

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

Circular 2/2020 issued in terms of section 6(4) of the Banks Act, 1990:

Classification of the Land and Agricultural Development Bank of South Africa (Land Bank) bills under the Liquidity Coverage Ratio (LCR) framework

Executive Summary

In terms of the provisions of section 6(4) of the Banks Act, 1990 (Act No. 94 of 1990) (the Banks Act) the Prudential Authority (PA) may from time to time by means of a circular furnish banks, controlling companies, representative offices, eligible institutions and auditors of banks or controlling companies (hereinafter collectively referred to as interested persons) with guidelines regarding the application and interpretation of the provisions of the Banks Act.

On 6 April 2016, the PA issued Guidance Note 4 of 2016¹ informing all interested persons that the Basel Committee on Banking Supervision (Basel Committee) had issued a document titled “Guidance for Supervisors on Market-Based Indicators of Liquidity²”. The document issued by the Basel Committee has to be read with the Basel III Liquidity Coverage Ratio framework,³ to evaluate, among others, the quality and liquidity of instruments potentially qualifying as High-Quality Liquid Assets (HQLA).

This circular relates to the derecognition of Land Bank bills as level 2 HQLA due to the temporary suspension of such bills as eligible collateral for purposes of the refinancing operations of the South African Reserve Bank (SARB).

1. Introduction

- 1.1 Section 1 of the Banks Act read with regulation 26(12)(b)(i) of the Regulations relating to Banks (the Regulations), defines and specifies requirements related to instruments qualifying as HQLA.
- 1.2 Furthermore, the PA issued Guidance Note 4 of 2016 regarding the characteristics, criteria and metrics that supervisors apply when determining which instruments qualify as HQLA.

¹ Available online at [Guidance Note 4 of 2016](#)

² Available online at [Guidance for Supervisors on Market-Based Indicators of Liquidity](#)

³ Available online at [Basel III Liquidity Coverage Ratio framework](#)

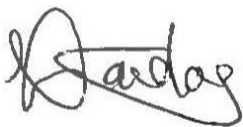
- 1.3 On 8 May 2020, the Financial Markets Department (FMD) of the SARB issued a communication regarding the decision to temporarily suspend Land Bank bills as eligible collateral in its repo operations.

2. Derecognition of Land Bank bills under the LCR framework

- 2.1 Based on the aforesaid, including the criteria as set out in Guidance Note 4 of 2016, as well as the communication issued by FMD, interested persons are hereby informed that Land Bank bills do not comply with the specified requirements and therefore are no longer eligible to be classified as level 2 HQLA, until further notice by the PA.
- 2.2 As such, banks are prohibited from including Land Bank bills as part of level 2 HQLA for purposes of LCR calculations. In this regard, a period of 30 calendar days is provided for banks to adjust their portfolios of qualifying HQLA following the publication of this circular, in accordance with the provisions of regulation 26(12)(a)(xv) of the Regulations
- 2.3 Banks are encouraged to continuously update their respective frameworks related to HQLA to ensure, among others, ongoing compliance with legislation, given the current market developments.

3. Acknowledgement of Receipt

- 3.1 Kindly ensure that a copy of this circular is made available to your institution's independent auditors. The attached acknowledgement of receipt duly completed and signed by both the chief executive officer of the institution and the said auditors should be returned to the PA at the earliest convenience of the aforementioned signatories.



Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 12 May 2020

The previous circular issued was Banks Act Circular 1/2020, dated 2 March 2020