



South African Reserve Bank
From the Office of
the Registrar of Banks

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To: All banks, branches of foreign institutions, controlling companies and auditors of banks or controlling companies

Circular 4/2010 issued in terms of section 6(4) of the Banks Act, 1990

Basel Committee report to the G20: Comprehensive response to the international financial crisis

Executive summary

On 8 October 2010 this Office issued Banks Act Circular 3/2010 to bring to the attention of all banks, branches of foreign institutions, controlling companies and auditors of banks or controlling companies various matters that impact the regulation and supervision of banks and banking groups.

On 19 October 2010 the Basel Committee on Banking Supervision issued a report to the G20 that further describes the measures taken by the Basel Committee and its governing body, the Central Bank Governors and Heads of Supervision, to comprehensively respond to the lessons learned from the financial and economic crisis, and to strengthen the resilience of banks and the global banking system.

The Basel Committee's report to the G20 details, among other things, the key elements of the Basel Committee's reform programme and the ongoing work to strengthen the resilience of banks and the global banking system, including various matters related to micro prudential measures, macro prudential measures and the implementation of the reform measures.

The complete report of the Basel Committee to the G20 is available at <http://www.bis.org/publ/bcbs179.htm> and is attached hereto as Annexure A for ease of reference.

1. Introduction

- 1.1 On 8 October 2010 this Office issued Banks Act Circular 3/2010 to bring to the attention of all banks, branches of foreign institutions, controlling companies and auditors of banks or controlling companies various matters that impact the regulation and supervision of banks and banking groups, including:
- 1.1.1 matters related to the new regulatory landscape highlighted by Mr Nout Wellink, the Chairman of the Basel Committee and President of De Nederlandsche Bank during his opening speech on 22 September 2010 at the 16th International Conference of Banking Supervisors (ICBS) held in Singapore;
 - 1.1.2 regulatory requirements that will be implemented on 1 January 2012; and
 - 1.1.3 regulatory requirements that will be implemented on 1 January 2013 and thereafter; and
 - 1.1.4 the process of amending the Regulations relating to Banks.
- 1.2 On 19 October 2010 the Basel Committee on Banking Supervision (Basel Committee) issued a report to the G20 that further describes the measures taken by the Basel Committee and its governing body, the Central Bank Governors and Heads of Supervision (GHOS), to comprehensively respond to the lessons learned from the financial and economic crisis, and to strengthen the resilience of banks and the global banking system.

2. Basel Committee's response to the financial crisis: report to the G20

- 2.1 The Basel Committee's report to the G20 details, among other things, the key elements of the Basel Committee's reform programme and the ongoing work to strengthen the resilience of banks and the global banking system, including matters related to:
- 2.1.1 micro prudential measures.

The cornerstone of the Basel Committee's reforms is stronger capital and liquidity regulation.

But at the same time, it is critical that the aforesaid reforms are accompanied by improvements in supervision, risk management and governance, as well as greater transparency and disclosure.

2.1.2 macro prudential measures.

While stronger individual banks will lead to a stronger banking system, a bank-specific approach only will not be adequate to sufficiently promote financial stability.

Broader measures to address procyclicality and to strengthen the resilience of the entire banking system are equally important.

2.1.3 the implementation of the reform measures.

An integral component of the Basel Committee's standard-setting activities is to carefully consider the potential impact of its proposed standards.

In this regard the Basel Committee's report to the G20 also covers the work undertaken by the Committee to assess the impact of the reforms, and details the transitional arrangements.

2.1.4 future work.

The Basel Committee continues to work on a range of initiatives important to the resilience of banks and banking groups.

In addition, timely and full implementation and rigorous supervisory follow-up are necessary and important next steps.

2.2 Specific matters addressed as part of the micro prudential measures include:

2.2.1 capital, and in particular:

2.2.1.1 the quality and level of the capital base;

2.2.1.2 the increased risk coverage of the amended capital framework;

2.2.1.3 the decision to raise the level of required capital and reserve funds;

2.2.1.4 matters related to leverage;

2.2.2 liquidity, and in particular:

2.2.2.1 the introduction of global minimum liquidity standards;

2.2.2.2 a common set of monitoring metrics to assist supervisors in identifying and analysing liquidity trends;

2.2.3 matters related to corporate governance, risk management and supervision;

2.2.4 matters related to public disclosure.

- 2.3 Specific matters addressed as part of the macro prudential measures include:
 - 2.3.1 procyclicality, and in particular:
 - 2.3.1.1 requirements related to capital buffers;
 - 2.3.1.2 matters related to provisioning and fair value measurement;
 - 2.3.2 systemic risk and interconnectedness, including matters related to-
 - 2.3.2.1 contingent capital; and
 - 2.3.2.2 cross-border bank resolution.
- 2.4 Specific matters addressed as part of the implementation and reform measures include:
 - 2.4.1 an impact assessment, and in particular matters related to the earlier:
 - 2.4.1.1 comprehensive Quantitative Impact Study (QIS) undertaken to assess the impact of the reform package;
 - 2.4.1.2 macroeconomic impact assessment.
 - 2.4.2 the transitional arrangements for the implementation of the new standards and requirements.
- 2.5 Specific areas addressed as part of future work to be undertaken include matters related to:
 - 2.5.1 a fundamental review of the trading book;
 - 2.5.2 ratings and securitisations;
 - 2.5.3 systemically important banks;
 - 2.5.4 contingent capital;
 - 2.5.5 large exposures;
 - 2.5.6 cross-border bank resolution; and
 - 2.5.7 a review of the Core Principles for Effective Banking Supervision;

- 2.6 The complete report of the Basel Committee to the G20-
- 2.6.1 is available at <http://www.bis.org/publ/bcbs179.htm>; and
- 2.6.2 is attached hereto as Annexure A for ease of reference.

3. Acknowledgement of receipt

- 3.1 Two additional copies of this Banks Act 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 3/2010, dated 8 October 2010.