



South African Reserve Bank

From the Office of
the Registrar of Banks

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

Directive 11/2014 issued in terms of section 6(6) of the Banks Act, (Act No. 94 of 1990)

Liquidity coverage ratio: Scope of application and related disclosure requirements

Executive summary

The purpose of this directive is to provide clarity and to direct all banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') on the implementation of internationally agreed public disclosure requirements relating to banks' liquidity coverage ratio (LCR), as well as the scope of application of the LCR.

1. Introduction

- 1.1 On 1 October 2014 the Office of the Registrar of Banks (this Office) issued Directive 6/2014 to replace Directive 2/2013, dated 18 March 2013. Directive 6/2014 includes, among other things, requirements regarding internationally agreed LCR disclosure standards and the implementation of an updated framework for the calculation of banks' LCR.
- 1.2 On 12 January 2014, the Basel Committee on Banking Supervision (BCBS) issued the LCR disclosure requirements.¹
- 1.3 This common public disclosure framework will assist market participants, *inter alia*, to assess banks' liquidity risk positions in a consistent manner and will also enhance market discipline.

¹ *Liquidity Coverage Ratio Disclosure Standards*, available at <http://www.bis.org/publ/bcbs272.htm>.

2. Scope of application

- 2.1 The LCR disclosure requirements states that: "The disclosure requirements set out in this document should be applied to all internationally active banks on a consolidated basis, but may be used for other banks and on any subset of entities of internationally active banks as well, to ensure greater consistency and a level playing field between domestic and cross-border banks."
- 2.2 Consolidation within this context should be read in conjunction with the objective that the LCR aims to ensure that every bank maintains an adequate stock of high quality liquid assets (HQLA) to meet its liquidity needs for a 30 calendar day liquidity stress scenario.
- 2.3 The LCR framework also makes provision for banks operating in jurisdictions that are not assigned a 0% risk weight under the Basel II standardised approach for credit risk, to include in their level 1 HQLA sovereign or central bank debt securities issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is incurred.
- 2.4 The LCR framework requires that the liquidity parameters adopted by the home jurisdiction be applied to all legal entities being consolidated, except for retail and small business deposits that should follow the host jurisdiction parameters. Should the host jurisdiction not have these parameters in place, the parameters of the home jurisdiction should be followed.
- 2.5 Finally, the LCR framework requires banks, for example, in paragraphs 171 to 173 of the LCR framework, to take into account any liquidity transfer restrictions that will inhibit the transfer of HQLA and funding flows within the relevant banking group, and to include eligible HQLA that are held by a legal entity being consolidated to meet its local LCR requirements in the consolidated LCR to the extent that such HQLA are used to cover the total net cash outflows of that entity.

3. Disclosure requirements

- 3.1 In terms of the provisions of regulation 26(12)(a)(vi) of the Regulations relating to Banks (the Regulations), while the bank has to report its LCR in South Africa in Rand on a solo and consolidated basis, the bank also has to ensure that it continuously meets its liquidity needs in each relevant currency.
- 3.2 The LCR disclosure requirements state that the LCR data must be presented as simple averages of daily observations over the previous quarter, that is, the average shall be calculated over a period of, typically, 90 days. However, in order to ease implementation burdens, national authorities may exempt banks from the requirement for disclosure of LCR data based on averages of daily data up to the first reporting period after 1 January 2017. In such cases, banks are required to calculate averages based on monthly figures.

4. Directive

- 4.1 Based on the aforesaid, and in accordance with the provisions of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990), banks are hereby directed:
- 4.1.1 to comply with the relevant LCR disclosure requirements from the date of the first reporting period after 1 January 2015, as set out in further detail in Directive 6/2014;
- 4.1.2 to calculate and disclose LCR on a bank solo level using the common disclosure template as published by the BCBS as part of the public disclosure requirements referred to in Directive 6/2014;
- 4.1.3 to calculate and disclose LCR on a consolidated level using the common disclosure template as published by the BCBS as part of the public disclosure requirements referred to in Directive 6/2014. For this purpose a consolidated LCR shall be calculated in accordance with the requirements specified below:
- 4.1.3.1 only banking and/ or deposit-taking entities shall be included;
- 4.1.3.2 branches shall be consolidated within the bank's LCR in accordance with the requirements specified in paragraph 2.4 above;
- 4.1.3.3 all banking and/ or deposit-taking entities that operate in a jurisdiction where compliance with the LCR is a regulatory requirement shall be included;
- 4.1.3.4 all banking and/ or deposit-taking entities that operate in jurisdictions where LCR is not a regulatory requirement shall be included in the consolidated LCR in accordance with the provisions of Regulation 36 of the Regulations;
- 4.1.3.5 an aggregation of the relevant individual net cash outflows and the individual HQLA portfolios of all the relevant banking and/ or deposit-taking entities shall be performed in order to calculate the relevant required consolidated LCR. In this regard the HQLA of the relevant banking and/ or deposit-taking entities shall be capped at 100 per cent of the minimum LCR requirement in each relevant jurisdiction in the aggregation process, unless the excess HQLA of a particular entity is such that it will qualify as HQLA within the home jurisdiction, and it shall be easily transferable across jurisdictions;
- 4.1.3.6 for all entities included in the consolidated LCR, the requirements of paragraphs 2.3 and 2.4 shall apply;
- 4.1.3.7 all the respective components required for the calculation of the aggregated LCR shall be converted into Rand;
- 4.1.3.8 the aggregated LCR shall be calculated on a monthly basis to form the base of the public disclosure requirements, and shall be made available to this Office on request; and
- 4.1.3.9 the aggregated LCR shall be reported quarterly in line with the form BA 600 requirements;

- 4.1.4 to duly take into account all relevant liquidity transfer restrictions in the calculation and disclosure of the relevant LCR;
- 4.1.5 to disclose the LCR based on simple averages of monthly data, that is, the bank shall calculate an average amount based on the relevant month-end amounts up to the first reporting period after 1 January 2017, whereafter the bank shall calculate an average amount based on the relevant simple averages of daily data. However, should a bank be in a position to calculate daily average amounts prior to 1 January 2017, the bank may disclose to the market the relevant daily average amount instead of the month-end average amounts;
- 4.1.6 to publish the relevant number of data points used in the calculation of the average numbers in the relevant disclosure template; and
- 4.1.7 in line with capital related disclosure requirements, the LCR disclosures shall be made available to the public on a quarterly basis.
- 4.2 This Office will continue to engage with the banking industry during 2015 to evaluate the apparent impediments to move towards the scope of application requirements set out in paragraphs 164 to 167 of the LCR standards referred to in Directive 6/2014. In this regard banks that are required to submit quantitative impact study (QIS) data to the BCBS, on a semi-annual basis, shall be required to calculate the consolidated LCR based on the scope of application set out in paragraphs 164 to 167, which includes, for example, all relevant financial entities.
- 4.3 Should a bank be unable to comply with any of the relevant directives specified in this Directive 10/2014, the bank shall, in accordance with the provisions of regulation 5 of the Regulations, report its inability to comply in writing to the Registrar, stating the reasons for such failure or inability to comply.

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.


pvt René van Wyk
Registrar of Banks

The previous directive issued was Directive 10/2014 dated 10 December 2014.