

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

**Circular 3/2020 issued in terms of section 6(4) of the Banks Act, 1990**

**Disclosure of capital related matters**

### **Executive summary**

**This circular aims to provide clarity to banks, controlling companies, branches of foreign institutions, and auditors of banks or controlling companies regarding the capital-related public disclosure they need to provide in terms of regulation 43 of the Regulations relating to Banks (the Regulations) read with Directive 1/2019. This circular also aims to clarify how such information should be determined. The areas addressed include the composition of regulatory capital, the minimum required capital (MRC) ratio, the total amount of capital to be disclosed and the domestic systematically important bank (D-SIB) add on.**

**This Circular replaces Circular 6/2016, dated 24 November 2016.**

## **1. Introduction**

- 1.1 In order to promote market discipline and ensure comparability across banks, across markets and across jurisdictions, the Basel Committee on Banking Supervision (BCBS) issued extensive internationally agreed minimum disclosure requirements that are based on internationally agreed disclosure standards.
- 1.2 In line with the aforesaid internationally agreed minimum disclosure requirements, Directive 1/2019 requires banks, controlling companies and branches of foreign institutions (collectively hereafter referred to as 'banks') to disclose various capital-related information to the public. Quantitative public disclosure information in respect of a bank's total capital adequacy ratio (CAR), tier 1 ratio and its total amount of capital and reserve funds, for example, must be disclosed on a quarterly basis. The key prudential metrics covering a bank's available capital, including buffer requirements and ratios and its risk weighted assets should also be disclosed in the key metrics template (KM1).
- 1.3 Directive 1/2019 directs banks to use template CC1: *Composition of regulatory capital* for the purpose of breaking down their regulatory capital composition on a semi-annual basis.

- 1.4 This circular replaces Circular 6/2016, dated 24 November 2016, to provide clarity on the capital-related information that needs to be disclosed to the public in terms of the Regulations read with Directive 1/2019.

## 2. Disclosure of capital related information

### 2.1 Composition of regulatory capital

- 2.1.1 Directive 1/2019 requires banks to disclose their composition of regulatory capital (CC1) on a semi-annual basis. The CC1 template requires banks to disclose the common equity tier 1 capital (CET1), additional tier 1 capital, tier 1 capital, tier 2 capital and total regulatory capital. The template also requires disclosure of the CET 1 ratio, tier 1 ratio and the total capital ratio plus the institution-specific buffer requirements, which are: the capital conservation buffer, countercyclical buffer requirement and higher loss absorbency requirement as a percentage of risk weighted assets.

- 2.1.2 Banks' D-SIB capital add-on should be disclosed on line-67 of the CC1 template. The CC1 template is fixed but banks are required to provide narrative commentary to explain any significant changes over the reporting period and the key drivers of such changes.

### 2.2 MRC ratio

- 2.2.1 Regulation 38(8)(b) of the Regulations and Directive 4/2020 that was issued in terms of section 6(6) of the Banks Act, also address the percentage that banks must use to determine the minimum amount of capital and reserve funds they are required to hold.

- 2.2.2 The capital framework as described in Directive 4/2020 should be followed in determining the minimum capital requirements of banks in respect of the different tiers of capital. The following capital framework, which is also outlined in Directive 4/2020, relates to the total capital and reserve funds and is used to explain specific disclosure requirements:

+ South African minimum requirement	8%
+ Systemic risk add-on	A%
+ Bank-specific add-on requirement (varies per bank)	B%
+ Domestic systemically important bank add-on (varies per bank)	C%
+ Conservation buffer	D%
+ Countercyclical buffer	E%

MRC ratio  $8\% + A\% + B\% + C\% + D\% + E\%$

Requirements that banks have to disclose relate to the 8%, A%, C%, D% and E% and when relevant, any G-SIB requirement.

- 2.2.3 The B% requirement is primarily based on idiosyncratic risks and factors for which no internationally agreed standardised framework exists. As such, the B% requirement is not necessarily comparable across jurisdictions and may in fact cause confusion and/or lead to incorrect assumptions or conclusions. Therefore, in line with international best practice, banks are required not to disclose to the public the bank-specific capital add-on as may be determined by the Prudential Authority (PA) from time to time as part of its supervisory review and evaluation process.

## 2.3 Total amount of capital and reserve funds

2.3.1 Directive 1/2019 requires banks to publicly disclose their total amount of capital and reserve funds as well as the capital requirement per risk type.

2.3.2 For disclosure purposes, the total required amount of capital and reserve funds and the capital requirement per risk type should be determined as the relevant risk-weighted exposure amount multiplied by the South African total capital requirement of 8% + A% + C% + D% + E% and, when relevant, any G-SIB requirement.

## 3. Implementation date

3.1 The public disclosure of the D-SIB capital add-on requirement is effective for all CC1 templates to be published after 1 September 2020.

## 4. Acknowledgement of Receipt

4.1 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 the PA at the earliest convenience of the aforementioned signatories.



**Kuben Naidoo**  
**Deputy Governor and CEO: Prudential Authority**

**Date:** 2020-08-27

The previous Circular issued was Banks Act Circular 2/2020, dated 12 May 2020.