



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 1/2016 issued in terms of section 6(6) of the Banks Act 94 1990

Matters related to the exposure limits imposed in the classification of deposits and credit exposures to small and medium enterprises (SMEs)

Executive summary

Specific limits are currently specified in the Regulations relating to Banks (the Regulations) in respect of exposures to retail, SME retail and qualifying retail revolving credit.

During the process of amending the current Regulations, it was decided to replace the threshold amounts specified in the Regulations for deposits and credit exposures to be classified as retail, SME retail or qualifying retail revolving credit, with enabling provisions that allow the Registrar to specify the said thresholds in writing.

This directive serves to direct banks, branches of foreign institutions and controlling companies (hereinafter collectively referred to as 'banks') to apply the threshold amounts specified in this directive as from the effective date of 1 July 2016.

1. Introduction

- 1.1 Paragraph 70 of the Basel Committee on Banking Supervision's report issued in June 2004 titled 'International Convergence of Capital Measurement and Capital Standards: A Revised Framework' (Basel II framework) specifies that for an exposure to be included in the regulatory retail portfolio, the maximum aggregated retail exposure to one counterpart cannot exceed a threshold of €1 million.
- 1.2 Paragraph 231 of the Basel II framework specifies that loans extended to small businesses and managed as retail exposures are eligible for retail treatment provided the total exposure of the banking group to a small business borrower is less than €1 million.

- 1.3 Paragraph 234(c) of the Basel II framework specifies that for an exposure to be classified as a qualifying revolving retail exposure, the maximum exposure to a single individual shall be €100 000 or less.
- 1.4 Paragraphs 90 and 91 of 'Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools' issued in January 2013 define small business customers in line with loans extended to small businesses in paragraph 231 of the Basel II framework that are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts, provided that the total aggregated funding raised from one small business customer is less than €1 million. It further states that where a bank does not have exposure to small business customers according to the definition under paragraph 231 of the Basel II framework, the bank may include such a deposit in this category provided that the deposit is managed as a retail deposit and the total aggregate funding raised from a customer is less than €1 million.
- 1.5 Based on the information available during the implementation phase of the Basel II framework in South Africa, the €1 million limit was converted to R7,5 million and the €100 000 limit was converted to R1 million.
- 1.6 To ensure consistency between credit risk and liquidity risk as required by the Basel III framework, during the implementation of the liquidity coverage ratio (LCR) framework the €1 million limit was also converted to R7,5 million.
- 1.7 Consequently, the Regulations specify the following:
 - 1.7.1 Regulation 23(6)(b)(iv) of the Regulations specifies that an exposure to an individual person or small business shall be included in the retail portfolio only when the aggregate amount of the said exposure, after the application of the relevant credit conversion factors but before the effect of any risk mitigation is taken into consideration, is less than or equal to R7,5 million.
 - 1.7.2 Regulation 23(6)(h)(xi)(G) of the Regulations specifies that in the case of a securitisation scheme with early amortisation features, retail exposure means any exposure to a person of less than R7,5 million.
 - 1.7.3 Proviso (i) of regulation 23(11)(c)(iv)(A)(iii) of the Regulations specifies that the total exposure to a small business borrower shall at no time exceed an amount of R7,5 million.
 - 1.7.4 Regulation 23(11)(c)(iv)(B)(ii)(dd) of the Regulations specifies that for an exposure to be classified as a qualifying revolving retail exposure, the maximum exposure to a single individual counterparty or obligor shall not exceed an amount of R1 million.
 - 1.7.5 Proviso (i) of regulation 26(12)(d)(iv) of the Regulations specifies that unsecured wholesale funding provided by non-financial small business customers shall only include small business customers in respect of which the total aggregate amount of funding raised from a customer and its relevant associates or affiliates, on a gross consolidated basis, is less than R7,5 million.

- 1.8 During the process of amending the current Regulations, it was decided to replace the threshold amounts specified in the Regulations for exposures to be classified as retail, SME retail or qualifying retail revolving credit with enabling provisions that allow the Registrar to specify the said thresholds in writing.
- 1.9 In this regard, it was proposed that the R7,5 million threshold be revised to better reflect the current market conditions in South Africa.
- 1.10 Furthermore, it was decided that this Office should consult further with the banking industry to determine whether other thresholds specified in the Regulations also require revision.
- 1.11 The purpose of this directive is to inform banks of the threshold amounts to be used by banks for the classification of retail, SME retail and qualifying retail revolving credit.

2. Directive

- 2.1 Based on the aforesaid and in accordance with the provisions of section 6(6) of the Banks Act 94 of 1990, from the effective date of 1 July 2016 onwards, banks are hereby directed to ensure that:
 - 2.1.1 for purposes of regulation 23(6)(b)(iv) of the Regulations, an exposure to an individual person or small business is included in the retail portfolio only when the aggregate amount of the said exposure, after the application of the relevant credit conversion factors but before the effect of any risk mitigation is taken into consideration, is less than or equal to R12,5 million;
 - 2.1.2 for purposes of regulation 23(6)(h)(xi)(G) of the Regulations, in the case of a securitisation scheme with early amortisation features, the bank interprets retail exposure to mean any exposure to a person of less than R12,5 million;
 - 2.1.3 for purposes of proviso (i) of regulation 23(11)(c)(iv)(A)(iii) of the Regulations, the total exposure of the reporting banking group to the said small business borrower, which shall be determined or calculated on a consolidated basis, at no time exceeds R12,5 million;
 - 2.1.4 for purposes of regulation 23(11)(c)(iv)(B)(ii)(dd) of the Regulations, the maximum exposure to a single individual counterparty or obligor in the portfolio retail revolving credit at no time exceeds R1 million; and
 - 2.1.5 for purposes of proviso (i) of regulation 26(12)(d)(iv) of the Regulations, unsecured wholesale funding provided by non-financial small business customers only includes small business customers in respect of which the total aggregate amount of funding raised from a customer and its relevant associates or affiliates, on a gross consolidated basis, is less than R12,5 million.

3. Effective date

3.1 This directive becomes effective from 1 July 2016.

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 11/2015, dated 3 December 2015.