

2004-06-29

## **BANKS ACT CIRCULAR 11/2004**

**TO ALL CHIEF EXECUTIVE OFFICERS OF BANKS, BRANCHES OF FOREIGN BANKS AND MUTUAL BANKS**

### **CAPITAL-RESERVE REQUIREMENTS RELATING TO BANKS AS CENTRAL SECURITIES DEPOSITORY PARTICIPANTS ("CSDPs") IN SHARE TRANSACTIONS TOTALLY ELECTRONIC ("STRATE")**

#### **1. Introduction**

Following the introduction of the dematerialisation of marketable securities into STRATE in 1999, this Office, in 2000, introduced a capital requirement by means of regulation 21(9) of the Regulations relating to Banks ("the Regulations") to cater for the potential risks to which banks, as CSDP members, were exposed during the above-mentioned dematerialisation. Regulation 21(9) of the Regulations requires a bank to hold a capital requirement, risk weighted at 5 per cent, in respect of the exposure resulting from the dematerialisation of marketable securities held in custody as a CSDP under STRATE, if not covered by a dispossessed members fund ("DMF"). Should a bank's exposure to the dematerialisation of marketable securities be covered by a DMF, a nil per cent risk weighting may be applied.

As a result of the DMF introduced by STRATE, in conjunction with the market, banks were required to report their above-mentioned exposures in line item 6 of the form DI 110, under the nil per cent risk weighting, until such time as the DMF had expired. The DMF expired in September 2002, with a further run-off period of one year, within which no further claims were to be entertained.

As a result of the expiry of the DMF and the progress made with the dematerialisation process, this Office wishes to clarify the position pertaining to the capital requirement to be held by banks in respect of the exposures resulting from the dematerialisation of marketable securities.

#### **2. Capital requirement**

This Office has been informed that the dematerialisation of marketable securities into STRATE has largely been completed. After due consideration of requests received from interested parties, as well as information gathered on the claims ratio on the DMF during the dematerialisation process, this Office concluded that the outstanding exposures pertaining to the dematerialisation of marketable securities into STRATE should be categorised as operational risk.

Banks are therefore required to continue reporting their potential exposure, as required by regulation 21(9) of the Regulations, to dematerialised script in line item 6 of the form DI 110 and allocate such exposures to the nil per cent risk weighting, as was done previously. Should a bank not be in a position to report the said potential exposure, reporting of the total exposure is required, as was previously reported by several of the banks concerned. Should calculation of the potential exposure not be possible, reporting of the total exposure will assist this Office in monitoring the potential operational-risk exposures, with reference to the implementation of the new Capital Accord ("Basel II"). Upon implementation of Basel II, banks will be required to include such exposures in operational-risk requirements.

#### **3. Acknowledgement of receipt**

Two additional copies of this circular are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.

**E M Kruger**  
**Registrar of Banks**

The previous circular issued was Banks Act Circular 10/2004 dated 22 June 2004.