



South African Reserve Bank
Prudential Authority

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D1/2018

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 94 of 1990

Matters related to Pillar 3 disclosure requirements – consolidated and enhanced framework

Executive summary

In March 2017 the Basel Committee on Banking Supervision (BCBS) issued a standard entitled “Pillar 3 disclosure requirements – consolidated and enhanced framework¹”.

The Prudential Authority (PA), hereby informs all banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as ‘banks’) of the requirements of the consolidated and enhanced disclosure framework that has been issued by the BCBS, to ensure that the internationally agreed Pillar 3 disclosure requirements are fully implemented on specified implementation dates.

The purpose of this directive is also to clarify and highlight pertinent matters specified in the Pillar 3 disclosure requirements – consolidated and enhanced framework, where relevant, and to ensure that banks fully comply with the required disclosure requirements as specified in the enhanced BCBS framework.

1. Introduction

- 1.1 The standards issued by the BCBS set out the disclosure requirements arising from the second phase of the review of the Pillar 3 framework. The framework consolidates all existing BCBS Pillar 3 disclosure requirements. The standard does not make fundamental changes to the existing disclosure requirements, however, some changes have been made to the format and frequency of some of the disclosure requirements to align them with the revised Pillar 3 disclosure standards that were issued in January 2015.
- 1.2 The enhanced framework also covers some enhancements and revisions to the Pillar 3 standard arising from on-going reforms to the regulatory policy framework.

¹ <https://www.bis.org/bcbs/publ/d400.pdf>

- 1.3 Banks are hereby notified that the PA is in the process of amending the Regulations relating to Banks (the Regulations) and some of the disclosure requirements covered by this directive relating to Regulation 43 will be impacted and will be addressed further in due course.
- 1.4 The provisions of this Directive are unrelated to any disclosure requirements that may be specified by the Johannesburg Stock Exchange in respect of the Stock Exchange News Service (SENS) from time to time.

2. Directives

In accordance with the provisions of section 6(6) of the Banks Act, No 94 of 1990, and banks are hereby directed as follows:

- 2.1 With regard to retrospective disclosures, templates which require the disclosure of data points for current and previous reporting periods, the disclosure of the data point for the previous period is not required when a metric for a new standard is reported for the first time.

2.2 Composition of capital and total loss-absorbing capacity

The disclosure requirements set out in the 2012 capital disclosure standard in respect of all relevant required reporting periods from 1 January 2018 onwards, have been incorporated into regulation 43(2)(c)(i)(B) of the Regulations. These disclosure requirements have now been aligned to the revised Pillar 3 framework and related changes in disclosure requirements that reflect the total loss-absorbing capacity (TLAC) regime for global systemically important banks (G-SIBs). The applicable template CC1 has been expanded to include an additional column to provide linkages with the reconciliation disclosures in template CC2 and additional rows for the BCBS's total loss-absorbing capacity (TLAC) holdings standard.

Banks are hereby directed to disclose their composition of capital using the template CC1 in accordance with the requirements specified in regulation 43(2)(c)(i)(B) of the Regulations, and to expand it with an additional column to provide the required linkages with the reconciliation disclosure template at its financial year-end 2018, as set out in the enhanced framework issued by the BCBS.

Banks are also directed to disclose Table CCA relating to the main features template, in accordance with the requirements specified in regulation 43(1)(e)(ii)(E) of the Regulations read with the enhanced and consolidated framework issued by the BCBS, which should be published semi-annually, with the first disclosure included in the bank's Pillar 3 report at its financial year-end 2018. In addition, Table CCA must be updated on the bank's website whenever it issues or repays a capital or TLAC-eligible instrument, or whenever there is redemption, conversion, write down or other material change in the nature of an existing instrument.

2.3 Disclosure requirements – dashboard of key prudential metrics

Key metrics template (KM1) of the enhanced disclosure framework issued by the BCBS provides users of Pillar 3 data with a time series set of key prudential metrics covering a bank's available capital, including buffer requirements and ratios, its risk-weighted assets (RWA), leverage ratio, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), in a format that facilitates comparisons of a bank's performance and trends over time, with the aim to improve market discipline.

Banks are hereby directed to disclose the key prudential information using template KM1, quarterly, in respect of all relevant reporting periods after 1 January 2018. Furthermore, banks are directed to publicly disclose whether or not they apply a transitional arrangement for the impact of expected credit loss accounting on regulatory capital as required in Directive 5 of 2017 and in the BCBS's publication on the regulatory treatment of accounting provision. In cases where the transitional arrangement for expected credit losses is applied, template KM1 provides users with information on the impact on the bank's regulatory capital and leverage ratios compared to the bank's 'fully loaded' capital and leverage ratios if the transitional arrangement has not been applied.

2.4 Disclosure requirements for macro prudential supervisory measures

Two disclosure requirements on macro prudential supervisory measures; disclosure of G-SIB measures templates (G-SIB1) and disclosure of geographical distribution of credit exposures used in the calculation of the countercyclical capital buffer requirement in template (CCyB1) were incorporated into the enhanced framework issued by the BCBS.

Template CCyB1 has to be published semi-annually, with the first disclosure due in a bank's Pillar 3 report, in respect of all relevant reporting periods after 1 January 2018. Banks are hereby directed to disclose template CCyB1 on geographical distribution of credit exposure relevant for the calculation of the countercyclical buffer, in respect of jurisdictions where the countercyclical buffer rate is higher than zero.

2.5 Disclosure requirements relating to G-SIBs

Template G-SIB1 provides users of Pillar 3 data with details of the indicators used to assess how a G-SIB has been determined. This template is mandatory for a bank which has been classified as a G-SIB in the previous year, or a bank that was included in the assessment sample by the national authority based on supervisory judgment.

Since the PA is not the home supervisor to any G-SIB, banks are not required to publish the templates that are required for G-SIBs, including template G-SIB1, template TLAC1 which provides details of the TLAC positions of G-SIB resolution groups, templates TLAC2 and TLAC3 which present information on creditor rankings at the legal entity level for material subgroup entities, that is entities that are part of a material subgroup which has issued internal TLAC to one or more resolution entities, and also for resolution entities, as well as template KM2 which requires G-SIBs to disclose key metrics on TLAC.

2.6 Timing of disclosure requirements for the leverage ratio

In addition to the disclosure requirements specified in regulation 43(2)(c)(iv) of the Regulations, banks are hereby directed to complete leverage ratio template LR1 to report a summary comparison of accounting assets versus leverage exposure measure and leverage ratio common disclosure template LR2 – on a quarterly basis, and to further include the basis for their disclosures, that is either quarter-end, daily averaging or monthly averaging, subject to approval as required in regulation 43(1)(e)(ii)(G)(ii) of the Regulations, in respect of all relevant reporting periods after 1 January 2018.

2.7 Disclosure requirements for the LCR

The enhanced disclosure framework issued by the BCBS consolidates the quantitative disclosure template and the qualitative information requirements set out in the LCR disclosure standards of January 2014 into template LIQ1 and table LIQA. In addition to the disclosure requirements specified in regulation 43(2)(c)(v)(A) of the Regulations, banks are hereby directed to disclose the information specified in template LIQ1 which is also in accordance with the relevant requirements specified in regulation 43(2)(c)(v)(A)(i) of the Regulations on a quarterly basis, in respect of all relevant reporting periods commencing after 1 January 2018.

Banks are hereby directed to disclose the qualitative and quantitative disclosure requirements on liquidity in accordance with table LIQA – Liquidity risk management, which disclosure requirements are also specified in regulation 43(1)(e)((ii)(H)(ii) and regulation 43(1)(e)(ii)(H)(iii) to (ix) of the Regulations using table LIQA, in respect of all relevant reporting periods commencing after 1 January 2018.

2.8 Disclosure requirements for the NSFR

The enhanced disclosure framework issued by the BCBS consolidates the NSFR disclosure requirements issued by the BCBS in June 2015 into a new template (Template LIQ2). Banks are hereby directed to disclose the relevant required information specified in template LIQ2: net stable funding ratio, semi-annually, with the first disclosure to be made in a bank's first semi-annual Pillar 3 report in respect of all relevant reporting periods commencing after 1 January 2018.

2.9 Disclosure requirements – interest rate risk in the banking book

The disclosure requirements for the revised interest rate risk in the banking book (IRRBB) standards have been consolidated into the Pillar 3 – enhanced and consolidated framework. Tables A and B in the revised IRRBB standards have been transferred into a new table (Table IRRBBA) and a new template (Template IRRBB1) respectively.

Banks will be informed of the PA's disclosure requirements, including the proposed implementation date, in respect of IRRBB Pillar 3, in due course.

2.10 Disclosure requirements for prudent valuation adjustments

The enhanced standard introduces a new disclosure template relating to prudent valuation adjustments (PVA) (Template PV1), to be completed by those banks that record PVAs. Banks are already required to disclose the aggregate sum of their PVAs in the disclosure requirement for composition of capital. Template PV1 will provide users with a detailed breakdown of how the aggregate PVA was derived at.

Banks are hereby directed to publish the PVA requirements required in template PV1, annually, from the end of their 2018 financial year. The PA will consider, on a case-by-case basis, instances where banks are unable to classify the exposure as banking book or trading book for an appropriate treatment.

2.11 Market risk

Banks will be informed of the PA's disclosure requirements, including the proposed implementation date, in respect of the revised market risk framework in due course.

2.12 Disclosure requirements for remuneration

The disclosure requirements on remuneration issued in July 2011 have been consolidated into the enhanced Pillar 3 framework with the existing qualitative disclosure requirements on remuneration transferred into a new table (table REMA) to provide users of Pillar 3 data with a description of the bank's remuneration policy. The existing quantitative disclosures were transposed into three new templates (templates REM1, REM2 and REM3) to provide information on a bank's fixed and variable payments awarded during the financial year, details of any special payments made, and information on a bank's total outstanding deferred and retained remuneration, respectively.

Banks are hereby directed to publish the remuneration disclosure requirement, which disclosure requirements are also specified in regulation 43(2)(f)(i)-(iii) of the Regulations, using the table and templates as specified in the enhanced disclosure framework issued by the BCBS, with the first disclosures due in a bank's pillar 3 report in respect of all reporting periods commencing after its financial year-end 2017.

2.13 Implementation date and frequency of different disclosure requirements

Banks are hereby directed to comply with the Pillar 3 disclosure requirements set out in the consolidated and enhanced framework issued by the BCBS, from the dates as specified by the BCBS, unless specifically otherwise stated in this directive.

3. Acknowledgement of receipt

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 the PA at the earliest convenience of the aforementioned signatories.



Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 18 April 2018

The previous directive issued was Directive 8/2017 dated 13 December 2017.