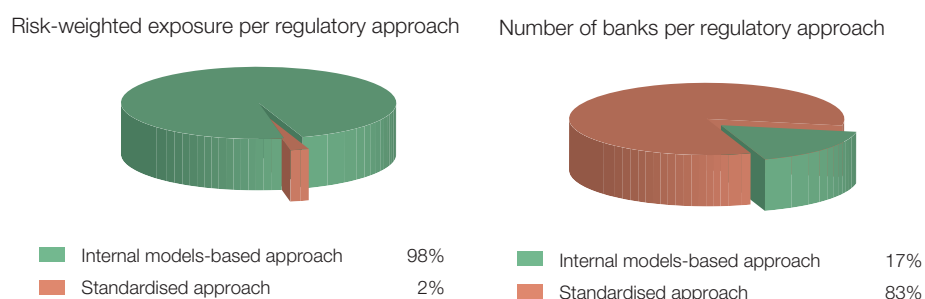
2.4.2 Methodologies to calculate the minimum required regulatory capital relating to market risk

Under the current regulatory framework employed in South Africa, banks can choose from the following two methodologies to calculate their minimum required regulatory capital relating to market risk:

- the standardised approach; and
- the internal models-based approach (IMA).

The risk-weighted exposure for these two approaches, in addition to the proportion of banks per approach, is depicted in Figure 2.3.

Figure 2.3 Market risk methodologies applied by banks as at 31 December 2017



2.4.3 Market risk reviews

BSD performed both compliance-based and risk-focused supervision of market risk during the period under review. The market risk reviews conducted in 2017 focused on banks using the IMA for regulatory purposes.

2.4.4 Key findings

Market uncertainty was the key theme throughout the year, both at a global and a domestic level. Banks ran low levels of market risk due to this uncertainty and lack of confidence, mostly as a result of political upheaval.

Banks still performed relatively well on the trading side in a challenging market environment, and were able to take advantage of the volatility in the rand as well as the positive demand for South African assets as global investors sought out higher yields.

The JSE Limited volumes were low for the majority of the year, which affected banks' client-facing businesses, particularly on the equities side. This was also a factor of the uncertainty in the market where investors were taking a cautious approach towards investments. Compliance and changes in regulations, such as the fundamental review of the trading book, continue to promise a heavy regulatory cost. As a result, banks have started assessing whether it is feasible to keep certain business lines.

2.4.5 Counterparty credit risk

In terms of Core Principle 17 (CP 17) of the Core Principles published by the BCBS, supervisors must be satisfied that banks have a counterparty credit risk management process that takes



into account their risk appetite, risk profile as well as market and macroeconomic conditions. This includes appropriate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate this risk in a timely manner.

BSD continued to conduct thematic reviews for certain banks exposed to counterparty credit risk, derived from the requirements of CP 17 and encompassing its complete scope, as well as additional aspects related to the Basel III framework, pending regulatory reforms and industry best practices. A questionnaire was used to establish the fundamental drivers, controls and governance of counterparty credit risk management and to assess banks' incorporation of the Basel III framework into their business practices and risk management procedures.

The main outcomes of these reviews include insights into the practical implementation of banks' counterparty credit risk management frameworks, including areas of improvement, and assessing the banks' strategies in light of the relevant regulatory reforms and macroeconomic environment.

It is anticipated that the Standardised Approach for Counterparty Credit Risk (SA-CCR) will be implemented on 1 January 2019.

2.4.6 Equity risk in the banking book

Exposures arising from equity risk in the banking book (ERIBB) are generally held for long-term investment purposes and receive a capital treatment that is independent of the market risk capital charge. For supervisory purposes, ERIBB is regulated together with market risk, and the reviews are aimed at gaining in-depth insight into areas where this risk arises as well as the management of this risk over the life cycle of these investments. It is worth noting that this risk type continues to diminish as banks strategically reduce investment activity. BSD did not conduct any ERIBB thematic on-site reviews in 2017.

2.4.7 Securities thematic reviews

During 2017, BSD conducted two focused reviews on bank-associated entities that conduct stockbroking and other securities activities. The main objective was to assess how the risks affect the bank-specific risk profile. The review placed emphasis on the trading businesses, systems utilised, risk management processes as well as regulatory issues with respect to market risk. Further assessments will continue in 2018 for selected banking groups.

2.5 Operational risk

2.5.1 Introduction

Operational risk and IT risk continue to be of material focus, both locally and globally. Process execution and internal control breakdowns as well as fraud incidents were particularly notable during the year, largely driven by tough economic and socio-economic conditions. It was no surprise that cyber-risk once again remained a key focus area due to investments in digital products and services, rapid innovation and technology changes, and increased sophistication of cyberattacks in general. FinTech such as cryptocurrency, blockchain, artificial intelligence and robotics are no longer foreign terms. Outsourcing further remained relevant, with discussions relating to cloud computing and the offshoring of data becoming more frequent.

Even though the frequency and severity of industry-wide operational risk losses seemed relatively flat when compared to 2016, domestically it highlighted a sustained two-year uptick with the severity component once again driven by a handful of extraordinary sizeable events. A decrease in operational risk losses was, however, evidenced globally, with losses decreasing by more than half over the year under review. This decline was mainly attributable to a drop in the number of large fines and settlements imposed by regulators against banks, and were not a pure reflection of actual operational incidents and losses within institutions.

The leading gross operational risk losses in terms of severity that occurred locally related mostly to execution and process errors, whereas gross fraud losses made up the bulk of losses on the global stage – a correction from the previous year’s category of clients, products and business practices, which was mostly due to conduct offenses.

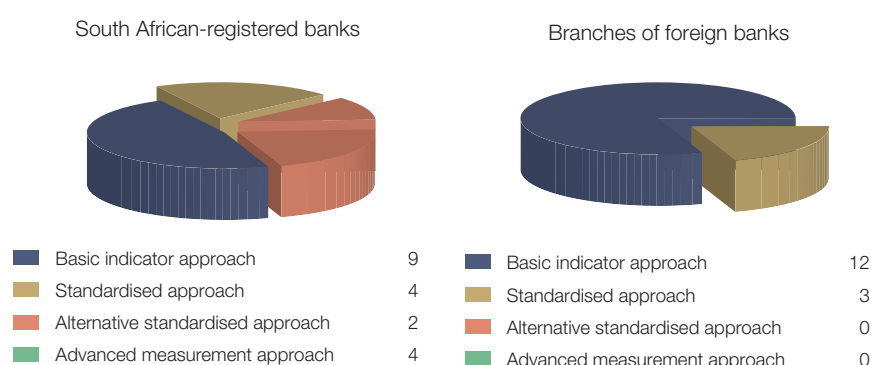
2.5.2 Methodologies to calculate the minimum required regulatory capital relating to operational risk

Under the current regulatory framework employed in South Africa, banks can choose from the following four methodologies to calculate their minimum required regulatory capital relating to operational risk:

- the basic indicator approach (BIA);
- the standardised approach (TSA);
- the alternative standardised approach (ASA); and
- the advanced measurement approach (AMA).

The number of banks using each of the aforementioned approaches is depicted in Figure 2.4.

Figure 2.4 Operational risk methodologies applied by banks as at 31 December 2017



2.5.3 Operational risk reviews

BSD performed focused operational risk reviews at selected banks during the period under review. Topics from an operational risk perspective included strategic objectives, governance structures, human resources, IT systems used, and frameworks and policies. Discussions extended to operations outside of South Africa and further incorporated material concerns. Outsourcing, top operational risks, risk and control self-assessments and key risk indicators within the corporate environment, and internal loss data were additional themes that received attention. Key findings included the following:

- **Operational risk governance structures, human resources, frameworks and policies:** Banks maintained sound governance structures, with many banks enhancing their existing frameworks and processes by promoting an explicitly defined ownership of roles and responsibilities. In addition, banks demonstrated an overall improvement with regard to the management of operational risk, with some banks incorporating the use of new operational risk and control systems. However, BSD cautioned banks against the dilution of operational risk management due to the integration of operational risk processes with other risk types.
- **The African footprint:** BSD observed a general improvement in banking operations outside of South Africa with regard to the management of operational risk, in which some local banks streamlined processes that are country-specific. Moreover, local banks made concerted efforts to improve control weaknesses, such as enhancing data quality and existing controls, as well as establishing operational risk frameworks that are fit for purpose.



- **Overview of risk and control self-assessments and key risk indicators:** Most banks continued to enhance their risk and control self-assessments and key risk indicators by ensuring the maintenance of frameworks and the reviewing of policies and procedures. Some banks did, however, experience challenges when it came to monitoring control weaknesses and designing appropriate key risk indicators.
- **Internal loss data:** Discussions encompassed items such as coverage, data collection thresholds, reconciliations, boundary events, material incidents and review as well as verification and validation. For the most part, banks were able to adequately evidence adequacy relating to internal loss data. Efficiency, quality and completeness should be monitored and examined internally on an ongoing basis via the three-lines-of-defence model as well as being scrutinised and challenged via BSD, where relevant and appropriate.

2.5.4 Guidance notes related to operational risk

Guidance Note 4 of 2017:¹⁰ The purpose of this guidance note was to bring to the attention of banks the latest international best practices related to cyber-resilience, namely the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions' (IOSCO) guidance on cyber-resilience for financial market infrastructures issued on 29 June 2016.

10. Available at <http://www.resbank.co.za> (refer to Prudential Authority link)

2.5.5 Information technology risk

BSD continued to collaborate with the banking industry with regard to the possible establishment of a reporting process for material IT-related, including cyber-related, incidents. BSD contributed to the establishment of the SARB FinTech Steering Committee and collaborated and cooperated with the SARB FinTech Programme with regard to its engagement model, areas of interests and expectations. BSD participated in working groups dealing with aspects of virtual currencies and distributed ledger technologies, the offshoring of data and cloud computing, the Inter-governmental Fintech Working Group, as well as the regulatory work stream of the South African Financial Blockchain Consortium. BSD further contributed to the drafting of concept papers on blockchain and FinTech for SADC's Committee of Central Bank Governors (CCBG) Information and Communications Technology (ICT) Subcommittee. Membership to international bodies such as the ITSG and TFFT had assisted BSD to align its views with regard to global IT supervisory practices and experiences to the local environment.

BSD issued a proposed directive and its associated draft position paper that sets out the requirements and related considerations under which banks may offshore their data and/or make use of cloud computing.

The short- and medium-term IT supervisory programmes will include a focus on cybersecurity, FinTech and emerging technologies. In addition, BSD will remain involved in both local and international initiatives to supervise and provide guidance on IT risk in the industry.

2.5.6 Information technology risk reviews

The supervisory plan during the year under review included various on-site visits to banks. Areas covered comprised IT and IT risk in terms of strategic objectives, governance structures, human resources, frameworks and policies, and incidents. These discussions extended to African operations. Information security and cybercrime as well as emerging technologies were additional themes that received attention. The main findings from these reviews were as follows:

- Business disruptions and system failures were a concern at some banks.
- The maturity of IT risk at some banks, including operations outside of South Africa, required improvement. Most banks have adopted internationally recognised best practises and IT risk frameworks; however, these frameworks should still be tailored for banks' specific requirements.

- There is a lack of adequate cybersecurity skills, both locally and internationally. Owing to the increasing nature and complexities of cyberattacks, most banks have increased their resources, financially and/or otherwise, to counteract the onslaught of cybersecurity. In addition, industry collaborations and information sharing with other industry players was reiterated as being crucial.
- Several banks have adopted emerging technologies, including FinTech solutions, which are still maturing. Adequate risk assessments and governance processes applied as well as due consideration for the banks' risk appetite have been evaluated.
- Certain banks were reminded of the provisions of Guidance Note 5 of 2014 when outsourcing particular processes, functions or activities. To attempt alleviating misconceptions, BSD would consider separating requirements from guidance during future revisions.

2.5.7 Outsourcing

BSD continued to critically analyse submissions in terms of Directive 8 of 2015 on the reporting of material outsourced service providers and critical third-party service providers. A synopsis of the outcomes of the 2017 outsourcing submissions was presented to the industry. It was concluded that continued cooperation and collaboration with various stakeholders was essential to mitigate outsourcing risk. BSD received various submissions from banks, mostly IT in nature, relating to outsourcing arrangements, cloud computing and data offshoring during the period under review. Most banks pursued these forms of information processing, storage and retrieval to optimise economies of scales and reduce costs, improve flexibility and accessibility of critical IT resources, and enhance standardisation and/or utilisation of centralised centres of excellence.

2.6 Asset and liability management risk

2.6.1 Regulatory developments

BSD actively participated in the continued development and refinement of the two main standards relating to liquidity and funding, namely the LCR and NSFR through its participation in the WGL.

BSD continued to engage with the banking sector through BASA to monitor and discuss international regulatory developments, and the impact thereof in South Africa, relating to liquidity risk and interest rate risk in the banking book.

Within the SARB, the ALM team continued to collaborate with other relevant departments on the impact that regulatory developments have had on South Africa, and the potential future impacts of further regulatory developments on their SFAs.

2.6.2 Focused reviews

According to the Core Principles, a supervisor is required to determine that banks have certain minimum standards in place. During 2017, BSD conducted several reviews covering both major banks and small individual banks. To evaluate their current practices, BSD sent out a questionnaire covering banks' policies, procedures and internal controls relating to funding, liquidity risk and interest rate risk in the banking book.

Following an off-site review of the responses received, BSD conducted on-site meetings to discuss the responses and to probe any relevant additional information to ascertain the level and intensity of supervisory action.



2.6.3 Sovereign credit rating downgrade scenario

In line with the continued risk of a sub-investment grade sovereign credit rating downgrade and the subsequent impact it may have on the banking sector, BSD requested all banks to participate in a stress scenario to assess the potential impact thereof.

2.6.4 Participation in liquidity risk simulations

BSD continued to participate in ad hoc liquidity risk simulation exercises at banks, which were facilitated by an independent external party in order to assess the adequacy and effectiveness of banks' liquidity risk management frameworks.

Representatives of BSD fulfilled an observation role during these exercises. These simulation exercises continued to be of great value to both BSD and participating banks by highlighting areas of improvement and by demonstrating the need for robust liquidity risk management.

2.7 Capital management

2.7.1 Overview of ICAAP reviews and key findings

BSD continued to conduct focused reviews on the internal capital adequacy assessment process (ICAAP) in 2017, in particular to follow up on prior ICAAP recommendations, risk appetite, credit risk economic capital estimations, capital management, stress testing, the validation of economic capital and stress-testing models as well as the continued focus on the use test.

On-site reviews conducted in the year under review highlighted the following aspects:

- Banks' regulatory capital planning was robust and underwent regular challenges by management. The forecast regulatory capital and leverage ratios indicated that South African banks remained well capitalised. A number of banks, however, were encouraged to place more focus on economic capital planning and its stress testing.
- Banks continued to enhance their stress-testing methodologies and processes.
- The development of a model risk framework continued to be part of future ICAAP initiatives for most banks.
- Although the estimated impact of IFRS 9 was incorporated by most of the banks in their capital plans, ongoing improvements were still underway. Some banks phased in the impact of IFRS 9 over a period, whereas others included the full impact in their capital plans for 2018.

2.7.2 Amendments to directives and guidance notes

As a result of the amendment of the Regulations with effect from July 2016, the following two directives and one guidance note were replaced¹¹:

- Directive 1 of 2017 in respect of matters related to qualifying capital instruments issued by subsidiaries of banks or controlling companies was issued in February 2017 and replaced Directive 1 of 2013.
- Directive 6 of 2017 in respect of the process in terms of specific capital issuances and redemptions was issued in November 2017 and replaced Directive 3 of 2014.
- Guidance Note 6 of 2017 in respect of loss absorbency requirements for additional tier 1 and tier 2 capital replaced Guidance Note 7 of 2013.

11. Available at <http://www.resbank.co.za> (refer to Prudential Authority link)

2.7.3 Data collection

In addition to the revised form BA 700 that was implemented with effect from July 2016, and as part of BSD's continued monitoring and collection of forecast regulatory and economic capital data from domestic systemically important banks (D-SIBs) on a biannual basis, Directive 7 of 2017 was issued in November 2017.

2.7.4 Domestic systemically important banks

On a quarterly basis, BSD applied its D-SIB methodology to assess which banks are regarded as systemically important and the extent to which they are systemically important. Such monitoring and assessment of banks and bank controlling companies was based on the latest available data.

The phase-in of the D-SIB loss absorbency capital requirement commenced on 1 January 2016, together with capital buffers forming part of the capital conservation range (i.e. the capital conservation buffer and the countercyclical capital buffer) and will end on 31 December 2018. During times of stress, CARs may fall below the aforementioned buffer requirements; however, certain restrictions on the level of distributions would apply. This was effective from 1 January 2016. With regard to the higher loss absorbency capital requirement imposed on D-SIBs, 50% had been phased in with effect from 1 January 2017.

2.8 Pillar 3: disclosure

2.8.1 Introduction

In accordance with Core Principle 28: Disclosure and Transparency of the Core Principles, the supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies, and corporate governance policies and processes.

2.8.2 Reviews

During the period under review, BSD continued its reviews of banks' compliance with the Pillar 3 disclosure requirements, with a focus on matters relating to compliance with the revised disclosure requirements. In general, banks have implemented the revised disclosure requirements. However, while most have reported the required information using the required formats, there are still some banks which have not adopted the new disclosure formats of using common templates and tables for publishing the Pillar 3 reports. BSD will continue to monitor bank's compliance and engage with banks on Pillar 3 matters (and schedule interactions through BASA) to ensure full compliance with the disclosure framework.

2.8.3 Directives issued in 2017

In March 2017 the BCBS issued 'Pillar 3 disclosure requirements – consolidated and enhanced framework'. The standard issued by the BCBS sets out the disclosure requirements arising from the second phase of the Pillar 3 framework. The enhanced framework consolidated different disclosure requirements into the Pillar 3 framework and introduced some adjustments to the timing and format of some disclosures. BSD issued a directive to implement the consolidated and enhanced disclosure framework.



2.9 Consolidated supervision

2.9.1 Supervisory colleges

BSD is committed to conducting effective consolidated supervision, as proposed by the BCBS. Supervisory colleges are an integral component of BSD's consolidated supervision framework. In addition to the collaborative supervisory on-site reviews conducted with many host regulators, BSD continued to arrange supervisory colleges.

Supervisory colleges make it possible for supervisors to share information on any material developments in risk profile, group structure, strategy as well as operations in home and host countries. They also enhance the development of a common understanding of risk in financial groups, promote a shared agenda for addressing risks and vulnerabilities, and provide a platform for communicating key supervisory messages among members.

During the year under review, supervisory colleges were held for the Standard Bank Group, the FirstRand Group and the Nedbank Group. These colleges were very successful and valuable information was shared, which contributed to more effective consolidated supervision. In addition to the above, two specific supervisory colleges were held for Barclays Africa Group Limited (BAGL), which focused on BAGL's sell-down process and separation from Barclays Plc.

2.9.2 Supervisory meetings with the Financial Services Board

BSD and the FSB maintained regular interactions throughout the year. The financial conglomerates operating in the South African jurisdiction were discussed, ensuring that appropriate regulatory and supervisory processes were in place.

2.10 Anti-money laundering and combating the financing of terrorism

2.10.1 On-site inspections

On an annual basis, BSD follows an AML/CFT risk-based approach to determine which banks to inspect during any particular year. During 2017, seven AML/CFT on-site inspections were conducted in terms of section 45B of the FIC Act, one of which was a joint inspection with the FIC. All the inspections undertaken in the year under review were concluded over an average period of three weeks.

The most pertinent findings that arose from the on-site inspections conducted in 2017 indicated that banks still required focus on strengthening their controls in relation to compliance with the FIC Act in various areas.

Besides testing banks' compliance with the FIC Act, BSD also assessed banks' adopted AML/CFT risk-based approaches, including their treatment of politically exposed persons in line with the FATF Recommendations.

During 2017, BSD also initiated and participated in the joint cross-border on-site inspections with the domestic banking regulators of two foreign banking subsidiaries of banks registered in South Africa in order to assess the operations' level of compliance with:

- the global AML/CFT standards of the FATF Recommendations;
- BCBS's guidance on the sound management of risks related to money-laundering and the financing of terrorism; and
- country-specific AML/CFT legislation.

Each joint inspection took a week to be concluded. The inspection findings revealed, among other things, that there continues to be a need for parent companies to enhance their efforts to assist, guide and perform adequate oversight of their foreign operations' AML/CFT frameworks.

Table 2.1 On-site inspections

	2012*	2013	2014	2015	2016	2017
Large banks	2	4	0	1	0	0
Small banks	6	3	8	6	9	7
Cross-border (Africa)	0	0	1	2	2	2
Total	8	7	9	9	11	9

* AML/CFT inspections commenced in April 2012

2.10.2 Off-site supervision

Throughout 2017, BSD conducted various workshops and prudential meetings with select locally registered banks. Topics discussed at such meetings included:

- methods of identifying possible terrorist financing other than sanctions-list screening;
- banks' readiness to implement the FIC Act amendments with regard to policies, procedures, systems and controls;
- the management of records within a banking group when sharing client information between foreign branches and subsidiaries, local subsidiaries and financial intermediaries;
- observations related to the de-risking of correspondent banking relationships; and
- distinctive and overlapping AML/CFT roles, responsibilities and oversight.

This is an ongoing element of BSD's supervisory calendar that is executed on an annual basis.

2.10.3 Thematic sanctions review

BSD conducted a follow-up banking industry-wide thematic review of bank's sanctions-screening systems and systems-related controls. This was a follow-up to the review conducted in 2014 to assess banks' current sanctions-screening capabilities and to determine whether there were any improvements to the 2014 results.

The findings from this follow-up review showed a marked improvement in the effectiveness of banks' sanctions-screening systems.

2.11 Recovery planning

Following the publication of the *Key attributes of effective resolution regimes for financial institutions* by the Financial Stability Board in 2011, BSD requested banks to develop recovery plans. In 2015 BSD issued Directive 1 of 2015 on the minimum requirements for recovery plans against which banks could benchmark their recovery plans.

Since 2013, BSD and the SARB's Financial Stability Department's Resolution Planning Division (RPD) have jointly reviewed the recovery plans of D-SIBs on an annual basis. The format of this review is to have workshops with the D-SIBs to address the banks' compliance with Directive 1 of 2015 and their progress made in addressing the gaps identified during the previous year's review. Sector-wide comparisons between banks are done by BSD and the RPD, with best practices being shared at these workshops to ensure that the banks follow a consistent, yet bank-specific approach in the development of the various elements of their recovery plans.



In general, the quality of the recovery plans has improved. The continual refinement of these plans is expected as the recovery planning process matures further and becomes increasingly embedded in the banks' risk management processes.

During 2017, the RPD also initiated a project with BSD to review the recovery plans of non-systemically important locally controlled banks. Although the primary focus of the workshops with these banks is to assess compliance with Directive 1 of 2015, the workshops also provide an opportunity to create a better understanding among these banks of the purpose and elements of a recovery plan. The outcome of this project will be used to refine the guidance given to non-systemic banks on recovery plans.

2.12 Risk data aggregation and risk reporting

As indicated in the 2016 *Bank Supervision Annual Report*, none of the D-SIBs in South Africa were able to fully comply with the risk data aggregation by the directed date of 1 January 2017. Principle 2 in particular, relating to data architecture and IT infrastructure, continued to pose challenges for banks.

BSD had interactions with the majority of banks during the year under review and will continue to monitor their progress in 2018.

The final compliance dates for the implementation of the Principles with all banks was determined on a case-by-case basis, and these date have been spread over the next two to four years. Furthermore, BSD indicated that there is no appetite to postpone the compliance dates agreed upon with the banks.

In addition, the audit reports from the D-SIBs in relation to Directive 5 of 2016 that requested an independent party (either internal or external audit, or a combination of the two parties) to complete a granular review and verification of the evidence and artefacts motivating the state of compliance with the Principles have been received. The key themes will be shared within BSD and with the banks in 2018.

Finally, the industry has demonstrated a greater understanding of the Principles and the requirements thereof. The interactions with banks as well as the quarterly BASA meetings assisted with this. Moreover, this was further evidenced in the flavour-of-the-year presentations provided by the boards of banks (refer 2.2.2).

2.13 Thematic on-site reviews

BSD's review team conducted on-site reviews during the 2017 calendar year, which focused primarily on enhancing the understanding of some of the branches of foreign banks' extent of compliance with corporate governance principles as well as risk management and compliance functions as related to the Banks Act, the Regulations and best practices.

The reviews encompassed the assessment of the under-mentioned:

- the risk management function and whether there are policies, practices and procedures to identify, measure, monitor, control, mitigate and report risks applicable to the branch;
- the level of involvement and awareness of the executive committee and senior management in the governance and risk management of the branch;
- the risk appetite statement and the risk tolerance levels set and approved by the executive committee;
- the compliance function, including its roles and responsibilities in ensuring that the branch manages its regulatory and supervisory risks adequately; and
- the independence of the compliance function, including the adequacy of skills and resources within the compliance function.

The most pertinent findings that arose from the aforementioned reviews are as follows:

- The roles and responsibilities assigned to the Chief Risk Officer (CRO) were found not to be entirely in line with the requirements of the BCBS: Corporate Governance Principles for Banks, and internal policies and/or frameworks.
- A dual-hatting of roles by a Chief Operating Officer (COO) who also acted as a CRO was found to be in contravention with paragraph 110 of the BCBS guidelines on Corporate Governance Principles for Banks (July 2015).
- Shortcomings were noted regarding risk appetite statements (RAS) which were incomplete and not properly approved and signed off. RAS also did not include all risks deemed as material and some risks rather formed part of global RAS instead of being branch specific.
- Findings with regard to the outsourcing of services related mostly to poor internal controls, the absence of recovery plans in respect of outsourced activities, and service level agreements (SLAs) not appropriately approved.

In general, the branches reviewed during 2017 committed to remediate deficiencies identified during the on-site reviews.



Chapter 3: Developments relating to banking legislation

3.1 Introduction

BSD continued striving to ensure that the legal framework for the regulation and supervision of banks and banking groups in South Africa remained relevant and current. Ideally, the legal framework pertaining to banking regulation should reflect both local and international market developments, and comply with applicable international regulatory and supervisory standards and best practices. BSD therefore reviews banking legislation– including the Banks Act, the Regulations issued in terms thereof, and other pieces of banking-related legislation– on an ongoing basis. If applicable, BSD then makes recommendations to the Minister of Finance to effect the necessary amendments.

3.2 The Banks Act 94 of 1990

The promulgation of the FSR Act in 2017 resulted in a number of consequential amendments having to be effected to the Banks Act. Following the commencement of the FSR Act in 2018, the affected sections of the Banks Act will be repealed or amended accordingly.

3.3 Update on the amendments to the Regulations relating to Banks

As stated in Chapter 1 of this report and in previous annual reports published by BSD,¹² as part of the internationally agreed regulatory reforms to promote the safety and soundness of the international financial system, the BCBS has issued various new or revised frameworks or requirements during recent years, for implementation by member jurisdictions.

In this regard, on 29 March 2017 BSD issued proposed amendments to the Regulations for comment. The proposed amendments essentially incorporated the relevant internationally agreed requirements that related to:

- a capital standard for bank exposures to central counterparties;
- the standardised approach for measuring counterparty credit risk exposures; and
- capital requirements for banks' equity investments in funds.

As part of the broader OTC derivative reforms, it was decided that instead of amending the Regulations, one set of rules that applies to banks and non-banks in respect of margin requirements for non-centrally cleared OTC derivative transactions should be issued in terms of the Financial Markets Act 19 of 2012. In this regard, on 8 August 2017 the FSB issued an updated proposed set of rules related to margin requirements for non-centrally cleared OTC derivative transactions for public consultation. Representatives of the SARB, National Treasury and FSB have subsequently worked through the comments received and are engaging industry further to finalise the draft rules related to margin requirements for non-centrally cleared OTC derivative transactions, for implementation in 2018.

On 25 April 2017 and 18 October 2017 respectively, the BCBS published the twelfth¹³ and thirteenth¹⁴ progress reports on the adoption by member jurisdictions of the relevant Basel regulatory frameworks.

On 4 July 2017, the BCBS published its report to the G20 leaders¹⁵ on the implementation by member jurisdictions of the Basel III regulatory reforms, which also provides some details related to the progress made and the challenges faced by several jurisdictions regarding the timely adoption of certain standards.

12. Available at <http://www.resbank.co.za> (refer to Prudential Authority link)

13. Available at <https://www.bis.org/bcbs/publ/d404.htm>

14. Available at <https://www.bis.org/bcbs/publ/d418.htm>

15. Available at <https://www.bis.org/bcbs/publ/d412.htm>

As stated in the report to the G20 leaders, differences between member jurisdictions in respect of the implementation of certain standards are likely to have implications for banks and regulators from a level playing field perspective.

BSD is in the process of working through the comments received in respect of the proposed amendments to the Regulations issued to date, and is also monitoring and considering, among other things, the impact of delayed implementation of certain standards in other jurisdictions before finalising the proposed amendments to the Regulations and the related proposed implementation dates.

In order to ensure that all relevant stakeholders remain updated in respect of all the comments submitted, discussions held and questions raised on the challenges faced by many jurisdictions in respect of the implementation of the internationally agreed standards, as well as the potential impact thereof on the proposed amendments to the Regulations, various BSD staff members attend and actively participate in all relevant working groups, task groups and/or forums established by such stakeholders, including those organised by BASA.

It is the intention of BSD to publish the updated set of proposed amendments to the Regulations dealing with, among other things, the capital standard for bank exposures to central counterparties, the capital requirements for banks' equity investments in funds, and the standardised approach for measuring counterparty credit risk exposures for final review and consultation during 2018. These will then be finalised and submitted to the Minister of Finance for consideration and approval for implementation.

BSD continues to monitor, among other things, the developments relating to the G20 discussions as well as the press releases, publications and directives issued by the BCBS and the Financial Stability Board, to identify any potential further areas that may necessitate amendments and/or refinements to the Regulations.



Appendices

Appendix 1

Registered banks, local branches of foreign banks and mutual banks as at 31 December 2017

Registered banks

Institution	Address	Total assets as at 31 December		Annual growth %
		2016 (R millions)	2017 (R millions)	
1 Absa Bank Limited	P O Box 7735, Johannesburg, 2000	914 669	983 378	7.51
2 African Bank Limited (2014/176899/06)	Private Bag X170, Midrand, 1685	36 460	31 356	-14.00
3 Albaraka Bank Limited	P O Box 4395, Durban, 4000	5 386	5 930	10.10
4 Bidvest Bank Limited	P O Box 185, Johannesburg, 2000	7 009	8 508	21.39
5 Capitec Bank Limited	P O Box 12451, Die Boord, Stellenbosch, 7613	71 729	87 033	21.34
6 Commonwealth Bank of South Africa Limited, trading as TymeDigital by CommonwealthBank SA	PostNet Suite 168, Private Bag X31, Saxonwold, 2192	–	1 403	100.00
7 Discovery Bank Limited	P O Box 786722, Sandton, 2146	–	622	100.00
8 FirstRand Bank Limited	P O Box 650149, Benmore, 2010	1 016 761	1 120 747	10.23
9 Grindrod Bank Limited	P O Box 3211, Durban, 4000	15 190	16 696	9.91
10 Habib Overseas Bank Limited	P O Box 62369, Marshalltown, 2107	1 134	1 186	4.61
11 HBZ Bank Limited	P O Box 1536, Wandsbeck, 3631	4 224	4 856	14.97
12 Investec Bank Limited	P O Box 785700, Sandton, 2146	387 052	415 285	7.29
13 Mercantile Bank Limited	P O Box 782699, Sandton, 2146	11 830	12 892	8.97
14 Nedbank Limited	P O Box 1144, Johannesburg, 2000	869 362	892 006	2.60
15 Sasfin Bank Limited	P O Box 95104, Grant Park, 2051	6 806	7 778	14.29
16 The South African Bank of Athens Limited	P O Box 784921, Sandton, 2146	2 265	2 355	3.95
17 The Standard Bank of South Africa Limited	P O Box 7725, Johannesburg, 2000	1 234 575	1 254 849	1.64
18 Ubank Limited	Private Bag X0030, Halfway House, 1685	4 627	5 224	12.90

Appendix 1

Registered banks, local branches of foreign banks and mutual banks as at 31 December 2017 (continued)

Registered local branches of foreign banks

Institution	Address	Total assets as at 31 December		Annual growth %
		2016 (R millions)	2017 (R millions)	
1 Bank of Baroda	Premises No.14, 2nd floor, Sandton City Twin Towers (East Wing), Sandton, 2196	3 940	2 779	-29.47
2 Bank of China Limited Johannesburg Branch (trading as Bank of China Johannesburg Branch)	P O Box 782616, Sandton, 2146	32 666	44 341	35.74
3 Bank of India	P O Box 653589, Benmore, 2010	427	472	10.53
4 Bank of Taiwan South Africa Branch	P O Box 1999, Parklands, 2121	2 008	2 365	17.78
5 BNP Paribas South Africa	PostNet Suite 457, Private Bag X1, Melrose Arch, 2075	11 204	13 748	22.70
6 Canara Bank	11th floor, Sandton City Office Towers, 5th Street and Rivonia Road, Sandhurst Ext. 3, Sandton, 2196	328	488	48.65
7 China Construction Bank Corporation – Johannesburg Branch	Private Bag X10007, Sandton, 2146	37 567	36 098	-3.91
8 Citibank NA	P O Box 1800, Saxonwold, 2132	64 944	58 756	-9.53
9 Deutsche Bank AG	Private Bag X9933, Sandton, 2146	10 388	10 450	0.60
10 HSBC Bank Plc – Johannesburg Branch	Private Bag X785434, Sandton, 2146	45 106	47 717	5.79
11 ICICI Bank Limited	Private Bag X78261, Sandton, 2146	269	584	116.79
12 JPMorgan Chase Bank, NA (Johannesburg Branch)	Private Bag X9936, Sandton, 2146	28 524	33 939	18.99
13 Société Générale Johannesburg Branch	P O Box 6872, Johannesburg, 2000	7 874	8 935	13.48
14 Standard Chartered Bank (Johannesburg Branch)	P O Box 782080, Sandton, 2146	32 281	33 493	3.75
15 State Bank of India	P O Box 2538, Saxonwold, 2538	7 438	8 602	15.64



Appendix 1

Registered banks, local branches of foreign banks and mutual banks as at 31 December 2017 (continued)

Registered mutual banks

Institution	Address	Total assets as at 31 December		Annual growth %
		2016 (R millions)	2017 (R millions)	
1 Finbond Mutual Bank	P O Box 2127, Brooklyn Square, 0075	1 653	1 603	-3.03
2 GBS Mutual Bank	P O Box 114, Grahamstown, 6140	1 226	1 376	12.27
3 VBS Mutual Bank	Metropolitan Office Park, 82 Wessels Road, Rivonia, 2191	1 543	2 401	55.63

Banks under curatorship

Institution	Curator	Date of order
1 None		

Banks in final liquidation

Institution	Liquidator	Date of order
1 Islamic Bank Limited	Mr A D Wilkens of Deloitte & Touche	13 January 1998
2 Regal Treasury Private Bank Limited	Mr T A P du Plessis of D&N Trust and Mr J Pema of Sekela Antrust (Pty) Limited	10 February 2004

Name changes

Previous name	New name	Date of change
1 None		

Appendix 2

Authorisation to establish, and the registration and cancellation of the registration of banks during the period 1 January 2017 to 31 December 2017

Authorisation in terms of section 13 of the Banks Act 94 of 1990

Institution	Date of authorisation
1 Postbank Limited*	4 July 2016

Registration in terms of section 17 of the Banks Act 94 of 1990

Institution	Date of authorisation
1 Commonwealth Bank of South Africa trading as TyneDigital by CommonwealthBank SA	18 May 2017
2 Discovery Bank Limited	12 October 2017

* Postbank Limited has subsequently submitted its application for registration as a bank in accordance with the provisions of section 16 of the Banks Act 94 of 1990, which application is currently under consideration by the Prudential Authority.

Appendix 2

Authorisation to establish, and the registration and the cancellation of the registration of banks during the period 1 January 2017 to 31 December 2017 (continued)

Authorisation granted in terms of section 11 of the Mutual Banks Act 124 of 1993

Institution	Date of order
1 Neo Labs (Pty) Limited in respect of Bank Zero Mutual Bank	23 November 2017

Registration granted in terms of section 14 of the Mutual Banks Act 124 of 1993

Institution	Date of authorisation
1 None	

Cancellation of registration

Institution	Date of authorisation
1 None	

Appendix 3

Registered controlling companies as at 31 December 2017

Institution	Address
1 African Bank Holdings Limited	Private Bag X170, Midrand, 1685
2 Barclays Africa Group Limited	P O Box 7735, Johannesburg, 2000
3 Bidvest Bank Holdings Limited	P O Box 185, Johannesburg, 2000
4 Capitec Bank Holdings Limited	P O Box 12451, Die Boord, Stellenbosch, 7613
5 Commonwealth Bank of South Africa Holding Company Limited	PostNet Suite 168, Private Bag X31, Saxonwold, 2192
6 Discovery Bank Holdings Limited	P O Box 786722, Sandton, 2146
7 FirstRand Limited	P O Box 650149, Benmore, 2010
8 Grindrod Financial Holdings Limited	P O Box 3211, Durban, 4000
9 Investec Limited	P O Box 785700, Sandton, 2146
10 Mercantile Bank Holdings Limited	P O Box 782699, Sandton, 2146
11 Nedbank Group Limited	P O Box 1144, Johannesburg, 2000
12 Sasfin Holdings Limited	P O Box 95104, Grant Park, 2051
13 Standard Bank Group Limited	P O Box 7725, Johannesburg, 2000
14 Ubank Group Limited	Private Bag X0030, Halfway House, 1685

The following institutions are deemed to be controlling companies in terms of section 42 of the Banks Act 94 of 1990:

1	Albaraka Banking Group (in respect of Albaraka Bank Limited)	P O Box 1882, Manama, Kingdom of Bahrain
2	Habib Bank AG Zurich (in respect of HBZ Bank Limited)	59 Weinbergstrasse, Postfach 8042, Zurich, Switzerland
3	National Bank of Greece (in respect of The South African Bank of Athens Limited)	86 Aioulou Street, Athens TT 121, Greece
4	Pitcairns Finance SA (in respect of Habib Overseas Bank Limited)	121 Avenue de la Faiencerie, L-1511 Luxemburg, RCS Luxemburg, B nr 33-106

Appendix 4

Foreign banks with approved local representative offices

Institution	Address
1 AfrAsia Bank Limited	P O Box 55351, Northlands, 2116
2 Banco BIC	30 Arena Close, H Santos Building, Bruma, 2198
3 Banco Santander Totta SA	P O Box 309, Bruma, 2026
4 Bank of America, National Association	P O Box 651987, Benmore, 2010
5 Bank One Limited	P O Box 25386, Gateway, 4321
6 Banque Lombard Odier and Cie SA	140 West Street, Sandton, Johannesburg, 2196
7 Banque SYZ Suisse SA	P O Box 653641, Benmore, 2010
8 Caixa Bank	Fredman Drive 13, 9th floor, Fredman Towers, Sandton, 2146
9 Commerzbank AG Johannesburg	P O Box 860, Parklands, 2121
10 Doha Bank	P O Box 785553, Sandton, 2146
11 Ecobank	Block F, 8th floor, 135 Rivonia Road, Sandown, 2196
12 Export-Import Bank of India	2nd floor, Sandton City, Twin Towers East Wing, Sandton, 2196
13 Hellenic Bank Public Company Limited	P O Box 783392, Sandton, 2146
14 HSBC Private Bank (Suisse) SA	2 Exchange Square, 85 Maude Street, Sandton, 2196
15 Industrial and Commercial Bank of China African Representative Office	P O Box 40, Cape Town, 8000
16 KfW IpeX-Bank GmbH	P O Box 2402, Saxonwold, 2132
17 Millennium BCP	P O Box 273, Bruma, 2026
18 Mizuho Bank Limited	P O Box 785553, Sandton, 2146
19 National Bank of Egypt	P O Box 55402, Northlands, 2116
20 Notenstein La Roche Private Bank Limited	100 New Church Street, Tamboerskloof, Cape Town, 8001
21 Novo Banco	P O Box 749, Bruma, 2026
22 Société Générale Representative Office for Southern Africa	P O Box 2805, Saxonwold, 2132
23 Sumitomo Mitsui Banking Corporation	Building Four, 1st floor, Commerce Square, 39 Rivonia Road, Sandhurst, 2196
24 Swedbank AB (Publ)	Private Bag X1, Dainfern, 2055
25 The Bank of New York Mellon	PostNet Suite 1061, Private Bag X9, Benmore, 2010
26 The Bank of Tokyo-Mitsubishi UFJ Limited	P O Box 78519, Sandton, 2146
27 The Mauritius Commercial Bank Limited	3rd Floor, Atrium on 5th East Tower, Sandton, 2196
28 The Representative Office for Southern and Eastern Africa of the Export-Import Bank of China	PostNet Suite 158, Private Bag X91-BE, Benmore, 2010
29 Unicredit Bank AG	P O Box 1483, Parklands, 2121
30 Wells Fargo Bank, National Association	P O Box 3091, Saxonwold, 2132
31 Zenith Bank Plc	P O Box 782652, Sandton, 2146

Appendix 4

Report on representative offices

1. Introduction

The Regulations relating to Representative Offices of Foreign Banking Institutions (RO Regulations), issued under Government Notice No. 1370, in *Government Gazette* No. 22939 dated 13 December 2001, seek to ensure continuous oversight by BSD of the activities of representative offices (ROs) of foreign banking institutions operating within the Republic of South Africa.

As at 31 December 2017, there were 31 ROs operating in South Africa, emanating from 18 jurisdictions.

2. Change in status of ROs during 2017

2.1 During the year under review, the following ROs were deregistered:

- i. African Banking Corporation Botswana Limited (trading as BancABC Botswana)
- ii. Bank Leumi Le-Israel BM
- iii. First Bank of Nigeria Limited
- iv. Union Bank of Nigeria Plc
- v. Banco BPI, SA
- vi. Vnesheconombank
- vii. Credit Suisse AG

2.2 During the year under review, the following ROs were registered:

- i. Banque Lombard Odier & Cie SA

2.3 During the year under review, the following ROs' names changed:

- i. Notenstein Private Bank Limited to Notenstein La Roche Private Bank Limited

2.4 Events after 31 December 2017

None

3. Supervisory approach

In order to fulfill its responsibilities in terms of the RO Regulations, BSD follows the following supervisory approach:

- regular interaction with the chief representative officers of the respective ROs;
- on-site visits at the offices of the ROs;
- analysis of returns submitted by the ROs in terms of the RO Regulations and follow-up of any issues identified; and
- analysis of the internal control reports submitted by the ROs on an annual basis in terms of Banks Act Circular 3/2004.

Appendix 5

Circulars, directives, guidance notes and proposed directives issued in 2017

Banks Act Circulars issued in 2017

C1/2017	Status of previously issued circulars
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Banks Act Directives issued in 2017

D1/2017	Matters related to qualifying capital instruments issued by subsidiaries of banks or controlling companies
D2/2017	Matters related to the communication of key audit matters in the independent auditor's report
D3/2017	Assets lodged or pledged to secure liabilities
D4/2017	Matters related to securitisation vehicles
D5/2017	Regulatory treatment of accounting provisions: interim approach and transitional arrangements, including disclosure and auditing aspects
D6/2017	Process in terms of specific capital issuances and redemptions
D7/2017	Submission of regulatory and economic capital information by domestic systemically important banks and controlling companies (D-SIBs) on a biannual basis
D8/2017	Matters related to the net stable funding ratio

Banks Act Guidance Notes issued in 2017

G1/2017	Status of previously issued guidance notes
G2/2017	Meetings to be held during the 2017 calendar year with the boards of directors of banks and controlling companies
G3/2017	Audit implications of the expected credit loss model for the auditors of banks
G4/2017	Cyber-resilience
G5/2017	Provision of a committed liquidity facility by the South African Reserve Bank
G6/2017	Loss absorbency requirements for additional tier 1 and tier 2 capital
G7/2017	Capital standard for bank exposures to central counterparties, the standardised approach for measuring counterparty credit risk exposures, and capital requirements for banks' equity investments in funds

Appendix 6

Exemptions and exclusions from the application of the Banks Act 94 of 1990

Section 1(1)(cc): Exemptions by the Registrar of Banks with approval of the Minister of Finance

Exemption Notice	Government Gazette	Expiry
Mining houses	No. 16167 of 14 December 1994	Indefinite
Trade in securities and financial instruments	No. 16167 of 14 December 1994	Indefinite
Commercial paper	No. 16167 of 14 December 1994	Indefinite
Securitisation schemes	No. 30628 of 1 December 2008	Indefinite
Common bond	No. 37903 of 15 August 2014	Indefinite
International Finance Corporation (IFC)	No. 39411 of 13 November 2015	Indefinite

Section 1(1)(dd): Exemptions by the Minister of Finance

Exemption Notice	Government Gazette	Expiry
Participation bond schemes	No. 13003 of 31 January 1991	Indefinite
Unit trust schemes	No. 13003 of 31 January 1991	Indefinite
Ithala SOC Limited, a wholly owned subsidiary of Ithala Development Finance Corporation Limited	No. 41064 of 25 August 2017	30 September 2019

Section 1(ff): Exemptions by the Registrar of Banks

Exemption Notice	Government Gazette	Expiry
Designation of stockbrokers to pool funds	No. 15976 of 14 September 1994	Indefinite

Section 1(gg): Exemptions by the Registrar of Banks

Exemption Notice	Government Gazette	Expiry
Designation of JSE Limited members as persons authorised to accept money as mandatories and to deposit such money into banking accounts maintained by them	No. 19283 of 22 September 1998	Indefinite

Section 2(vii): Exclusions by the Minister of Finance

Exemption Notice	Government Gazette	Expiry
Post Office Savings Bank	No. 13744 of 24 January 1992	Indefinite
Industrial Development Corporation of South Africa	No. 16167 of 14 December 1993	Indefinite

Section 78(1)(d)(iii): Exemptions by the Registrar of Banks

Exemption Notice	Government Gazette	Expiry
Category of assets of a bank that may be held in the name of a person other than the bank concerned	No. 17949 of 2 May 1997	Indefinite

Appendix 7

Memorandums of understanding between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2017

The purpose of a memorandum of understanding (MoU) is to provide a formal basis for a bilateral working relationship and cooperation between supervisors, including the sharing of information and investigative assistance.

It should be noted that any MoU entered into by BSD does not modify or supersede any laws or regulatory requirements in force in, or applying to, the Republic of South Africa. Accordingly, an MoU sets forth a statement of intent and does not create any enforceable rights.

MoU concluded between BSD and foreign supervisors as at 31 December 2017

Domicile of foreign regulator	Foreign banking supervisor	Effective from
1 Argentina	Superintendencia de Entidades Financieras y Cambiarias (Central Bank of Argentina)	18 July 2007
2 Australia	Australian Prudential Regulation Authority	4 July 2007
3 Botswana	Bank of Botswana	4 October 2016
4 Brazil	Banco Central Do Brasil	4 July 2012
5 China	China Banking Regulatory Commission	17 November 2010
6 Germany	Bundesanstalt für Finanzdienstleistungsaufsicht	13 August 2004
7 Ghana	Bank of Ghana	26 October 2011
8 Guernsey	Guernsey Financial Services Commission	10 July 2015
9 Hong Kong	Monetary Authority of Hong Kong	12 December 2006
10 India	Reserve Bank of India	21 October 2011
11 Ireland	Irish Financial Services Regulatory Authority	21 July 2003
12 Isle of Man	Financial Supervision Commission of the Isle of Man	13 August 2001
13 Jersey	Jersey Financial Services Commission	11 June 2010
14 Kenya	Central Bank of Kenya	1 July 2010
15 Lesotho	Central Bank of Lesotho	27 August 2010
16 Malawi	Reserve Bank of Malawi	20 August 2015
17 Mauritius	Bank of Mauritius	25 January 2005
18 Mozambique	Banco de Mozambique	24 August 2011
19 Namibia	Bank Supervision Department of the Bank of Namibia	11 September 2015
20 Netherlands	De Nederlandsche Bank	23 March 2010
21 Nigeria	Central Bank of Nigeria	20 March 2008
22 Republic of South Sudan	Bank of South Sudan	14 November 2011
23 Swaziland	Central Bank of Swaziland	15 April 2010
24 Taiwan	Financial Supervisory Commission of the Republic of China (Taiwan)	14 March 2012
25 Tanzania	Bank of Tanzania	15 June 2010
26 Uganda	Bank of Uganda	15 June 2010
27 United Arab Emirates	Dubai Financial Services Authority	8 August 2009
28 United Kingdom*	Financial Services Authority	21 July 2006
29 Zambia	Bank of Zambia	26 June 2017

* A letter of intent has been signed between the Bank Supervision Department of the South African Reserve Bank, and the Financial Services Authority and the Bank of England, rendering the terms of the current MoU applicable to the Prudential Regulation Authority and Financial Sector Conduct Authority as may be relevant.

Appendix 7

Memorandums of understanding between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2017 (continued)

Southern African Development Community – Protocol on Finance and Investment

The 15 heads of state or government of the Southern African Development Community (SADC) have signed a Protocol on Finance and Investment (PFI). The PFI includes a section setting out the framework for cooperation and coordination in banking regulatory and supervisory matters. The 15 SADC countries are:

- 1 Angola
- 2 Botswana
- 3 Congo
- 4 Lesotho
- 5 Madagascar
- 6 Malawi
- 7 Mauritius
- 8 Mozambique
- 9 Namibia
- 10 Seychelles
- 11 South Africa
- 12 Swaziland
- 13 Tanzania
- 14 Zambia
- 15 Zimbabwe

Appendix 8

Summary of key matters communicated by the Basel Committee on Bank Supervision during 2017

In 2017, the BCBS issued various documents and further requirements that will, over the next few years, materially impact on the regulation and supervision of banks and banking groups. The following documents highlight the matters addressed:

- Frequently asked questions on market risk capital requirements
- Basel III framework: the net stable funding ratio: frequently asked questions
- Pillar 3 disclosure requirements: consolidated and enhanced framework
- Regulatory treatment of accounting provisions: interim approach and transitional arrangements
- Prudential treatment of problem assets: definitions of non-performing exposures and forbearance
- Basel III framework: the liquidity coverage ratio: frequently asked questions
- Range of practices in implementing the countercyclical capital buffer policy
- Implications of FinTech developments for banks and bank supervisors – consultative document
- Basel III framework definition of capital: frequently asked questions
- Implementation of the net stable funding ratio and treatment of derivative liabilities
- Identification and management of step-in risk
- Basel III framework: finalising post-crisis reforms

Frequently asked questions on market risk capital requirements

To promote a consistent global implementation of the minimum capital requirements for market risk issued by the BCBS in January 2016, the BCBS has agreed to periodically review frequently asked questions (FAQs) and publish answers along with any technical elaboration of the standards text and interpretative guidance that may be necessary.

The document published by the BCBS on 26 January 2017¹ sets out the FAQs on the revised market risk standard. The questions and answers include clarifications both to the standardised approach and the internal models-based approach.

Basel III framework: the net stable funding ratio: frequently asked questions

To promote a consistent global implementation of the Basel III net stable funding ratio (NSFR) requirements, the BCBS published FAQs and answers along with a technical elaboration of the Basel III NSFR rules text and interpretative guidance on 24 February 2017.²

Pillar 3 disclosure requirements: consolidated and enhanced framework

To promote market discipline through regulatory disclosure requirements, the BCBS published the consolidated and enhanced Pillar 3 disclosure framework on 29 March 2017.³

The enhancements contain three main elements:

- Consolidation of all the existing BCBS disclosure requirements into the Pillar 3 framework, covering the composition of capital, the leverage ratio, the liquidity ratios, the indicators for determining globally systemically important banks, the countercyclical capital buffer, interest rate risk in the banking book and remuneration.
- Introduction of a ‘dashboard’ of banks’ key prudential metrics which will provide users of Pillar 3 data with an overview of a bank’s prudential position and a new disclosure requirement for banks that records prudent valuation adjustments to provide users with a granular breakdown of its calculation.

¹ Available at <https://www.bis.org/bcbs/publ/d395.htm>

² Available at <https://www.bis.org/bcbs/publ/d396.htm>

³ Available at <https://www.bis.org/bcbs/publ/d400.htm>

- Updates to reflect ongoing reforms to the regulatory framework, such as the total loss-absorbing capacity regime for globally systemically important banks and the revised market risk framework published by the BCBS in January 2016.

Regulatory treatment of accounting provisions: interim approach and transitional arrangements

Due to the implementation of IFRS 9 with effect from 1 January 2018, the BCBS published details on 29 March 2017 regarding the interim regulatory treatment of accounting provisions as well as standards for jurisdictions to adopt transitional arrangements to smooth any potential significant negative impact on regulatory capital arising from the introduction of expected credit loss (ECL) accounting.⁴

Prudential treatment of problem assets: definitions of non-performing exposures and forbearance

To promote harmonisation in the measurement and application of two important measures of asset quality, namely non-performing exposures and forbearance, the BCBS published definitions and guidelines in respect of the prudential treatment of problem assets on 4 April 2017.⁵

Basel III framework: the liquidity coverage ratio: frequently asked questions

To promote a consistent global implementation of the Basel III liquidity coverage ratio (LCR) framework, the BCBS published FAQs and answers along with a technical elaboration of the Basel III LCR rules text and interpretative guidance on 8 June 2017.⁶

Range of practices in implementing the countercyclical capital buffer policy

The countercyclical capital buffer (CCyB) forms an integral part of the Basel III capital framework.

In 2010 the BCBS issued guidance for national authorities operating the CCyB as well as key requirements for CCyB policies. However, national authorities have considerable flexibility to design the particular details of their policies in a manner that best reflects specific national circumstances.

The document published by the BCBS on 22 June 2017⁷ provides details related to the various national CCyB policy frameworks and operational aspects, underlining the varying discretionary elements of jurisdictions' CCyB policy frameworks and practices.

Implications of FinTech developments for banks and bank supervisors: consultative document

Although FinTech is only the latest wave of innovation to affect the banking industry, the rapid adoption of enabling technologies and the emergence of new business models pose increasing challenges.

In this regard, on 31 August 2017 the BCBS published a consultative document on the implications of FinTech for the financial sector.⁸

Ten key observations and related recommendations have been identified for consideration by banks and bank supervisors:

- The overarching need to ensure safety and soundness and high compliance standards without inhibiting beneficial innovation in the banking sector.
- Key risks for banks related to FinTech developments, including strategic/profitability risks and operational, cyber and compliance risks.
- Implications for banks regarding the use of innovative enabling technologies.
- Implications for banks regarding the growing use of third parties, via outsourcing and/or partnerships.

⁴ Available at <https://www.bis.org/bcbs/publ/d401.htm>

⁵ Available at <https://www.bis.org/bcbs/publ/d403.htm>

⁶ Available at <https://www.bis.org/bcbs/publ/d406.htm>

⁷ Available at <https://www.bis.org/bcbs/publ/d407.htm>

⁸ Available at <https://www.bis.org/bcbs/publ/d415.htm>

- Cross-sectoral cooperation between supervisors and other relevant authorities.
- International cooperation between banking supervisors.
- Adaptation of the supervisory skill set.
- Potential opportunities for supervisors to use innovative technologies.
- Relevance of existing regulatory frameworks for new innovative business models.
- Key features of regulatory initiatives set up to facilitate FinTech innovation.

Basel III framework's definition of capital: frequently asked questions

To promote a consistent global implementation of the Basel III capital framework, the BCBS published FAQs and answers along with a technical elaboration of the relevant Basel III rules text and interpretative guidance on 19 September 2017.⁹

Implementation of the net stable funding ratio and treatment of derivative liabilities

The Basel III NSFR framework assigns a 20% 'required stable funding' factor to derivative liabilities.

On 6 October 2017, the BCBS confirmed that it has been agreed that, at national discretion, jurisdictions may lower the value of this factor, with a floor of 5%.¹⁰

Identification and management of step-in risk

To mitigate the systemic risks stemming from potential financial distress in shadow banking entities spilling over to banks, the BCBS published guidelines relating to the identification and management of step-in risk on 25 October 2017.¹¹

Basel III framework: finalising post-crisis reforms

The Basel III framework is a central element of the BCBS's response to the global financial crisis.

On 7 December 2017, the BCBS published revisions to the framework¹² to address various shortcomings of the pre-crisis regulatory framework. The revised framework provides a regulatory foundation for a resilient banking system that supports the real economy.

⁹ Available at <https://www.bis.org/bcbs/publ/d417.htm>

¹⁰ Available at <https://www.bis.org/bcbs/publ/d417a.htm>

¹¹ Available at <https://www.bis.org/bcbs/publ/d423.htm>

¹² Available at <https://www.bis.org/bcbs/publ/d424.htm>

Abbreviations

AACB	Association of African Central Banks
AEG	Accounting Experts Group
AIRB	advanced internal ratings-based
AML	anti-money laundering
BAGL	Barclays Africa Group Limited
BASA	Banking Association South Africa
Banks Act	Banks Act 94 of 1990
BCBS	Basel Committee on Banking Supervision
Basel III	'Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems' and 'Basel III: International Framework for Liquidity Risk Management, Standards and Monitoring'
Board	board of directors
BSD	Bank Supervision Department
CABS	Community of African Bank Supervisors
CAR	capital adequacy ratio
CET 1	common equity tier 1
CFT	combating the financing of terrorism
Core Principles	Core Principles for Effective Banking Supervision
CP 17	Core Principle 17
CRG	credit risk group
D-SIB	domestic systemically important bank
ERIBB	equity risk in the banking book
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FAQs	frequently asked questions
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act 38 of 2001
FinCoNet	International Financial Consumer Protection Organisation
FinTech	financial technology
FRTB	fundamental review of the trading book
FSB	Financial Services Board
FSCA	Financial Sector Conduct Authority
FSR Act	Financial Sector Regulation Act 9 of 2017
G-20	Group of Twenty
IAASB	International Auditing and Assurance Standards Board
IAS 39	International Accounting Standard 39
IASB	International Accounting Standards Board
ICAAP	internal capital adequacy assessment process
IFRS 9	International Financial Reporting Standard 9
IMA	internal model-based approach for market risk
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IRB	internal ratings-based
IRBA	Independent Regulatory Board for Auditors
ISA	International Standard on Auditing
IT	information technology
ITSG	Information Technology Supervisors Group
King IV	King IV Report on Corporate Governance for South Africa 2016
KYC	know your customer
LCR	liquidity coverage ratio
LGD	loss given default
MAFR	mandatory audit firm rotation
MoU	memorandum of understanding
MRG	market risk group
Mutual Banks Act	Mutual Banks Act 124 of 1993
NSFR	net stable funding ratio
ORG	operational resilience group
OTC	over the counter

PA	Prudential Authority
PDG	Policy Development Group
Principles	Principles for Effective Risk Data Aggregation and Risk Reporting
QIS	quantitative impact study
RAS	risk appetite statement
RCAP	Regulatory Consistency Assessment Programme
RDN	Risk Data Network
RDS	Residual Debt Services
Registrar	Registrar of Banks
Regulations	Regulations relating to Banks
RO Regulations	Regulations relating to Representative Offices of Foreign Banking Institutions
RO	Representative Office
RPD	Resolution Planning Division
SADC	Southern African Development Community
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SFA	strategic focus area
SLA	service level agreement
SIG	Supervision and Implementation Group
SREP	supervisory review and evaluation process
STA	standardised approach for credit risk
TBG	Trading Book Working Group
TFFT	Task Force on Financial Technology
WGC	Working Group on Capital
WGL	Working Group on Liquidity
WGOR	Working Group on Operational Risk