



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 8/2014 issued in terms of section 6(6) of the Banks Act, (Act No. 94 of 1990)

Matters related to compliance with the liquidity coverage ratio (LCR)

Executive summary

Considering the imminent implementation of the liquidity coverage ratio (LCR) from 1 January 2015, this Office has deemed it appropriate to inform all banks, controlling companies, branches of foreign institutions, eligible institutions and auditors of banks or controlling companies (hereinafter collectively referred to as 'banks') on how it will monitor compliance with this internationally agreed standard.

This Office would like to reiterate that the intention of the LCR is to ensure that banks have sufficient unencumbered high-quality liquid assets (HQLA) that can be converted into cash easily and immediately in private markets to meet their liquidity needs for a 30-calendar day liquidity stress scenario on an ongoing basis.

1. Introduction

- 1.1 Considering the imminent implementation of the LCR from 1 January 2015, this Office has deemed it appropriate to inform all banks of its requirements regarding the compliance measurement of the LCR and of the way in which it will respond to non-compliance with the required ratio.

2. Compliance with the LCR standard

- 2.1 The LCR forms an integral part of the Basel III framework. The ratio is one of the key reforms of the Basel Committee on Banking Supervision in strengthening global capital and liquidity regulations with the goal of promoting a more resilient banking sector.

- 2.2 The LCR promotes the short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient unencumbered 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.
- 2.3 The implementation of the LCR will improve the ability of the South African banking sector 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.
- 2.4 The minimum requirement of the LCR will follow the internationally agreed phase-in arrangements, as follows:

	1 January 2015	1 January 2016	1 January 2017	1 January 2018	1 January 2019
Minimum LCR	60%	70%	80%	90%	100%

- 2.5 The LCR standard requires that, absent a situation of financial stress, the value of the required ratio not be lower than the minimum requirement on an ongoing basis because the stock of unencumbered HQLA is intended to serve as a defence against the potential onset of liquidity stress. During a period of financial stress, as determined by the Registrar of Banks (the Registrar), banks may use their stock of HQLA and fall below the minimum requirement, as maintaining the LCR at the minimum requirement under such circumstances could have negative effects on banks and other market participants. This Office will assess these situations and will adjust its response flexibly according to circumstances.
- 2.6 The LCR standard requires supervisors to allow for differentiated responses to an LCR below the minimum requirement and requires the supervisory response to be proportionate to the drivers, magnitude, duration and frequency of the reported shortfall.
- 2.7 The LCR standard requires a bank which is non-compliant with the LCR to present to the supervisor an assessment of its liquidity position, including the factor(s) that contributed to its LCR falling below the minimum requirement, the measures that have been and will be taken, and the expectations on the potential duration of the situation.
- 2.8 The LCR standard requires banks to conduct their own stress tests to assess the level of liquidity they should hold beyond this minimum requirement, and to construct their own scenarios that could cause difficulties for their specific business activities.
- 2.9 The LCR standard makes it clear that banks are required to comply with the LCR on a daily basis because the purpose of the standard is to ensure that banks have adequate HQLA available for a potential liquidity crisis at any given time.
- 2.10 This Office requires banks to inform it immediately should they become aware of their LCR decreasing towards the minimum requirement. Should a bank be unable to monitor its cash flow position on a daily basis, this Office expects such a bank to hold greater LCR buffers relative to a bank that can monitor its cash flow position on a daily basis.

3. Directive

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

3.1.1 ensure that they have adequate processes in place to monitor compliance with the LCR on a daily basis; and

3.1.2 report to this Office their level of compliance in the BA 325 form.

3.2 Should a bank be unable to calculate its LCR on a daily basis, it must apply to this Office for condonation to calculate its LCR based on month-end net cash outflows for an interim period agreed to by this Office.

4. Acknowledgement of receipt

4.1 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 7/2014 dated 28 October 2014.