



South African Reserve Bank

From the Office of
the Registrar of Banks

C3/2013

2013-02-12

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

Circular 3/2013 issued in terms of section 6(4) of the Banks Act, 1990:

Interpretation and application of criteria relating to effective maturity

Executive summary

The Office of the Registrar of Banks (this Office) hereby informs all relevant persons of the interpretation and application of the criteria relating to effective maturity, as outlined in regulations 23(13)(d)(ii)(B) and 23(15)(f)(i) of the Regulations relating to Banks (the Regulations).

1. Introduction

1.1 It has come to the attention of this Office that banks have interpreted the provisions of regulations 23(13)(d)(ii)(B) and 23(15)(f)(i) of the Regulations in respect of effective maturity differently. These differences in interpretation have resulted in inconsistent capital calculations and reporting by banks with regard to regulations 23(13)(d)(ii)(B) and 23(15)(f)(i) of the Regulations.

1.2 The purpose of this Banks Act Circular is to provide clarity on the interpretation and application of the criteria relating to effective maturity, as outlined in regulations 23(13)(d)(ii)(B) and 23(15)(f)(i) of the Regulations.

2. Interpretation and application of criteria relating to effective maturity calculated for credit risk and counterparty credit risk

2.1 For the purposes of regulation 23(13)(d)(ii)(B)(i), the one-year floor and five-year cap are applicable to all exposures with an original maturity of greater than one year, irrespective of whether or not the exposure is collateralised.

2.2 For the purposes of regulation 23(13)(d)(ii)(B)(ii), the following criteria relating to the one-day floor are applicable:

2.2.1 The floor will only be applicable provided that the relevant documentation of the said exposure or transaction shall make provision for daily remargining; shall require daily revaluation; and shall make provision for the prompt liquidation or set-off of collateral in the event of default or failure to remargin.

2.2.2 The floor is applicable for exposures which relate to:

- i. an issued or confirmed short-term self-liquidating letter of credit;
- ii a fully collateralised capital market transaction such as an over-the-counter derivative transaction or a margin lending agreement; or
- iii a repo-style transaction, such as a repurchase or resale agreement or a securities lending or borrowing transaction.

2.2.3 The floor is not applicable to exposures in terms of which an obligor obtains ongoing finance from the relevant bank. For these exposures a floor of one year and a cap of five years are applicable.

2.3 For the purposes of regulation 23(13)(d)(ii)(B)(iii), a floor of one year and a cap of five years will be applicable for derivative instruments subject to a master netting agreement.

2.4 For the purposes of regulation 23(13)(d)(ii)(B)(iv), all exposures in the master netting agreement need to comply with the provisions/satisfy fully the requirements of regulation 23(13)(d)(ii)(B)(ii).

2.5 With regard to regulation 23(15)(f)(i), with specific reference to a bank that applies the standardised approach for the calculation of the required amount of capital and reserve funds for credit valuation adjustment (CVA) risk, effective maturity for CVA purposes shall be subject to a floor of one year whilst the cap of five years will not be applicable.

2.6 In the case of a bank that obtained the approval of the Registrar to adopt the Internal Model Method for the measurement of the bank's exposure to counterparty risk, effective maturity for CVA purposes shall be subject to a floor of one year, except for short-term exposures as envisaged in regulation 23(19)(c)(iii).

3. Acknowledgement of receipt

3.1 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 and the said auditors, must 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 2/2013, dated 28 January 2013.