



South African Reserve Bank

From the Office of  
the Registrar of Banks

C4/2013

2013-05-20

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

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

**Treatment of investments in banking, financial, securities, insurance and commercial entities**

### Executive summary

**The Office of the Registrar of Banks (this Office) hereby informs all relevant persons of the prescribed capital treatment of investments in banking, financial, securities, insurance and commercial entities.**

#### **1. Introduction**

- 1.1 In accordance with the implementation requirements of the Basel III framework, the amended Regulations relating to Banks (the Regulations) were implemented with effect from 1 January 2013. The amendments to the Regulations included certain changes to the South African capital framework, part of which relates to the capital treatment of certain investments in banking, financial, securities, insurance and commercial entities.
- 1.2 In order to prevent any potential ambiguity, Annexure A of this circular sets out a flow diagram in respect of the capital treatment of investments in banking, financial, securities, insurance and commercial entities that fall outside the scope of regulatory consolidation, as well as the treatment of the said entities that fall within the scope of regulatory consolidation.

#### **2. Capital treatment of specified investments**

- 2.1 The attached flow diagram clarifies the application of the Regulations and should be followed by banks for bank-solo reporting purposes on the form BA 700 as well as by banks and controlling companies for consolidated reporting purposes on the forms BA 600 and BA 700.

- 2.2 Furthermore, regulation 38(5)(a)(i)(J) of the Regulations shall only be applied to reciprocal cross holdings in respect of any instrument or share qualifying as capital of any other bank, controlling company, other financial entity or insurance entity (i.e. reciprocal cross holdings must be deducted in full from the qualifying capital of the reporting entity by applying a corresponding deduction approach), with the remainder of the investments receiving limited recognition as set out in regulations 38(5)(a)(i)(L) and 38(5)(a)(i)(M), read with regulation 38(5)(b), of the Regulations.
- 2.3 Banks, controlling companies and branches of foreign institutions' attention is drawn to regulation 38(5)(b) of the Regulations pertaining to threshold deductions. This Office shall continuously monitor investments in banking, financial, securities, insurance and commercial entities, as well as the application of regulation 38(5)(b) of the Regulations. Where there are concerns regarding the potential overstatement of net qualifying capital as a result of the application of regulation 38(5)(b), this Office reserves the right to impose certain conditions and restrictions as may be necessary to ensure that the capital position of the reporting bank or controlling company is not in any way compromised as a result of such application.

### **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.

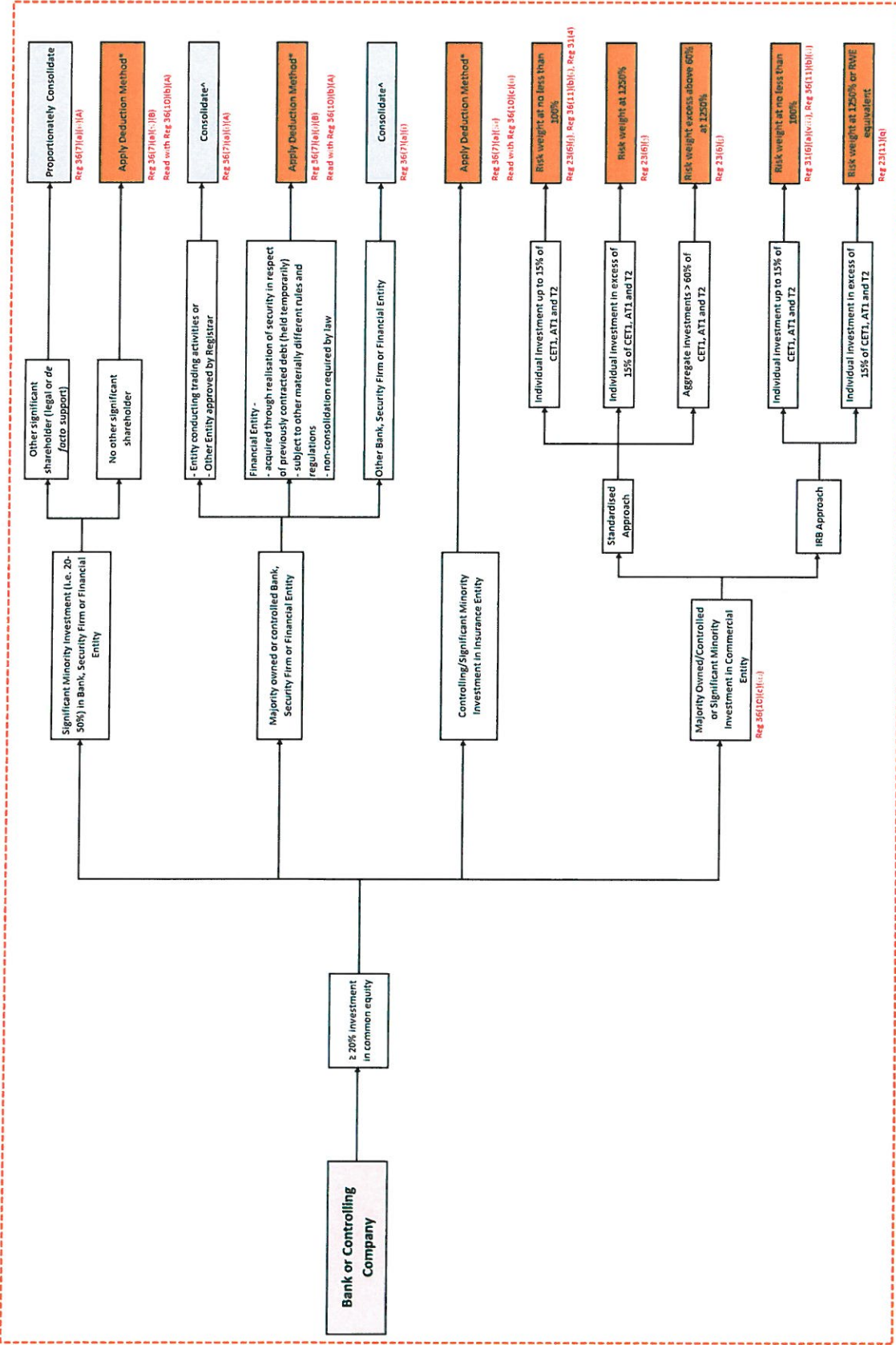


René van Wyk  
**Registrar of Banks**

The previous circular issued was Banks Act Circular 3/2013, dated 12 February 2013.

Encl. 1

Capital Treatment of Investments in Banking, Financial, Securities Firms, Insurance and Commercial Entities



Legend:

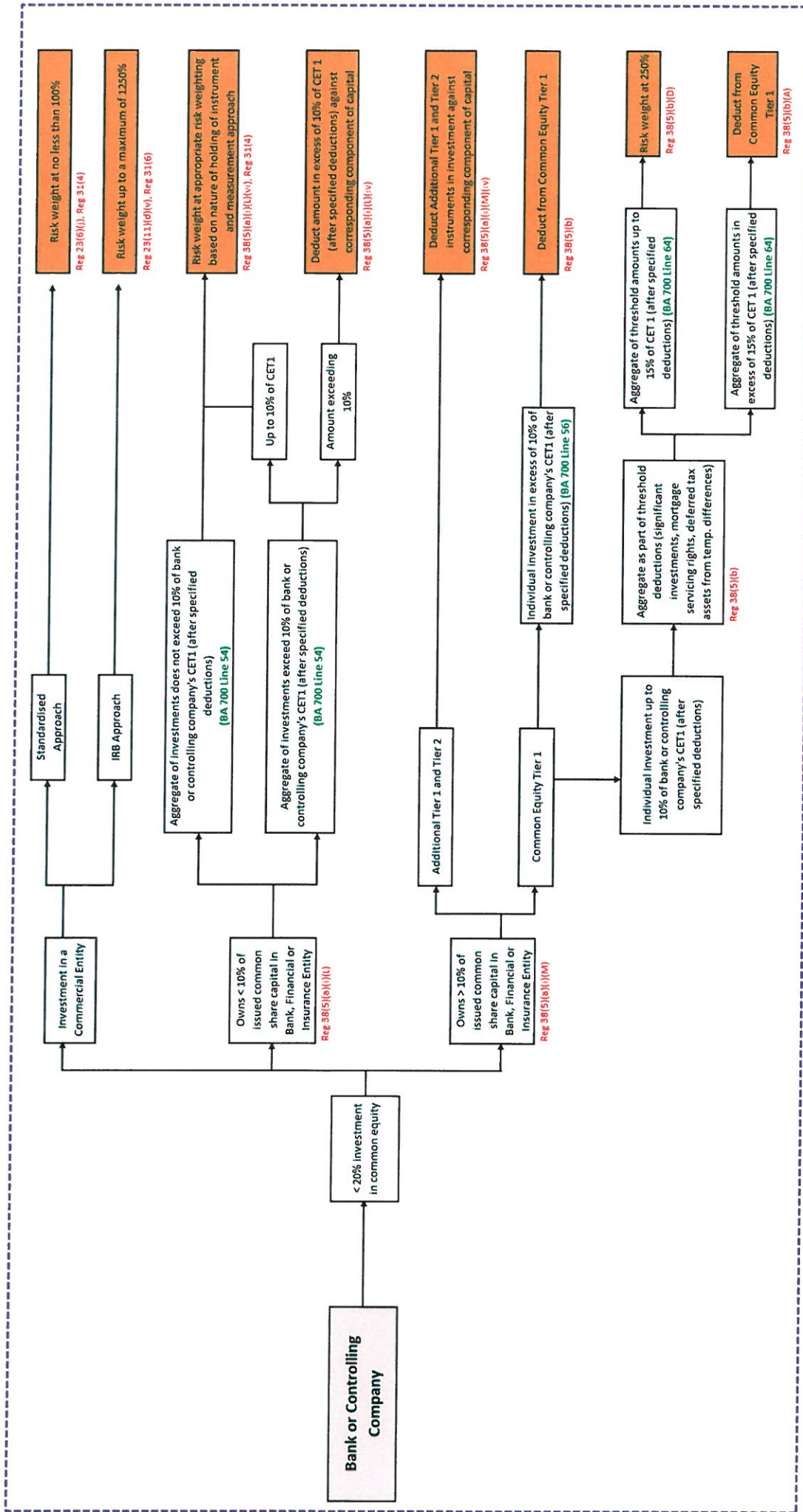
- Regulation 36
- In scope of Regulatory Consolidation
- Out of scope of Regulatory Consolidation

Entities to which the deduction method is applied should apply the provisions of Reg 38(5)(a)(i)(M), i.e. limited recognition is allowed (up to a specified threshold) after which any amounts above the specified thresholds will be deducted against capital

Banks may use either the Aggregation or the Full Consolidation method for investments for which consolidation is required.



# Capital Treatment of Investments in Banking, Financial, Securities Firms, Insurance and Commercial Entities



Legend:

Regulation 38 (5)

Out of scope of Regulatory Consolidation