

Ref.: 15/8/1/1

C4/2026

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

Circular 4/2026 issued in terms of section 6(4) of the Banks Act, 1990 (Act No.94 of 1990)

Treatment of investments in banking, financial, securities, insurance and commercial entities and reporting of items subject to thresholds that do not constitute a full deduction from qualifying capital and reserve funds.

Executive summary

This Circular replaces Circular 4/2013 and Circular 5/2013.

This Circular is issued following South Africa's implementation of the Basel III post-crisis regulatory reforms, effective from 1 July 2025. While these reforms did not introduce the threshold deduction method, they resulted in changes to the BA700 form and related regulatory reporting requirements. The Circular therefore serves to: (i) inform all relevant persons of the prescribed capital treatment of investments in banking, financial, securities, insurance and commercial entities; and (ii) align and update references to the applicable regulatory provisions and revised regulatory reporting returns.

This Circular clarifies the treatment and reporting of risk-weighted exposures related to threshold items that are not fully deducted from qualifying capital and reserve funds, without introducing substantive changes to their prudential treatment.

1. Introduction

- 1.1 The Regulations relating to Banks (Regulations), specifically regulations 23(6)(j), 23(11)(q), 38(5)(a)(i)(L), 38(5)(a)(i)(M) and 38(5)(b), prescribe the regulatory treatment of risk-weighted exposures arising from items that are subject to prescribed thresholds and are not fully deducted from qualifying capital and reserve funds. These provisions form part of the South African capital framework implemented in line with the Basel III requirements.
- 1.2 Following the implementation of revised regulatory reporting forms under the Basel III post-crisis reforms framework, the Prudential Authority (PA) identified the need to update and clarify the relevant statutory returns to ensure the consistent and accurate

reporting of risk-weighted exposures arising from threshold items that are not fully deducted from qualifying capital and reserve funds.

- 1.3 Accordingly, this Circular clarifies the statutory returns on which these risk-weighted exposures must be reported. To support consistent application, Annexure A provides a flow diagram outlining the capital treatment of investments in banking, financial, securities, insurance and commercial entities, distinguishing between entities within and outside the scope of regulatory consolidation.
- 1.4 This Circular must be read together with regulations 31 and 36, which govern the treatment of investments outside and within the scope of regulatory consolidation respectively.
- 1.5 Regulation 36 of the Regulations prescribes the basis for determining regulatory consolidation and the corresponding capital treatment of investments in banking, financial, securities and insurance entities in which a bank or controlling company holds a significant or controlling interest. This includes the circumstances in which such investments must be consolidated, proportionately consolidated or subjected to the deduction method as contemplated in regulations 36(7) and 36(10).
- 1.6 Regulation 31 prescribes the risk-weighting treatment of investments in commercial entities that are not subject to deduction, whether measured under the standardised approach in regulation 31(4) or the internal ratings-based approach in regulation 31(6), read with regulations 23(6)(j) and 23(11)(q) of the Regulations.
- 1.7 Accordingly, the capital treatment and reporting requirements set out in this Circular and illustrated in Annexure A give effect to the interaction between regulations 31, 36 and 38(5). They must be applied consistently with all three provisions to ensure the accurate determination and reporting of qualifying capital and reserve funds.

2. Capital treatment of specified investments

- 2.1 Banks must follow the flow diagram in Annexure A when reporting on a bank-solo basis on the BA700 form. Banks and controlling companies must also follow it when reporting on a consolidated basis on the BA600 and BA700 forms.
- 2.2 In addition, regulation 38(5)(a)(i)(J) applies only to reciprocal cross-holdings of any instrument or share that qualifies as capital of any other bank, controlling company, other financial entity or insurance entity. These reciprocal cross-holdings must be fully deducted from the reporting entity's qualifying capital using the corresponding deduction approach. The remaining investments are subject to limited recognition under regulations 38(5)(a)(i)(L), 38(5)(a)(i)(M) and 38(5)(b) of the Regulations.
- 2.3 Banks, controlling companies and branches of foreign institutions should note the threshold deductions prescribed in regulation 38(5)(b). The PA will continue to monitor investments in the banking, financial, securities, insurance and commercial sectors, as well as the application of regulation 38(5)(b). If the PA identifies indications that net qualifying capital may be overstated because of the application of regulation 38(5)(b), it may impose conditions and restrictions as necessary to safeguard the capital position of the reporting bank or controlling company.

3. Investments in the capital of banking, financial and insurance entities outside the scope of regulatory consolidation and where the bank owns no more than 10% of the issued common share capital or the entity is an affiliate

- 3.1 Regulation 38(5)(a)(i)(L)(v) of the Regulations prescribes that any relevant amount below the specified threshold must be appropriately risk-weighted in accordance with the applicable requirements in the Regulations, depending on whether the investments are held in the trading book or the banking book.
- 3.2 For investments held in the trading book, amounts at or below the threshold must be risk-weighted in accordance with the market risk requirements in the Regulations. For investments held in the banking book, the amounts at or below the 10% threshold must be risk-weighted in accordance with credit risk requirements, including equity risk in the banking book. For the application of risk weights, the relevant holdings must be allocated on a pro rata basis between amounts below and above the specified threshold.
- 3.3 The risk-weighted exposure amount must be calculated net of the capital deduction and reported on the applicable risk return. For example, investments held in the trading book must be reported on the market risk return, while investments held in the banking book must be reported on the equity risk return.

4. Investments in the capital of banking, financial and insurance entities outside the scope of regulatory consolidation where the bank owns more than 10% of the issued common share capital or the entity is an affiliate

- 4.1 Regulation 38(5)(a)(i)(M), read with regulation 38(5)(b)(D), prescribes that investments in the common shares or common equity tier 1 (CET1) instruments of an unconsolidated financial institution, mortgage servicing rights (MSRs) and deferred tax assets (DTAs) arising from temporary differences must be risk-weighted at 250% if they are individually below 10% of the reporting bank's CET1 capital after specified deductions and, in aggregate, below 15% of that capital.
- 4.2 The amounts subject to the 250% risk weight must be reported on the BA700 form as follows:

Item	Row	Column
Significant investments in common shares or CET1 capital	R1920	C0010
MSRs	R1930	
DTAs due to temporary differences	R1940	

- 4.3 The risk-weighted exposure amount arising from the three items referred to above must be reported on the BA700 form at line R0050, column C0070; on the BA610 form at line R1630, column C0070, where applicable; and on the BA600 form at line R0020, columns C0040 and C0160.

5. Investments in commercial entities

- 5.1 For investments in commercial entities that are subject to a risk weight of 1 250% under regulations 23(6)(j) and 23(11)(q),¹ amounts above the specified thresholds must be reported on the BA700 form at line R1960, column C0010.

¹ That is, a shareholding of 20% or more in a commercial entity, where such investments either individually equal to or exceed 15% of issued CET1 and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds of the reporting bank, or in aggregate exceed 60% of the sum of the issued CET1 capital and reserve funds, additional tier 1 and reserve funds and tier 2 capital and reserve funds of the reporting bank.

- 5.2 The related risk-weighted exposure must be reported on the BA700 form at line R0050, column C0070, and on the BA610 form at line R1630, column C0070.
- 5.3 Notwithstanding any provision in the Regulations, these amounts must not be reported further on in the credit risk, market risk or equity risk returns, except as memorandum items.
- 6. **Acknowledgement of receipt**
- 6.1 Please provide a copy of this Circular to your institution's auditors. The attached acknowledgement of receipt must be completed and signed by the institution's chief executive officer and its auditors, and returned to the PA as soon as practicable.

Fundi Tshazibana
Chief Executive Officer

Date:

The previous Circular issued was Banks Act Circular 3/2026, dated 21 September 2026.