

2004-05-12

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

BANKS ACT CIRCULAR 6/2004

**UPDATE ON THE LATEST DEVELOPMENTS PERTAINING TO THE NEW BASEL
CAPITAL ACCORD ("BASEL II")**

1. BASEL COMMITTEE ANNOUNCEMENT

The Basel Committee on Banking Supervision ("Basel Committee") held a key two day meeting this week in Basel, Switzerland to reach consensus on the remaining issues regarding the Basel II proposals. This Office would like to bring three fundamental announcements made yesterday by the Basel Committee to the attention of banks, as it may have an impact on their implementation plans:

- a. The Basel Committee confirmed that it will publish the text of Basel II at the end of June 2004, as initially agreed. The text will be sufficiently detailed to allow supervisors to proceed with their rule-making process and banks to continue their implementation initiatives.
- b. In light of the complexity of the advanced approaches provided in Basel II, the Basel Committee "... confirmed that the standardized and foundation approach will be implemented from year-end 2006. The Committee feels that one further year of impact analysis/parallel running will be needed for the most advanced approaches, and these therefore will be implemented at year-end 2007. This will also provide additional time for supervisors and the industry to develop a consistent approach for implementation." The Vice Chairman of the Basel Committee, Mr Nick Le Pan also stated that "[r]egulators and bankers gain an opportunity to enhance banking supervision and risk management, although non-member countries must proceed at their own pace based on their own priorities."

This approach is in line with the scope of application adopted by this Office, and which was communicated in our consultative document (Circular 2/2004) in February this year. This position of the Basel Committee will accordingly have no material impact on banks in South Africa, except that banks wanting to adopt the advanced approaches (subject to minimum requirements being met) will only be able to do so (on a case-by-case basis) after year-end 2007, instead of the initially proposed date of year-end 2006. This Office supports the Basel Committee's decision and believes it prudent to adopt a phased approach to the implementation of Basel II.

- c. The Basel Committee reached agreement on several outstanding technical issues, the details of which are attached, together with the Basel Committee's press release.

2. 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

ENCL. 1

The previous circular issued was Banks Act Circular 5/2004 dated 26 April 2004.