



South African Reserve Bank

From the Office of
the Registrar of Banks

C2/2012

2012-02-08

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

Circular 2/2012 issued in terms of section 6(4) of the Banks Act, 1990

Regulations relating to Banks and related matters

Executive summary

In order to ensure that the regulatory framework for banks and banking groups in South Africa remains relevant and current, the Bank Supervision Department (BSD) of the South African Reserve Bank hereby gives notice to banks, controlling companies, branches of foreign institutions and other interested persons that it has commenced with a process of further amendments to the regulatory framework to incorporate, among other things, the Basel III requirements issued by the Basel Committee on Banking Supervision.

1. Introduction

1.1 On 8 October 2010, this Office issued Circular 3/2010, explaining the reasoning behind the required changes to the regulatory framework and the continuous process to be followed by the BSD to effect the implementation of international regulatory and supervisory standards aimed at promoting the safety and soundness of the banking system in South Africa.

2. Implementation of Basel 2.5 requirements

2.1 On 31 October 2011, the Minister of Finance approved the amended Regulations relating to Banks (amended Regulations).

2.2 The amended Regulations essentially give effect to Basel 2.5, and aim, among other things:

- a) to strengthen the risk coverage of the capital framework;
- b) to reduce risks from certain securitisation and off-balance-sheet activities;

- c) to discourage excessive lending;
 - d) to strengthen board and senior management oversight in banks and banking groups;
 - e) to increase public disclosure; and
 - f) to strengthen the oversight of bankers' remuneration through incorporating the Financial Stability Board's Principles for Sound Compensation Practices. These principles are intended to better align the incentives for senior managers with the long term sustainability, and hence better risk management practices, of the institution.
- 2.3 Furthermore, during 2010 and 2011, this Office received various proposed amendments to the Regulations from banks, auditors of banks, risk specialists and analysts in the BSD, and other Departments of the Reserve Bank, and the BSD took various internal policy decisions in respect of specific matters that impact the regulation and supervision of banks, that needed to be incorporated into the Regulations, and the BSD identified areas in the Regulations that require correction or further clarification.
- 2.4 On 15 December 2011, the amended Regulations were published in Government Gazette No. 34838, and implemented with effect from 1 January 2012.
- 3. Notice of the continuous process to amend the Regulations relating to Banks**
- 3.1 In order to ensure that the regulatory framework for banks and banking groups in South Africa remains relevant and current, the BSD hereby gives notice to banks, controlling companies, branches of foreign institutions and other interested persons that it has commenced with its formal processes to amend the regulatory framework in accordance with the latest internationally agreed regulatory and supervisory standards. Therefore, this Office is in the process of finalising Draft 1 of the proposed amended Regulations relating to Banks (the amended Regulations for Basel III), which is due to be issued for comment at the end of March 2012.
- 3.2 Draft 1 of the amended Regulations for Basel III will essentially deal with the minimum requirements contained in the Basel III framework, which are to be phased in as from 1 January 2013. The policy of this Office is to implement the requirements of the Basel III framework as a minimum standard and, as in the past, a transparent and consultative process will be followed during the process of amending the Regulations.
- 3.3 Furthermore, the BSD will continue to issue circulars, directives and guidance notices to banks, controlling companies, branches of foreign institutions and other interested persons as and when further decisions are taken pertaining to the implementation of the Basel III requirements.
- 3.4 The Basel III framework is available at the following address:
<http://www.bis.org/bcbs/basel3.htm>

4. Acknowledgement of receipt

- 4.1 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.



René van Wyk
Registrar of Banks

The previous circular issued was Banks Act Circular 1/2012, dated 23 January 2012.