



South African Reserve Bank

FROM THE OFFICE OF
THE REGISTRAR OF BANKS

CONFIDENTIAL

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BANKS ACT CIRCULAR 8/2006

TO ALL BANKS, BRANCHES OF FOREIGN BANKS AND MUTUAL BANKS

ENDORSEMENT OF REVISED CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

The biennial International Conference of Banking Supervisors was held in Mérida, Mexico on 4-5 October 2006. At this gathering, senior bank supervisors from 120 countries endorsed the revised Core Principles for Effective Banking Supervision and its Methodology (collectively hereinafter referred to as the "Core Principles"). In this regard, the relevant press release is attached hereto for ease of reference.

Circular 3/2006 outlined the process that was followed by the Basel Committee on Banking Supervision ("Basel Committee") in updating the Core Principles and also invited comments from the banking industry. In this regard, this Office would like to thank those institutions which provided comments.

It is the intention of this Office to be fully compliant with the revised Core Principles as a matter of urgency and therefore, various initiatives have already been undertaken towards the attainment of this objective. Compliance with the Core Principles will enhance the Bank Supervision Department's banking supervisory processes in the attainment of its objectives.

The Core Principles cover a wide range of aspects of a supervisory system, resulting in it having an impact on the operations and governance of other stakeholders such as your institution, its shareholders and external auditors. In light of this, this Office strongly recommends that your institution and all its relevant stakeholders become conversant with the revised Core Principles, which are available on the Basel Committee's website at <http://www.bis.org/press/p061005a.htm>.

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 7/2006 dated 15 August 2006.



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Bank supervisors from 120 countries endorse updated international principles for effective banking supervision

5 October 2006

At the International Conference of Banking Supervisors held in Mérida, Mexico, on 4–5 October 2006, bank supervisors from central banks and supervisory agencies in 120 countries endorsed the updated version of the Basel Core Principles for Effective Banking Supervision and its Methodology. They declared their continued support for the implementation of international minimum standards for bank supervision in all countries.

The Core Principles were originally written and agreed in 1997, being one part of the global response to strengthen the international financial system in the wake of the financial crises that occurred during the 1980's and 1990's. The 25 Principles are globally agreed minimum standards for banking regulation and supervision, covering a wide range of aspects including areas such as licensing, ownership of banks, bank capital adequacy, risk management, consolidated supervision, ways to deal with problematic situations in banks, and the division of tasks and responsibilities between home and host authorities. The Core Principles Methodology, which was developed in 1999, provides further details and guidance to assist in the interpretation and assessment of the 25 Core Principles.

A periodical assessment of compliance with the Core Principles helps countries to assess the strengths and weaknesses in their supervisory systems and methods, and to identify areas for improvement. This exercise also facilitates finding the most relevant measures to remedy those shortcomings. The assessments may take different forms. Many countries have conducted self-assessments. In addition, over 130 countries have now been assessed, or are in the process of being assessed, by the International Monetary Fund (IMF) and the World Bank as part of the Financial Sector Assessment Program. As a result of the assessments, many countries have taken measures to improve their supervisory systems and methods, helping to foster financial stability.

Updating of the Core Principles

Since the publication of the Core Principles in 1997, there have been many innovations and developments in banking, the financial instruments and markets within which banks operate, and the methods and approaches used by supervisors. In addition, experience gained through country assessments have made it clear that parts of the Principles should be further clarified and strengthened. Thus, the Basel Committee on Banking Supervision (BCBS) decided in 2004 that, in order for the Core Principles to remain a flexible, globally applicable standard, the time had come to embark on a project to update them.

The updated Core Principles that are being issued today ensure their continued validity and usefulness. In conducting the review, the Committee has aimed to ensure continuity and comparability with the 1997 version. It has also recognised the need to make them more flexible so as to promote effective supervision of both advanced and less advanced banking systems through the refinement of the essential and additional criteria in the Methodology.

The revision also pays significantly more attention to sound risk management and corporate governance practices. A new "umbrella" principle covering all common aspects across different risk types has been added, and the criteria for assessing interest rate, liquidity and operational risks have been enhanced. The criteria dealing with the fight against money laundering and terrorist financing as well as fraud prevention have also been strengthened.

In addition, cross-border and cross-sectoral trends and developments are reflected more comprehensively, as is the need for closer cooperation and information exchange between supervisors of different sectors and countries. The review also stresses the importance of the independence, accountability and transparency of bank supervisory authorities.

The update of the Core Principles and its Methodology has been achieved in association with the Core Principles Liaison Group, the Committee's working group that includes banking supervisors from sixteen non-Committee member jurisdictions as well as the IMF and the World Bank. The project has also gone through two consultative processes, the initial one involved direct stakeholders such as Regional Groups of Supervisors and other international standard-setters. This was followed by a public consultation process.

Speaking at the International Conference of Banking Supervisors, the Chairman of the Basel Committee and President of De Nederlandsche Bank, Mr Nout Wellink said "The Core Principles have for many years been a useful tool for countries, helping them to improve their banking supervision. The now completed update ensures that the Principles will remain current and relevant". Mr Wellink also thanked ICBS participants for their input and contributions to the revised document, noting that "The update process has benefited from the input of supervisors from all over the world with very different types of systems, structures and experiences. This process serves as an example of how engagement across a wide range of countries and other stakeholders can enhance the quality of the work."

Mr Göran Lind, the BCBS representative from the Sveriges Riksbank who chaired the update project, said that "The new text reflects the latest developments in banking and supervision. At the same time, we have been keen to preserve the effectiveness of the Core Principles and promote their continuity by only making the changes that were deemed to be strictly necessary."

The updated Core Principles should as a rule be used for future assessments of countries' banking regulation and supervision. The BCBS recognises that implementation might take time and the International Financial Institutions will reflect this in their assessments under the new standard. Moreover, the continued validity and usefulness of the 1997 Principles means that assessment work currently under way can continue to be based on the 1997 version of the Principles. This will facilitate the transition to the updated framework. ICBS participants encourage the international community of banking supervisors to work towards adapting their legislation, regulations and methods for supervision, in line with the updated standards as outlined in the revised Principles.

Technical Notes for Editors:

The **International Conference of Banking Supervisors** is a biennial event, held since 1979, which is attended by senior representatives of supervisory authorities and central banks worldwide. Its aim is to promote cooperation among national authorities in the supervision of international banking and to facilitate exchanges of views on a range of current issues of common concern.

The **Basel Committee on Banking Supervision** provides a forum for regular cooperation on banking supervisory matters. Over recent years, it has developed increasingly into a standard-setting body on all aspects of banking supervision, including the Basel II regulatory capital framework. The Committee's members come from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States.

The **Core Principles Liaison Group** (CPLG) gathers senior representatives from eight Committee member countries (France, Germany, Italy, Japan, the Netherlands, Spain, the United Kingdom, and the United States), 16 non-G10 supervisory authorities (Argentina, Australia, Brazil, Chile, China, the Czech Republic, Hong Kong, India, Korea, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, and the West African Monetary Union), the European Commission, IMF, World Bank, and the Financial Stability Institute. The CPLG was originally established to serve as a technical group to discuss and oversee the application of the **Basel Core Principles**. While continuing the work under this original

mandate, the CPLG has developed into a high-level forum for the Committee to liaise regularly with senior non-G10 supervisors, the IMF and World Bank on the main issues on the Committee's agenda.

Documents:

- [Core Principles for Effective Banking Supervision](#)
- [Core Principles Methodology](#)

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