South African Reserve Bank

Prudential Authority

06 April 2020

Press release on regulatory relief measures and guidance to the banking sector in response to COVID-19

The impact of the coronavirus disease 2019 (COVID-19) is likely to have a lasting and detrimental effect on the economy. While the depth and length of the economic downturn remain uncertain, there is already evidence of stress at both the household and business levels, with small businesses of particular concern.

South Africa has a strong and resilient banking system with adequate levels of capital and significant liquidity buffers to manage this stress. The Basel framework, around which bank regulations are structured, has built-in buffers on both the capital and liquidity elements of the regulation for banks to draw on during times of financial stress.

The Prudential Authority (PA) welcomes the measures taken by banks to support their customers during this period of economic turmoil and uncertainty. A safe, sound and robust banking system is a key part of South Africa's shock absorbers during these times.

In addition to the actions taken by the South African Reserve Bank (SARB) on deploying monetary policy tools to mitigate the impact of COVID-19, the PA has decided to support the banking system in response to the needs of banking customers. The PA will provide for regulatory relief measures as well as guidance to banks in managing the crisis. The regulatory relief measures are provided for in three areas, namely capital relief on restructured loans that were in good standing before the COVID-19 crisis, a lower liquidity coverage ratio (LCR) and lower capital requirements.

The PA is temporarily amending Directive 7 of 2015 on Restructured Exposures, which means that for the duration of the crisis, loans restructured as a result of the impact of COVID-19 will not attract a higher capital charge. This amendment covers loans to households, small- and medium-sized businesses and corporates, and for specialised lending.

For the duration of the crisis, the LCR, a ratio setting out the liquid assets a bank has to maintain in relation to its anticipated outflows, is being lowered from 100% to 80%.

In relation to capital relief, the Pillar 2A capital buffer, which is set at 1% of risk-weighted assets, is now set at zero. The PA has also provided clear criteria that provide for banks to dip into their capital conservation buffer, which is set at 2.5% of risk-weighted assets.

The PA plans to announce a timetable according to which banks can restore these buffers once the COVID-19 crisis has abated. This timetable will be sensitive to the need to balance the rebuilding of buffers to ensure a resilient banking system, with the negative effect that such measures could have on credit extension and economic growth.

While it should be noted that the PA is not the accounting standards regulator, it has provided guidance to the banking industry on how International Financial Reporting Standard (IFRS) 9 could be implemented during this period of volatility and stress. IFRS 9 is an important accounting standard applicable on expected credit losses in the banking sector and calculates expected credit losses over a business cycle.

The Basel framework, which provides clear rules on when discretionary dividend and bonus payments can be limited, is likely to be impacted. These constraints generally kick in when a bank breaches or is about to breach its capital buffer, which could become progressively tighter, leading it to dip into its capital buffers. With the high probability that the impact of COVID-19 will result in heightened stress in the banking system, the PA is issuing a guidance note advising banks not to distribute discretionary ordinary dividends during this period. Similarly, bonuses for senior executives should also be put on hold during this period.

The measures taken by the PA complement the steps taken by the SARB. These measures are being taken to mitigate the impact of COVID-19, while at the same time pointing out that South Africa's banking system is robust and well-capitalised.

Today, the PA issued the following two Directives and one Guidance Note, which can be accessed on the website:

- D2/2020 - Matters related to temporary capital relief to alleviate risks posed by the Covid 19 pandemic;
- D3/2020 - Matters related to the treatment of restructured credit exposures due to the Coronavirus (Covid-19) pandemic; and
- G4/2020 - Recommendations on the distribution of dividends on ordinary shares and payment of cash bonuses to executive officers and material risk takers, in light of the negative economic impact of the Coronavirus Disease (Covid-19) pandemic and the temporary regulatory capital relief provided by the Prudential Authority.

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