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

Ref: 15/8/3

D7/2014

2014-10-28

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

Directive 7/2014 issued in terms of section 6(6) of the Banks Act, 1990

National discretion related to the liquidity coverage ratio

Executive summary

The amended Regulations relating to Banks (the Regulations), in which the framework for the liquidity coverage ratio (LCR) was included, were implemented with effect from 1 January 2013.

This directive serves to inform banks, branches of foreign institutions, controlling companies and auditors of banks or controlling companies (hereinafter collectively referred to as 'banks') of the national discretion exercised in respect of specified items.

1. Introduction

1.1 On 12 December 2012 the amended Regulations were published in Government Gazette No. 35950. The majority of amendments were made to incorporate the Basel III framework. The Regulations became effective on 1 January 2013.

1.2 On 7 January 2013 the Basel Committee on Banking Supervision released an updated framework for the calculation and implementation of the liquidity coverage ratio (LCR)[1].

1.3 This Office will communicate its decisions regarding national discretion relating to the net stable funding ratio in due course once that framework has been finalised.

[1] Basel Committee on Banking Supervision. January 2013. *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools (Basel liquidity framework)*

2. Directive on items of national discretion related to the LCR

2.1 Inclusion of cash reserves as part of high quality liquid assets (HQLA)

2.1.1 As previously communicated in Guidance Note 6/2013, banks' cash reserves may be included as part of their level 1 HQLA, excluding cash reserves utilised for square-off operations in SAMOS at the close of a business day.

2.2 Haircuts on level 1 HQLA

2.2.1 This office regards it as appropriate at this stage not to impose haircuts on South African level 1 HQLA.

Furthermore for the purposes of banks' holding of foreign currency denominated level 1 HQLA to cover for foreign currency denominated net cash outflows banks should implement the same haircuts specified by the relevant home central bank in its open market operations for those specific assets.

2.3 Use of level 2B HQLA

2.3.1 This Office shall allow the use of level 2B HQLA, subject to the limits, haircuts and qualifying criteria specified for these assets in the revised Basel liquidity framework.

With regard to equities, this Office shall only consider equities that are listed on the JSE's main exchange and included in the Top 40 Index.

2.4 Committed liquidity facility from the central bank

2.4.1 As communicated in Guidance Note 6/2013, a committed liquidity facility has been made available to qualify as HQLA under specific circumstances.

2.5 Foreign-currency liquid assets

2.5.1 This Office will allow foreign-currency denominated level 1 HQLA to be held for LCR compliance purposes in the domestic currency, i.e. to cover domestic currency net cash outflows. Banks are therefore allowed to hold liquid assets in a currency that does not match the currency of the associated liquidity risk. This does not detract from the requirement for banks to hold foreign currency denominated HQLA to cover foreign currency denominated net cash outflows, although compliance is only measured in the consolidated reporting currency.

However, the investment in foreign-currency denominated level 1 HQLA to cover domestic net cash outflows will be limited to 5 per cent of the total South African Rand based HQLA requirement of the relevant bank, converted at the prevailing exchange rate after the haircut has been applied. Currencies will be limited to the top ten most liquid currencies as determined in the Triennial Central Banks Survey on Foreign Exchange Turnover, as published by the Bank of International Settlements from time to time. The foreign currency HQLA shall be subject to an 8 per cent haircut. Banks are also reminded to continue to comply with the net open position limits as specified from time to time when managing foreign-currency mismatches.

2.6 Retail deposits – less-stable deposits

2.6.1 Banks shall apply a 10 per cent run-off factor for less-stable retail deposits.

2.7 Foreign-currency deposits

2.7.1 Foreign-currency deposits shall receive the same treatment as rand-denominated deposits for each type of deposit and deposit counterparty as specified in the LCR framework.

2.8 Retail term deposits

2.8.1 The run-off factor for retail term deposits with a residual maturity or notice period greater than 30 days shall be 0 per cent.

2.9 Financial hardship

2.9.1 The following circumstances shall be regarded as financial hardship for purposes of the LCR:

a) the retrenchment or unemployment of the account holder;

b) where the depositor has been placed under curatorship, judicial management or liquidation; or

c) where the deposit forms part of the assets of an insolvent or deceased estate;

d) where the deposit is required to pay for medical expenses related to life threatening medical illness.

2.10 Other contingent funding obligations

2.10.1 The following run-off factors shall apply to revocable liquidity and credit facilities related to specified counterparties:

a) retail and small business clients shall be subject to a 2,5 per cent run-off factor;

b) all other credit and liquidity facilities shall be subject to a 5 per cent run-off factor.

2.10.2 Contingent funding obligations shall be assigned the following run-off factors:

a) guarantees shall be subject to a 5 per cent run-off factor;

b) letters of credit shall be subject to a 5 per cent run-off factor;

c) non-contractual obligations:

i) potential debt-buy back requests of the bank's own debt or that of related conduits (including but not limited to negotiable certificates of deposits and instruments with similar characteristics), shall be subject to a 5 per cent run-off factor;

ii) structured products shall be subject to a 5 per cent run-off factor;

iii) managed funds shall be subject to a 5 per cent run-off factor;

iv) other non-contractual obligations shall be subject to a 5 per cent run-off factor;

v) for issuers with an affiliated dealer or market maker the amount of outstanding debt securities with remaining maturity of greater than 30 days shall be subject to a 5 per cent run-off factor to cover the potential repurchase of such outstanding securities; and

vi) non contractual obligations where customer short positions are covered by other customer's collateral shall be subject to a 50 per cent run-off factor.

2.11 Trade finance instruments

2.11.1 Contingent funding obligations relating to trade finance instruments shall be subject to a run-off rate of 2,5 per cent.

This Office reserves the right to reassess and revise the above-mentioned factors should it be deemed appropriate to do so.

3. Acknowledgement of receipt

3.1 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 6/2014 dated 1 October 2014.