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 4/2016 issued in terms of section 6(4) of the Banks Act, 1990:

Matters relating to the implementation of the capital conservation buffer

Executive summary

The Office of the Registrar of Banks (this Office) hereby informs all relevant persons of matters related to the implementation of the capital conservation buffer.

1. Introduction

1.1 As part of the phasing in of the respective components of minimum required capital and reserve funds to be maintained by banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as banks), in line with the implementation of the Basel III framework, the capital conservation buffer was introduced with effect from 1 January 2016. As stated in regulation 38(8)(e)(iv) read with the provisions of regulation 38(8)(f) of the Regulations relating to Banks (the Regulations), this buffer shall be met in full with common equity tier 1 capital and reserve funds, and shall be phased in evenly between 1 January 2016 and 1 January 2019, to 2,5 per cent by 2019.

1.2 Banks are required to build up capital buffers outside periods of stress, which buffers may be drawn down as losses are incurred during periods of stress specified in writing by the Registrar. From 1 January 2016, should the capital adequacy ratio of the bank fall below the minimum required ratio, including the specified buffers, that is, should the bank be operating within the capital conservation buffer range, this Office shall impose restrictions on capital distributions until such time that the required minimum capital adequacy ratio is restored.

2. Capital framework for South Africa based on the Basel III framework

2.1 As part of the implementation of the Basel III capital framework in South Africa, Directive 5 of 2013 was issued to ensure that the respective Basel III capital buffers, that is, the capital conservation, countercyclical and domestically systemically important bank (D-SIB) buffers, would be phased in between 2016 and 2019, in accordance with internationally agreed timelines. In order to ensure that the sum of the Pillar 2A add-on and the higher loss absorbency requirement for D-SIBs does not at any point exceed 3,5 per cent, the Pillar 2A add-on will be gradually reduced to 0.5 per cent at a common equity tier 1 level and 1 per cent at a total capital level by 2019.

3. Specific minimum requirements in relation to the capital conservation buffer

3.1 Regulation 38(8)(f) of the Regulations sets out the ranges at which restrictions on distributions will be imposed. Banks are to note that due to the phasing in requirements of the Basel III capital buffers, the pillar 2A add-on requirement and the fact that different minimum individual capital requirements are specified for each bank, the ranges detailed in Table 1 of Regulation 38(8)(f) of the Regulations are reflective only of the fully phased in requirements and will vary between banks during and after the respective phase-in periods. These requirements are communicated individually to each bank, but shall not at any time be less than the higher of the requirements communicated and the ranges specified below during the respective phase-in periods:

2016

Common equity tier 1 capital and reserve funds ratio	Minimum required capital conservation ratios expressed as a percentage of earnings
6.25% - 6.40625%	100%
>6.40625% - 6.5625%	80%
>6.5625% - 6.71875%	60%
>6.71875% - 6.875%	40%
> 6.875%	0%

2017

Common equity tier 1 capital and reserve funds ratio	Minimum required capital conservation ratios expressed as a percentage of earnings
6.0% - 6.3125%	100%
>6.3125% - 6.625%	80%
>6.625% - 6.9375%	60%
>6.9375% - 7.25%	40%
> 7.25%	0%

2018

Common equity tier 1 capital and reserve funds ratio	**Minimum required capital conservation ratios expressed as a percentage of earnings**
5.5% - 5.96875%	100%
>5.96875% - 6.4375%	80%
>6.4375% - 6.90625%	60%
>6.90625% - 7.375%	40%
> 7.375%	0%

2019 onwards

Common equity tier 1 capital and reserve funds ratio	**Minimum required capital conservation ratios expressed as a percentage of earnings**
5.0% - 5.625%	100%
>5.625% - 6.25%	80%
>6.25% - 6.875%	60%
>6.875% - 7.5%	40%
> 7.5%	0%

3.2 Should the countercyclical capital buffer be imposed as set out in regulation 38(8)(g) of the Regulations, the applicable capital adequacy ranges per Table 2 of regulation 38(8)(g) of the Regulations will be communicated individually to each bank, and shall not at any time, be less than the higher of the ranges communicated and the ranges specified in the table below, when the countercyclical capital buffer has ultimately been set at 2.5 per cent:

2016

Common equity tier 1 capital and reserve funds ratio	**Minimum required capital conservation ratios expressed as a percentage of earnings**
6.25% - 6.5625%	100%
>6.5625% - 6.875%	80%
>6.875% - 7.1875%	60%
>7.1875% - 7.5%	40%
> 7.5%	0%

2017

Common equity tier 1 capital and reserve funds ratio	Minimum required capital conservation ratios expressed as a percentage of earnings
6.0% - 6.625%	100%
>6.625% - 7.25%	80%
>7.25% - 7.875%	60%
>7.875% - 8.5%	40%
> 8.5%	0%

2018

Common equity tier 1 capital and reserve funds ratio	Minimum required capital conservation ratios expressed as a percentage of earnings
5.5% - 6.4375%	100%
>6.4375% - 7.375%	80%
>7.375% - 8.3125%	60%
>8.3125% - 9.25%	40%
> 9.25%	0%

2019 onwards

Common equity tier 1 capital and reserve funds ratio	Minimum required capital conservation ratios expressed as a percentage of earnings
5.0% - 6.25%	100%
>6.25% - 7.5%	80%
>7.5% - 8.75%	60%
>8.75% - 10.0%	40%
> 10.0%	0%

3.3 Furthermore, banks are reminded that the choice between and/or balance of which options to be exercised to rebuild the buffer shall be duly explained and discussed with this Office as part of the internal capital adequacy assessment process as envisaged in regulation 39(16) of the Regulations.

4. Amendments to the Regulations

4.1 This Office hereby informs all relevant persons that it commenced with its formal processes to amend the regulatory and supervisory framework in accordance with the latest internationally agreed regulatory and supervisory standards, including the matters referred to in this circular.

4.2 Therefore, for purposes of future capital planning, banks should take the relevant details set out in this circular into account.

5. Acknowledgement of receipt

5.1 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 3/2016, dated 31 March 2016.