



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 8/2015 issued in terms of section 6(4) of the Banks Act, No. 94 of 1990**

**Countercyclical capital buffer for South Africa based on the Basel III framework**

### **Executive summary**

**The purpose of this circular is to provide clarity in respect of matters related to the implementation of a countercyclical capital buffer to help protect the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of systemic risk.**

#### **1. Introduction**

- 1.1 The countercyclical capital buffer (CCB) forms an integral part of the internationally agreed standards for risk-based capital requirements. Implementation in South Africa begins in 2016, as set out in Directive 5/2013 issued in April 2013.<sup>1</sup> The Basel Committee on Banking Supervision (Basel Committee) has provided details of the regulatory framework in *Basel III: A global regulatory framework for more resilient banks and banking systems*,<sup>2</sup> and further information on operating the countercyclical capital buffer regime in *Guidance for national authorities operating the countercyclical capital buffer*.<sup>3</sup>
- 1.2 The main macroprudential objective of the CCB is to increase the resilience of the banking sector during periods of excess aggregate credit growth that are associated with the build-up of systemic risk. The countercyclical capital buffer may also help to lean against the build-up phase of the credit cycle.
- 1.3 The purpose of this circular is to provide clarity in respect of the phased-in implementation of the countercyclical capital buffer to help protect the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of systemic risk.

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<sup>1</sup> Available online at:

<http://www.resbank.co.za/publications/detail-item-view/pages/publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblast=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=5686>

<sup>2</sup> Available online at: <https://www.bis.org/publ/bcbs189.htm>

<sup>3</sup> Available online at: <https://www.bis.org/publ/bcbs187.htm>

## 2. Matters related to the calculation and implementation of the CCB

- 2.1 In accordance with the provisions of regulations 38(8)(e)(v) and 38(8)(g) of the Regulations relating to Banks, the CCB add-on rate will be set in a range of between 0 per cent and 2,5 per cent of risk-weighted assets (RWA).
- 2.2 Furthermore the CCB add-on rate:
- 2.2.1 shall be calculated as the weighted average of the buffers in effect in the jurisdictions to which banks have private sector credit exposures;<sup>4</sup> and
- 2.2.2 shall apply to bank-wide total RWA (including credit, market, and operational risk) as used in the calculation of all risk-based capital ratios, consistent with it being an extension of the capital conservation buffer.
- 2.3 National authorities may implement a buffer of more than 2,5 per cent, if this is deemed appropriate. However, there will be no requirement for other countries to apply buffers above 2,5 per cent (or the relevant thresholds during the transition period), or a pre-announced lead time that is shorter than 12 months, when implementing reciprocity.
- 2.4 Prompt communication of the application of the CCB will be done directly to banks, branches of foreign institutions and controlling companies (hereinafter collectively referred to as banks) and to the Secretariat of the Basel Committee, by this Office, but regular updates on the assessment of the macro financial conditions and the prospects for the potential implementation of or any change in buffer requirements will also be communicated through the Reserve Bank's six-monthly *Financial Stability Review*.
- 2.5 The credit-to-GDP gap as set out in the Basel Committee's *Guidance for national authorities operating the countercyclical capital buffer*<sup>5</sup> will be the main indicator informing the activation of the countercyclical capital buffer in South Africa. However, it shall not be the only indicator and the Reserve Bank may at its discretion use other indicators together with the credit-to-GDP gap.
- 2.6 A decision to release of the countercyclical buffer may be informed by a different set of indicator variables. Banks will be allowed to use the released portion of the countercyclical capital buffer that has been built up as soon as the reduction in the buffer rate is announced. This also applies to reciprocity.
- 2.7 A sectoral CCB may be set if this is deemed appropriate, although the mandatory reciprocity provisions will only apply to the countercyclical capital buffer that excludes the sectoral CCB.
- 2.8 In order to assist with the identification of the geographic location of private sector credit exposures, based on the concept of ultimate risk, the Basel Committee issued: Frequently asked questions on the Basel III Countercyclical Capital Buffer during October 2015.<sup>6</sup>

<sup>4</sup> Reciprocity is mandatory for all Basel Committee member jurisdictions.

<sup>5</sup> Available online at: <https://www.bis.org/publ/bcbs187.htm>

<sup>6</sup> Available online at: <https://www.bis.org/bcbs/publ/d339.htm>

- 2.9 Banks should also note that, for purposes of the CCB, private sector credit exposures mean exposures to private sector counterparties which attract a credit risk capital requirement in the banking book, and the risk-weighted equivalent trading book capital requirement for specific risk, the incremental risk requirement, and securitisation. In this regard, interbank exposures and exposures to the public sector are excluded, but non-bank financial sector exposures are included.
- 2.10 Banks are also informed that the Basel Committee is maintaining a dedicated webpage containing the pre-announced CCB decisions and the actual CCBs in place for all Basel Committee member jurisdictions.<sup>7</sup>

### **3. Reporting and disclosure requirements**

- 3.1 The CCB shall be reported on the form BA 700. Furthermore, a different percentage should be reported in the form BA 610, which is based on that particular entity's weighted average of the CCB rates that apply in the jurisdiction where the relevant private sector credit exposures are located. The CCB must therefore be applied on a consolidated, bank-solo and foreign entity level.
- 3.2 Banks have to disclose the CCB in line item 66 of the composition of capital disclosure template, as well as a geographic breakdown of their private sector credit exposures used in the calculation of the CCB.
- 3.3 In order to assist this Office in its supervisory review process, banks are required to maintain a list of the location of all their credit exposures, setting out CCBs in place in the various jurisdictions and private sector credit exposures to those jurisdictions that do not operate and publish buffer add-ons.
- 3.4 Finally, in the event that further clarity is provided by the Basel Committee, the aforementioned treatment would be revised accordingly.

### **4. Acknowledgement of receipt**

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 7/2015, dated 5 November 2015.

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<sup>7</sup> Available online at: <https://www.bis.org/bcbs/ccyb/index.htm>