

Ref.: 15/8/1/1

C2/2024

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

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

### **Executive Summary**


The purpose of this draft Circular is to provide clarity to banks, controlling companies, branches of foreign institutions (hereinafter collectively referred to as ‘banks’) regarding the calibration and reporting of the output floor requirements in accordance with the relevant requirements specified in the proposed amendments to the Regulations relating to Banks (the proposed amended Regulations).

This “draft Circular” serves as part of the consultation towards the implementation of the Basel III post-crisis reforms. It would be finalised with the proposed amendments to the Regulations relating to banks.

This Circular replaces Directive 3/2013 issued on 9 April 2013. As such, Directive 3/2013 is withdrawn from the implementation date of this Circular.

#### **1. Introduction**

- 1.1 Regulations 38(2)(g) and 38(2)(h) of the proposed amended Regulations specify, among others, the requirements for the calculation of the output floor, including the relevant transition arrangements and the related phase-in percentages to be applied during the transition period.
  - 1.1.1 The phase-in requirement for the purpose of the output floor apply as follows:
    - 1 July 2025: 60%
    - 1 January 2026: 65%
    - 1 January 2027: 70%
    - 1 January 2028: 72.5%
- 1.2 As part of the Basel III post-crisis reforms, the Basel Committee on Banking Supervision (BCBS) introduced a new output floor, which provides a minimum level of risk weighted exposures that banks must maintain.

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- 1.3 As such, the output floor effectively sets a lower bound for a bank's risk weighted exposures (RWEs), calculated in terms of internal model approaches, at 72.5 per cent, after phase-in, of the banks' respective capital requirements for Pillar 1 risks calculated in terms of the standardised approaches.
- 1.4 Therefore, the floor was designed not only to reduce undue variability in banks' RWE but also to improve comparability of capital ratios between banks.
- 1.5 The new output floor must be calculated at an aggregate level by totaling all the different types of risk specified in the proposed amended Regulations. The proviso to regulation 36(2) of the proposed amended Regulations states *"Provided that, unless specifically otherwise stated or specified in writing, all the directives, instructions or requirements specified in these Regulations that relate to a bank on a solo basis shall mutatis mutandis apply to that bank or its controlling company on a consolidated basis."*
- 1.6 Furthermore, regulation 37(3) of the proposed amended Regulations gives effect to the provisions relating to the completion on a solo basis of the respective risk-based returns by a bank in the Republic, to apply mutatis mutandis to the completion of the form BA 610 in respect of any relevant foreign operation.

## **2. Clarification of the measurement and reporting of the output floor**

- 2.1 The output floor must be calculated and applied at every relevant tier within a banking group as well as at the consolidated level, as if the said consolidated group or sub-group of entities is a single entity. The maximum increase of 25 per cent of the bank's RWEs before the application of the relevant floor as envisaged in footnote 3<sup>1</sup> of table 1 in regulation 38(2)(h) of the proposed amended Regulations must similarly be applied at every relevant tier within the banking group, during the specified phase-in period.
- 2.2 This approach ensures that the output floor is calculated after the appropriate application of potential diversification in respect of banking subsidiaries and that the consolidation / aggregation approach is conducted in accordance with the relevant requirements specified in regulation 36 read with regulation 38 of the proposed amended Regulations.

## **3. Implementation Date**

- 3.1 The new output floor must be implemented with effect from 1 July 2025 and be phased-in as specified in the proposed amended Regulations.

1. Or such percentage as may be directed in writing by the Authority to cap the incremental increase in a bank's total risk-weighted exposure amount resulting from the application of the specified output floor, to a maximum increase of 25 per cent of the bank's risk-weighted exposure amount before the application of the relevant specified floor.

#### **4. Acknowledgement of Receipt**

- 4.1 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.

**Fundi Tshazibana  
Chief Executive Officer**

Date:

The previous circular issued was Banks Act Circular 1/2024, dated 27 February 2024.