South African Reserve Bank
From the Office of
the Registrar of Banks

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

Directive 4/2014 issued in terms of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990)

Matters related to the Basel III leverage ratio framework and disclosure requirements

Executive summary

On 1 January 2013, the amended Regulations relating to Banks (the Regulations), which include a framework for the calculation of a bank's leverage ratio, were implemented.

The Office of the Registrar of Banks (this Office) hereby informs all relevant persons that, subsequent to the implementation of the Regulations on 1 January 2013, the Basel Committee on Banking Supervision (BCBS) issued revisions to the Basel III framework for the calculation of a bank's leverage ratio and related disclosure requirements, which revisions and related requirements are being incorporated into the next round of amendments to the Regulations.

Banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') are hereby directed to implement the relevant revisions and requirements issued by the BCBS in accordance with the requirements specified in this directive.

1. Introduction

1.1 On 12 December 2012, the amended Regulations were published in Government Gazette No. 35950, following which they became effective on 1 January 2013. Most of the amendments were made to incorporate requirements contained in the Basel III framework.

1.2 Subsequently, the BCBS issued an updated framework for the calculation and disclosure of a bank's leverage ratio.[1]

1.3 The key matters communicated by the BCBS in respect of the aforesaid updated framework and requirements are summarised in paragraph 2 of this directive.

1.4 As a member of the BCBS, and in order to ensure a level playing field between South African banks and other internationally active banks, this Office regards the full, timely and consistent implementation of internationally agreed frameworks, requirements and standards as essential.

2. Updated Basel III leverage ratio framework and disclosure requirements

2.1 On 12 January 2014, the BCBS issued the full text of the Basel III leverage ratio framework and disclosure requirements following endorsement on 12 January 2014 by its governing body, the Group of Central Bank Governors, and Heads of Supervision.

2.2 A simple leverage ratio framework is critical and complementary to the risk-based capital framework which helps ensure the broad and adequate capture of both on- and off-balance-sheet sources of banks' leverage. This simple, non-risk-based contingency measure restricts the build-up of excessive leverage in the banking sector.

2.3 The Basel III leverage ratio is defined as the 'capital measure' (the numerator) divided by the 'exposure measure' (the denominator), and is expressed as a percentage.

2.4 The BCBS undertook to continue to monitor banks' leverage ratio data on a biannual basis in order to assess whether the design and calibration of the leverage ratio is appropriate over a full credit cycle and for different types of business models. The BCBS will also continue to collect data to track the impact of using either common equity tier 1 or total regulatory capital instead of tier 1 capital as the capital measure.

2.5 The implementation of the leverage ratio requirements has begun with bank-level reporting to national supervisors of the leverage ratio and its components, and will proceed with public disclosure commencing on 1 January 2015. The BCBS undertook to carefully monitor the impact of these disclosure requirements.

2.6 It is envisaged that the final calibration of the leverage ratio, as well as any further adjustments to its definition, will be completed by 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018.

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[1] The Basel III leverage ratio framework and disclosure requirements are available at http://www.bis.org/publ/bcbs270.htm.

2.7 Finally, the BCBS also undertook to closely monitor accounting standards and practices to address any differences in national accounting frameworks that are material to the definition and calculation of the leverage ratio.

3. Directive

3.1 Based on the aforesaid, and in accordance with the provisions of section 6(6) of the Banks Act, No. 94 of 1990 (the Banks Act), banks are hereby directed to:

3.1.1 unless expressly otherwise stated in this directive, comply with the revised Basel III leverage ratio framework and the related definitions and requirements as published by the BCBS in the aforementioned document, read with the relevant requirements specified in the Regulations, during the compliance monitoring stages of the internationally agreed leverage standards.

3.1.2 with effect from 30 September 2014, based on tables 1 and 2 of the template attached hereto as Annexure A, submit monthly bank solo as well as quarterly bank consolidated and controlling company consolidated leverage ratio data to this Office. The said submissions shall be made simultaneously with the submissions of the B2 data sets and shall be sent to SARB-BANKSUP@resbank.co.za.

3.1.3 without detracting from the requirements specified in paragraph 3.1.4 below, comply with the relevant Basel III leverage ratio disclosure requirements on a solo and consolidated basis from the date of publication of their first set of financial statements relating to a balance-sheet date on or after 1 January 2015, as directed in Directive 8 of 2013.

In order to enable market participants to reconcile leverage ratio disclosures with banks' published financial statements and to compare the capital adequacy of banks across jurisdictions, banks are required to disclose their leverage ratios in accordance with the common set of templates specified in the aforementioned document published by the BCBS, which includes:

- the summary comparison table;
- the common disclosure template that provides a breakdown of the main leverage ratio regulatory elements; and
- the reconciliation requirement.

Except for the quarterly disclosure requirements specified in paragraph 3.1.4 below, the disclosure requirements envisaged in this paragraph (3.1.3) shall be at the same frequency as, and concurrent with, the publication of a bank's financial statements, which disclosures shall either be included in the bank's published financial statements or, at a minimum, provide a direct link to the completed disclosures on the bank's website. Irrespective of the location of the disclosures (whether they are published financial statements or on banks' websites), all relevant disclosures shall be made in accordance with the common set of templates specified in the aforementioned BCBS document titled *Basel III Leverage Ratio Framework and Disclosure Requirements*.

Furthermore, banks shall make available on their websites an ongoing archive of all relevant reconciliation templates, disclosure templates and explanatory tables relating to the reporting periods after the implementation of the aforesaid disclosure requirements. The archive period shall be aligned to the archive period specified in the relevant legislation issued from time to time related to annual financial statements, but which period shall not be less than five years.

3.1.4 continue to comply with the relevant quarterly disclosure requirements specified in regulation 43(1)(e) of the Regulations with respect to defined key capital ratios and elements.

Furthermore, since the leverage ratio is an important supplementary measure to the risk-based capital requirements, a bank shall also, on a quarterly basis, in respect of its leverage ratio, disclose to the public (i) the numerator (tier 1 capital), (ii) the denominator (exposure measure), and (iii) the relevant leverage ratio.

3.1.5 with effect from 1 January 2015, using the template attached hereto as Annexure A, report to this Office the bank's leverage ratio based on the revised framework issued by the BCBS.

3.1.6 notwithstanding anything to the contrary specified in the aforementioned document issued by the BCBS, a bank shall manage its business in such a manner that its leverage ratio is at no time less than 4 per cent, i.e. the bank's leverage multiple which is the inverse of the bank's leverage ratio and shall at no time exceed 25, or such leverage ratio and multiple as may be determined by the Registrar of Banks (the Registrar) in consultation with the Governor of the South African Reserve Bank (SARB), which leverage ratio shall in no case be less than 3 per cent.

3.1.7 refer any uncertainty in respect of any matter referred to in this directive to this Office for the issuance of a clarifying or further directive.

4. Further amendments to the Regulations

4.1 In order to ensure that the regulatory framework for banks and banking groups remains relevant and current, this Office hereby informs all relevant persons that it has 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 regulatory and supervisory standards related to a bank's leverage ratio, referred to in this directive.

4.2 This Office will, in due course, issue further information and/or requirements regarding the various matters referred to in this directive.

5. Acknowledgement of receipt

5.1 Two additional copies of this directive 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 of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.

René van Wyk
Registrar of Banks

Encl. 1

The previous directive issued was Directive 3/2014 dated 16 September 2014.

Annexure A

Summary comparison of accounting assets vs leverage ratio exposure measure — Table 1

	Item	R'000
1	Total consolidated assets as per published financial statements	
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	
7	Other adjustments	
8	**Leverage ratio exposure**	

Leverage ratio common disclosure template — Table 2

	Item	Leverage ratio framework
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with *all* derivatives transactions	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	
	Securities financing transaction exposures	
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	CCR exposure for SFT assets	
15	Agent transaction exposures	
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	
18	(Adjustments for conversion to credit equivalent amounts)	
19	**Off-balance sheet items (sum of lines 17 and 18)**	
	Capital and total exposures	
20	**Tier 1 capital**	
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	
	Leverage ratio	
22	**Basel III leverage ratio**	

Explanatory table for the common disclosure template

Table 3

Explanation of each row of the common disclosure template

Row number	Explanation
1	On-balance sheet assets according to paragraph 15.
2	Deductions from Basel III Tier 1 capital determined by paragraphs 9 and 16 and excluded from the leverage ratio
3	Sum of lines 1 and 2.
4	Replacement cost (RC) associated with *all* derivatives transactions (including exposures resulting from transactions
5	Add-on amount for all derivative exposures according to paragraphs 19–21.
6	Grossed-up amount for collateral provided according to paragraph 24.
7	Deductions of receivables assets from cash variation margin provided in derivatives transactions according to paragraph
8	Exempted trade exposures associated with the CCP leg of derivatives transactions resulting from client-cleared
9	Adjusted effective notional amount (ie the effective notional amount reduced by any negative change in fair value) for
10	Adjusted effective notional offsets of written credit derivatives according to paragraph 30 and deducted add- on
11	Sum of lines 4–10.
12	Gross SFT assets with no recognition of any netting other than novation with QCCPs as set out in footnote 19, removing
13	Cash payables and cash receivables of gross SFT assets netted according to paragraph 33 (i), reported as negative
14	Measure of counterparty credit risk for SFTs as determined by paragraph 33 (ii).
15	Agent transaction exposure amount determined according to paragraphs 35 to 37.
16	Sum of lines 12–15.
17	Total off-balance sheet exposure amounts on a gross notional basis, before any adjustment for credit conversion
18	Reduction in gross amount of off-balance sheet exposures due to the application of credit conversion factors in
19	Sum of lines 17 and 18.
20	Tier 1 capital as determined by paragraph 10.
21	Sum of lines 3, 11, 16 and 19.
22	Basel III leverage ratio according to paragraph 54.