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

Matters related to liquidity risk and the liquidity coverage ratio

Executive summary

On 1 January 2013 the amended Regulations relating to Banks (the Regulations), which include a framework for the calculation of banks' liquidity coverage 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 various documents related to banks' exposure to liquidity risk, including revisions to the Basel III framework for the calculation of the minimum required liquidity coverage ratio (LCR) and related LCR disclosure standards, which revisions and related requirements are in the process of 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.

This directive replaces Directive 2/2013, dated 18 March 2013.

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. The majority of the amendments were made to incorporate the respective requirements contained in the Basel III framework.

1.2 Subsequently the BCBS issued various documents related to banks' exposure to liquidity risk, including-

1.2.1 an updated framework for the calculation and implementation of the LCR;[1]

1.2.2 monitoring tools for intraday liquidity management;[2]

1.2.3 LCR disclosure standards;[3]

1.2.4 LCR and restricted-use committed liquidity facilities;[4]

1.2.5 frequently asked questions on the January 2013 LCR document;[5]

1.3 The key matters communicated by the BCBS in respect of the aforesaid documents and requirements are summarised in paragraphs 2 to 6 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 competitive banks, this Office regards the full, timely and consistent implementation of internationally agreed frameworks, requirements and standards as essential.

1.5 This directive replaces Directive 2/2013, dated 18 March 2013.

2. Updated framework for the calculation and implementation of the LCR

2.1 On 7 January 2013 the BCBS published a revised version of its document on the LCR.

2.2 The LCR forms an integral part of the Basel III framework and is one of the BCBS's key reforms in strengthening global capital and liquidity regulations with the goal of promoting a more resilient banking sector.

2.3 The LCR promotes the short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient unencumbered high-quality liquid assets (HQLA) that can be converted into cash easily and immediately in private markets to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

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[1] Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools, available at http://www.bis.org/publ/bcbs238.htm
[2] Monitoring tools for intraday liquidity management, available at http://www.bis.org/publ/bcbs248.htm
[3] Liquidity coverage ratio disclosure standards, available at http://www.bis.org/publ/bcbs272.htm
[4] The Liquidity Coverage Ratio and restricted-use committed liquidity facilities, available at http://www.bis.org/publ/bcbs274.htm
[5] Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio, available at http://www.bis.org/publ/bcbs284.htm

2.4 Implementation of the LCR will also improve the South African banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spill-over effects from the financial sector making their way into the real economy.

2.5 The revisions to the LCR include an expansion in the range of assets eligible as HQLA and some refinements to the assumed in- and outflow rates to reflect better actual experience in times of stress.

2.6 In addition, the BCBS has agreed on a revised timetable for the phasing in of the LCR and additional requirements to give effect to its intention for the stock of liquid assets to be used in times of stress.

3. Monitoring tools for intraday liquidity management

3.1 On 11 April 2013 the BCBS, in consultation with the Committee on Payment and Settlement Systems, issued a framework on monitoring tools for intraday liquidity management.

3.2 The framework enables banking supervisors to better monitor a bank's management of intraday liquidity risk and its ability to meet payment and settlement obligations on a timely basis.

3.3 Management of intraday liquidity risk forms an integral part of a bank's overall liquidity risk management framework. The set of seven quantitative monitoring tools prescribed in the framework complements the qualitative guidance on intraday liquidity management as set out in the BCBS's 2008 paper titled Principles for Sound Liquidity Risk Management and Supervision.[6]

3.4 The framework covers, among other things, matters related to:

3.4.1 the detailed design of the tools for monitoring a bank's intraday liquidity risk;

3.4.2 stress scenarios;

3.4.3 key application; and

3.4.4 the reporting regime.

4. LCR disclosure standards

4.1 On 12 January 2014 the BCBS issued requirements for banks' LCR-related disclosures.

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[6] Available at http://www.bis.org/publ/bcbs144.htm

4.2 A common public disclosure framework will assist market participants, *inter alia*, to assess banks' liquidity risk positions in a consistent manner. Therefore the disclosure framework and related disclosure requirements are intended:

4.2.1 to improve the transparency of regulatory liquidity requirements;

4.2.2 to enhance market discipline;

4.2.3 to reinforce the BCBS's Sound Principles for Liquidity Risk Management and Supervision, referred to in paragraph 3.3 above;

4.2.4 to reduce uncertainty in the markets as the LCR is implemented.

5. LCR and restricted-use committed liquidity facilities

5.1 On 2 August 2013, this Office issued Guidance Note 6/2013 regarding the provision of a committed liquidity facility by the South African Reserve Bank. [7]

5.2 On 12 January 2014 the BCBS published specific amendments to the LCR's definition of HQLA to make provision for greater use of Committed Liquidity Facilities (CLFs) provided by central banks.

5.3 The BCBS agreed that, subject to a range of conditions and limitations, a restricted version of a CLF (an RCLF) may be used by all jurisdictions.

5.4 Whether jurisdictions choose to make use of RCLFs is a matter of national discretion. Importantly, central banks are under no obligation to offer such facilities.

5.5 Furthermore, the restrictions agreed by the BCBS are intended to limit the use of RCLFs in normal times, and therefore maintain the principle that banks should self-insure against liquidity shocks and that central banks should remain the lenders of last resort. These restrictions may, however, be relaxed during times of stress, when HQLA might otherwise be in short supply.

6. Frequently asked questions on the January 2013 LCR document

6.1 In order to promote consistent global implementation of the LCR contained in the Basel III framework, the BCBS issued a document "Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio" on 16 April 2014.

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[7] Available at: http://www.resbank.co.za/publications/detail-item-view/pages/publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=5849

7. Directive

7.1 Based on the aforesaid, and in accordance with the provisions of section 6(6) of the Banks Act, 1990, banks are hereby directed:

7.1.1 to comply with the revised LCR framework and the related requirements, as published by the BCBS in the aforementioned documents, read with the relevant requirements specified in the Regulations, during the compliance monitoring stages of the internationally agreed liquidity standards;

7.1.2 to comply with the revised LCR framework and the related requirements, as published by the BCBS in the aforementioned documents, read with the relevant requirements specified in the Regulations, from 1 January 2015, onwards;

7.1.3 to comply with the relevant LCR disclosure requirements from the date of the first reporting period after 1 January 2015.

In this regard-

- banks shall publish the specified disclosure requirements at the same frequency as, and concurrently with, the publication of their financial statements, irrespective of whether the financial statements are audited;

- required disclosures specified in the aforementioned documents issued by the BCBS shall either be included in banks' published financial reports or, at a minimum, provide a direct and prominent link to the completed disclosure on the banks' websites;

- banks shall also make available on their websites an archive of all templates relating to the reporting periods after the implementation of the aforesaid disclosure requirements.

  Irrespective of the location of the disclosure, the minimum disclosure requirements shall be in the format specified in the relevant documents issued by the BCBS.

  Furthermore 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.

7.1.4 to review the bank's respective liquidity risk monitoring systems or tools, including any relevant system or tool to actively manage the bank's intraday liquidity positions and risks, in light of the further requirements or guidance issued by the BCBS in the aforementioned documents, which requirements or guidance shall be read with the relevant requirements specified in the Regulations.

Any proposed amendment to the reporting requirements of the monitoring tools will be communicated to banks in during 2015, which amended reporting requirements shall commence on 1 January 2016, onwards;

7.1.5 to read the revised requirements issued by the BCBS in respect of any restricted-use committed liquidity facility that may be issued by the Reserve Bank with the relevant requirements specified in the Regulations, and any guidance that may be issued by this Office to banks from time to time in respect of committed liquidity facilities, such as Guidance Note 6/2013, dated 2 August 2013;

7.1.6 to read, interpret and apply the respective questions and answers issued by the BCBS in respect of the January 2013 LCR document with the relevant directives contained in the Regulations; and

7.1.7 to 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.

8. Notice of the commencement of the process to amend the Regulations

8.1 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 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 referred to in this directive.

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

9. Acknowledgement of receipt

9.1 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

The previous directive issued was Directive 5/2014 dated 18 September 2014.