South African Reserve Bank

From the Office of
the Registrar of Banks

Ref: 15/8/3

D8/2017

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

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

Matters related to the net stable funding ratio

<u>Executive summary</u>

On 1 January 2013 the amended Regulations relating to Banks (the Regulations), implemented, among other things, a framework for the calculation of a bank's net stable funding ratio (NSFR).

The Office of the Registrar of Banks (this Office) informed 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 NSFR. The aforementioned revisions and related NSFR requirements will be incorporated into future amendments to the Regulations.

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 matters related to the calibration of the NSFR and the national discretion exercised in respect of specified items related to the NSFR.

This directive replaces Banks Act Directive 4/2016 with effect from 1 January 2018.

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 an updated framework for the calculation and implementation of the NSFR[1].

[1] Basel III: the net stable funding ratio, available at http://www.bis.org/bcbs/publ/d295.pdf

1.3 Recently the BCBS issued a press release[2] providing for additional national discretion in specified cases.

1.4 The NSFR framework makes provision for only a few specified cases of national discretion to be exercised by national supervisors.

1.5 The purpose of this directive is to:

1.5.1 Inform banks of matters related to the calibration of the NSFR and the national discretion exercised in respect of specified items related to the NSFR;

1.5.2 Provide clarity on the treatment of the Committed Liquidity Facility (CLF) within the NSFR framework;

1.5.3 Provide banks with the reporting template to be used by banks to enable this Office to monitor banks' compliance with the NSFR requirements from 1 January 2018.

1.6 This directive replaces Banks Act Directive 4/2016 with effect from 1 January 2018.

2. Framework for the calculation and implementation of the NSFR

2.1 Calibration and implementation of the NSFR

2.1.1 The NSFR framework was assessed holistically to determine the feasibility of adopting the minimum standard within South Africa and the suitability of the calibration of the NSFR for South Africa and the possible options available to incorporate the principles of the NSFR without causing undue harm to the banking sector and the economy. This Office also considered the implementation timelines and it has been decided not to deviate from the internationally agreed implementation date of 1 January 2018.

2.1.2 Available stable funding (ASF)

2.1.2.1 The calibration of ASF assumes that longer-term funding is more stable than short-term funding.

2.1.2.2 The NSFR framework assumes that regulatory capital and funding provided by retail and small business customers are the most stable sources of funding and have the highest ASF factors assigned to them.

2.1.2.3 Funding with a residual maturity of less than one year received from non-financial corporate customers, sovereigns and public-sector entities, as well as funding from financial corporate customers with a residual maturity of between six months and one year, have to be assigned an ASF factor of 50 per cent.

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[2] Implementation of net stable funding ratio and treatment of derivative liabilities, available at https://www.bis.org/press/p171006.htm

2.1.2.4 The NSFR framework assigns an ASF factor of zero per cent to funding with a residual maturity of less than six months from financial corporate customers. This Office is of the view that this particular calibration does not reflect the actual stability of this funding source in South Africa since there are various regulatory and economic barriers that prevent liquidity from flowing out of the domestic economy. This Office is of the opinion that these barriers cause these deposits to be more stable in South Africa compared to other jurisdictions. The barriers include, for example, the exchange control regime that is in place, prudential requirements on financial corporates and the limited reliance on foreign-exchange funding by South African banks. The rand funding that the South African banks use is contained within the financial system and therefore the rand is unlikely to be drained by currency withdrawal from off-shore sources, or placements in off-shore accounts.

After due consideration, this Office concluded that it would be appropriate to deviate from the international standard and to assign an ASF factor of 35 per cent to secured and unsecured funding received in Rand (ZAR) from financial corporate customers, excluding banks, with a residual maturity of less than six months. This dispensation is only available for banks conducting business in South Africa.

2.2 Treatment of minimum required cash reserves

2.2.1 In terms of Banks Act Directive 7/2014 minimum required cash reserves can be included as part of HQLA in the Liquidity Coverage Ratio (LCR). The Required Stable Funding (RSF) assigned to a bank's minimum required cash reserves shall be 5 per cent. Any excess cash reserve balance held at the South African Reserve Bank, in the relevant reserve account, shall be assigned a RSF factor of zero per cent.

2.3 The required stable funding add on relating to gross derivative liabilities

2.3.1 The RSF factor assigned to the 10 per cent add-on relating to gross derivative liabilities is 100 per cent.

2.4 Interdependent assets and liabilities

2.4.1 Paragraph 45 of the NSFR framework issued by the BCBS sets out the principles for interdependent assets and liabilities that would qualify for the beneficial treatment. For banks to benefit from this treatment it would be subject to supervisory approval following, among other things, due consideration of the internal governance structures of the bank. As a minimum, interdependent assets and liabilities shall be approved by the executive committee assigned responsibility for liquidity risk management oversight within the relevant bank.

2.5 The following contingent funding obligations are included in the NSFR framework:

2.5.1 Unconditionally revocable credit and liquidity facilities shall be assigned a RSF factor of 5 per cent;

2.5.2 Trade finance-related obligations (including guarantees and letters of credit) shall be assigned a RSF factor of 5 per cent;

2.5.3 Guarantees and letters of credit unrelated to trade finance obligations shall be assigned a RSF factor of 5 per cent; and

2.5.4 Non-contractual obligations such as:

2.5.4.1 potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities;

2.5.4.2 structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes; and

2.5.4.3 managed funds that are marketed with the objective of maintaining a stable value, shall be assigned a RSF factor of zero per cent.

2.5.5 Required stable funding (RSF)

2.5.5.1 The RSF takes into account the need for resilient credit extension, bank behaviour, liquidity value, asset tenor and asset quality. This Office is of the opinion that the RSF factors set out in the NSFR framework are appropriate and shall be implemented accordingly by banks.

2.6 Treatment of the CLF from the South African Reserve Bank (SARB)

2.6.1 The amount of collateral, net of the required haircut, used to secure the CLF shall be assigned a RSF factor of 5 per cent. This amount will be limited to the maximum of the CLF contractually entered into with the SARB. The amount that is the required haircut and any amount of excess collateral shall be treated according to the treatment that the assets would receive in the NSFR framework issued by the BCBS.

2.7 A summary of the specific ASF factors are set out in Annexure B.

2.8 A summary of the specific RSF factors are set out in Annexure C.

3. Directive

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

3.1.1 to comply with the revised NSFR framework and the related requirements, as published by the BCBS in the aforementioned documents, read with the relevant requirements specified in the Regulations and in this Directive, from 1 January 2018, onwards;

3.1.2 to furnish this Office with the information related to the NSFR, in accordance with the requirements specified in the NSFR monitoring template set out in Annexure A. The template should be sent to SARB-BANKSUP@resbank.co.za and the relevant relationship team on a monthly basis within 20 business days immediately following the month-end to which the specified return relates from the January 2018 reporting period onwards, until such time as the NSFR has been incorporated into the Regulations relating to Banks.

3.1.3 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.

4. Acknowledgement of receipt

4.1 Kindly ensure that a copy of this directive is made available to 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.

Kuben Naidoo
Deputy Governor and Registrar of Banks

Date: 13/12/2017

The previous directive issued was Directive 7/2017 dated 28 November 2017.

Encl. 3

Net stable funding ratio (NSFR)		Total			Specified factor			Weighted total			
Available stable funding	**Line no.**	< 6 months	≥ 6 months to < 1 year	≥1 year	< 6 months	≥ 6 months to < 1 year	≥ 1 year	< 6 months	≥ 6 months to < 1 year	≥ 1 year	Total (col 7 + col 8 + col 9)
R'000		1	2	3	4	5	6	7	8	9	10
Tier 1 and Tier 2 capital (Basel III 2022), before capital deductions and excluding Tier 2 instruments with residual maturity of less than one year	1						100%			0	0
Capital instruments not included above with an effective residual maturity of one year or more	2						100%			0	0
"Stable" demand and/or term deposits from retail and small business customers	3				95%	95%	100%	0	0	0	0
"Less stable" demand and/or term deposits from retail and small business customers	4				90%	90%	100%	0	0	0	0
Funding from non-financial corporates (total of items 6 and 7)	5	0	0	0				0	0	0	0
Operational deposits	6				50%	50%	100%	0	0	0	0
Non-operational deposits and funding	7				50%	50%	100%	0	0	0	0
Funding from central banks (total of items 9 and 10)	8	0	0	0				0	0	0	0
Operational deposits	9				50%	50%	100%	0	0	0	0
Non-operational deposits and funding	10				0%	50%	100%	0	0	0	0
Funding from sovereigns/PSEs/MDBs/NDBs (total of items 12 and 13)	11	0	0	0				0	0	0	0
Operational deposits	12				50%	50%	100%	0	0	0	0
Non-operational deposits and funding	13				50%	50%	100%	0	0	0	0
Funding from other legal entities (total of items 15 to 17)	14	0	0	0				0	0	0	0
Operational deposits	15				50%	50%	100%	0	0	0	0
Non-operational deposits and funding raised in South Africa and denominated in ZAR, excluding banks	16				35%	50%	100%	0	0	0	0
Non-operational deposits and funding not included in line 16	17				0%	50%	100%	0	0	0	0
Deposits from members of the same cooperative network of banks	18				0%	0%	100%	0	0	0	0
NSFR derivative liabilities (items 19 less 20)	19			0			0%			0	0
NSFR derivative liabilities (gross of variation margin posted)	20										
Total variation margin posted	21										
Interdependent liabilities	22				As specified by the Registrar						0
All other liabilities and equity categories not included above	23				0%	50%	100%	0	0	0	0
Total ASF (Total of items 1 to 5, 8, 11, 14, 18, 19, 22, 23)	24	0	0	0				0	0	0	0

Required stable funding - on balance-sheet items		Total			Specified factor			Weighted total			
		< 6 months	≥ 6 months to < 1 year	≥1 year	< 6 months	≥ 6 months to < 1 year	≥ 1 year	< 6 months	≥ 6 months to < 1 year	≥ 1 year	Total (col 7 + col 8 + col 9)
R'000		1	2	3	4	5	6	7	8	9	10
Coins and banknotes	25				0%			0			0
Total central bank placements (total of items 27 and 28)	26	0	0	0				0	0	0	0
Required central bank reserves	27				5%			0			0
Other placements with the central bank	28				0%	0%	0%	0	0	0	0
Securities held where the institution has an offsetting reverse repurchase transaction when the security on each transaction has the same unique identifier (eg ISIN number) and such securities are reported on the balance sheet of the reporting institutions	29				0%	0%	0%				
Deposits held at other banks which are members of the same cooperative network of banks	30				0%	0%	100%				
Loans to financial institutions (total of items 32, 35 and 38)	31	0	0	0				0	0	0	0
Loans to financial institutions secured by Level 1 collateral and where the bank has the ability to freely rehypthecate the received collateral for the life of the loan (total of items 33 and 34)	32	0	0	0				0	0	0	0
Unencumbered	33				10%	50%	100%	0	0	0	0
Remaining period of encumberance	34				10%	50%	100%	0	0	0	0
All other secured loans to financial institutions (total of 36 and 37)	35	0	0	0				0	0	0	0
Unencumbered	36				15%	50%	100%	0	0	0	0
Remaining period of encumberance	37				15%	50%	100%	0	0	0	0
Unsecured loans to financial institutions (total of 39 and 40)	38	0	0	0				0	0	0	0
Unencumbered	39				15%	50%	100%	0	0	0	0
Remaining period of encumberance	40				15%	50%	100%	0	0	0	0
Securities eligible as Level 1 HQLA (total of items 42 and 43)	41	0	0	0				0	0	0	0
Unencumbered	42				5%	5%	5%	0	0	0	0
Remaining period of encumberance	43				5%	50%	100%	0	0	0	0
Securities eligible for Level 2A HQLA (total of items 45 and 46)	44	0	0	0				0	0	0	0
Unencumbered	45				15%	15%	15%	0	0	0	0
Remaining period of encumberance	46				15%	50%	100%	0	0	0	0
Securities eligible for Level 2B HQLA (total of items 48 and 49)	47	0	0	0				0	0	0	0
Unencumbered	48				50%	50%	50%	0	0	0	0
Remaining period of encumberance	49				50%	50%	100%	0	0	0	0
Committed Liquidity Facility from the South African Reserve Bank	50			0			5%			0	0
Deposits held at financial institutions for operational purposes	51				50%	50%	100%	0	0	0	0
Loans to non-financial corporate clients with a residual maturity of less than one year	52				50%	50%		0	0		0

Loans to sovereigns, central banks, PSEs, MDBs and NDBs with a residual maturity of less than one year	53				50%	50%		0	0		0
Residential mortgages of any maturity that would qualify for the 35% or lower risk weight under the Basel II standardised approach for credit risk	54				50%	50%	65%	0	0	0	0
Other loans, excluding loans to financial insitutions, with a residual maturity of one year or greater that would qualify for the 35% or lower risk weight under the Basel II standardised approach for credit risk (total of items 55 and 56)	55	0	0	0						0	0
Unencumbered	56						65%			0	0
Remaining period of encumberance	57				65%	65%	100%	0	0	0	0
Performing loans (except loans to financial institutions and loans reported in above categories) with risk weights greater than 35% under the Basel II standardised approach for credit risk	58				50%	50%	85%	0	0	0	0
Non-HQLA exchange traded equities and physical traded commodities, including gold (total items 59 and 60)	59	0	0	0						0	0
Unencumbered	60						85%			0	0
Remaining period of encumberance	61				85%	85%	100%	0	0	0	0
Non-HQLA securities not in default	62				50%	50%	85%	0	0	0	0
Other short-term unsecured instruments and transactions with a residual maturity of less than one year	63				50%	50%		0	0		0
All asset encumbered not included above	64				50%	50%	100%	0	0	0	0
NSFR derivative assets (items 65 less 66)	65			0			100%			0	0
NSFR derivative assets (gross of variation margin received)	66										
Cash variation margin received	67										
Required stable funding associated with derivative liabilities	68			0			10%			0	0
Total initial margin posted	69						85%			0	0
Items deducted from regulatory capital	70						100%			0	0
Interdependent assets	71				As specified by the Registrar						0
Trade date receivables	72				0%			0			0
All other assets not included in above categories	73						100%			0	0
Total on balance-sheet RSF (total of items 25, 26, 29 to 31, 41, 44, 47, 50 to 55, 58, 59, 62 to 64, 65, 68 to 73)	74	0	0	0				0	0	0	0

Required stable funding - off balance-sheet items		**Amount**	**Specified factor**	**Weighted total**
Irrevocable or conditionally revocable liquidity facilities	75		5%	0
Irrevocable or conditionally revocable credit facilities	76		5%	0
Unconditionally revocable liquidity facilities	77		5%	0
Unconditionally revocable credit facilities	78		5%	0
Trade finance-related obligations (including guarantees and letters of c	79		5%	0
Guarantees and letters of credit unrelated to trade finance obligations	80		5%	0
Non-contractual obligations (total of items 82 to 85)	81			0
Debt-buy back requests (incl related conduits)	82		0%	0
Structured products	83		0%	0
Managed funds	84		0%	0
Other non-contractual obligations	85		0%	0
Total Off Balance-sheet RSF (total of items 75 to 81)	86			0
Calculating the NSFR				
Total ASF (item 24)	87	0		
Total RSF (Total of items 74 and 86)	88	0		
NSFR (Item 87 divided by 88 multiplied with 100)	89	#DIV/0!		

Annexure B

Summary of liability categories and associated ASF factors	
ASF factor	**Components of ASF category**
100%	• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year) • Other capital instruments and liabilities with effective residual maturity of one year or more
95%	• Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers
90%	• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers
50%	• Funding with residual maturity of less than one year provided by non-financial corporate customers • Operational deposits • Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks • Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions
35%	• Rand funding with a residual maturity of less than six months from financial corporate customers (excluding banks)
0%	• All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests) • NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets • "Trade date" payables arising from purchases of financial instruments, foreign currencies and commodities

Annexure C

Summary of asset categories and associated RSF factors	
RSF factor	**Components of RSF category**
0%	• Coins and banknotes • Central reserves in excess of the minimum required central bank reserves • All claims on central banks with residual maturities of less than six months • “Trade date” receivables arising from sales of financial instruments, foreign currencies and commodities.
5%	• Unencumbered Level 1 assets, excluding coins, banknotes and excess central bank reserves • Minimum required central bank reserves • Committed liquidity facility • The current undrawn portion of irrevocable and conditionally revocable credit and liquidity facilities to any client
10%	• Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets as defined in LCR paragraph 50, and where the bank has the ability to freely re-hypothecate the received collateral for the life of the loan
15%	• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories • Unencumbered Level 2A assets
50%	• Unencumbered Level 2B assets • HQLA encumbered for a period of six months or more and less than one year • Loans to financial institutions and central banks with residual maturities between six months and less than one year • Deposits held at other financial institutions for operational purposes • All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs
65%	• Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach • Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the standardised approach

85%	• Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a CCP • Other unencumbered performing loans with risk weights greater than 35% under the standardised approach and residual maturities of one year or more, excluding loans to financial institutions • Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities • Physical traded commodities, including gold
100%	• All assets that are encumbered for a period of one year or more • NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities • 10% of derivative liabilities as calculated according to paragraph 19 of the NSFR framework • All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities
REF factors subject to national discretion	• Unconditionally revocable credit and liquidity facilities • Trade finance-related obligations (including guarantees and letters of credit) • Guarantees and letters of credit unrelated to trade finance obligations • Non-contractual obligations such as: o potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities o structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs) o managed funds that are marketed with the objective of maintaining a stable value