



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

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

**Circular 2/2015 issued in terms of section 6(4) of the Banks Act 94 of 1990**

**Matters related to specified minority interests, that is, non-controlling interests, in shares and/or instruments qualifying as capital**

#### **Executive summary**

On 1 January 2008, 1 January 2012 and 1 January 2013, South Africa implemented amended Regulations relating to Banks (Regulations) which incorporated, among other things, the minimum requirements set out in internationally agreed frameworks and standards issued by standard-setting bodies such as the Financial Stability Board and the Basel Committee on Banking Supervision (Basel Committee). The amended Regulations issued on the above-mentioned three dates included the requirements specified in the Basel II, Basel 2.5 and the Basel III frameworks respectively.

In order to ensure that the legal framework for the regulation and supervision of banks and banking groups in South Africa remains relevant and current, the Bank Supervision Department (BSD) of the South African Reserve Bank continuously reviews its legal framework to ensure that the framework appropriately reflects local and international market developments, and complies with ever-evolving international regulatory and supervisory standards, and best practices.

Furthermore, as a member of the Basel Committee, the legal framework in terms of which the BSD regulates and supervises banks and banking groups is subject to ongoing international assessments and reviews, which include matters related to completeness and comparability. Any identified area of incompleteness or non-comparability results in the implementation of an appropriate amendment. This circular accordingly specifies such an area of the legal framework requiring amendment.

The Office of the Registrar of Banks (this Office) hereby informs all relevant persons of matters related to the prescribed treatment for the calculation of surplus capital relating to minority interests, to determine the portion of minority interests that may qualify as capital at a consolidated level.

## **1. Introduction**

- 1.1 The Regulations relating to Banks (the Regulations) that became effective on 1 January 2013 contain, among other things, specific requirements related to the treatment of minority interests arising from the issue of shares or instruments by a fully consolidated subsidiary of the reporting bank or controlling company (hereinafter referred to as 'banks') qualifying as capital, including specific requirements related to the surplus capital relating to the subsidiary attributable to third parties (minority shareholders), which has to be excluded from the relevant consolidated amount of qualifying capital.
- 1.2 Regulations 38(16)(a), 38(16)(b) and 38(16)(c) of the Regulations prescribe, among other things, the manner in which the relevant surplus amounts of common equity tier 1 capital and related premium (CET1), additional tier 1 capital and related premium (AT1) and tier 2 capital and related premium (T2) shall be calculated. In this regard, the capital requirement of the subsidiary shall be based on the relevant minimum requirement for CET1, AT1 and T2 of the bank for which the consolidation is performed, plus the relevant capital conservation buffer.
- 1.3 This circular replaces Circular 2 of 2013, issued on 28 January 2013, with effect from 1 April 2015. Furthermore, banks are advised that this Office will continue to monitor international developments around minority interests qualifying as capital.

## **2. Relevant minimum requirements relating to minority interests and other matters**

- 2.1 With effect from 1 April 2015, the relevant minimum capital requirement referred to in paragraph 1.2 above for CET1, AT1 and T2 shall be the relevant South African base minima specified from time to time, which includes the Pillar 2A requirement but excludes the Pillar 2B or bank-specific individual capital requirement (ICR) add-on. The capital conservation buffer, countercyclical buffer and domestic systemically important bank (D-SIB) capital add-ons are specifically included in the relevant minimum requirements, as imposed on the registered controlling company or registered local bank (please refer to Directive 5 of 2013 for further details in this regard).
- 2.2 For the purposes of determining the qualifying capital of subsidiaries, net of deductions, banks shall include reserve funds and retained earnings in accordance with the requirements specified in regulation 38(10) of the Regulations.
- 2.3 Furthermore, the calculation of surplus capital of the subsidiary attributable to third parties shall be based on the net amount, that is, the amount after any relevant haircut or limit, for the AT1 and T2 instruments in terms of regulations 38(13) and 38(14) of the Regulations.

2.4 During the transitional phase-in period of the South African base minima and certain buffer requirements, the relevant percentage referred to in paragraph 2.1 above shall be the minimum requirements as at 1 January 2019, imposed on the registered controlling company for purposes of consolidating all subsidiaries of the registered controlling company, or the minimum requirements as at 1 January 2019, imposed on the locally registered bank, for purposes of consolidating all the subsidiaries of the consolidated bank. Changes to the D-SIB and countercyclical capital requirements shall be applied as and when they are communicated by this Office.

### **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 1/2015, dated 21 January 2015.