South African Reserve Bank

Prudential Authority

Ref.: 15/8/1/3

D1/2019

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

Directive D1/2019 issued in terms of section 6(6) of the Banks Act 94 of 1990

Matters related to Pillar 3 disclosure requirements framework

Executive summary

In terms of regulation 43(1) of the Regulations relating to Banks (Regulations), "a bank shall disclose in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enables users of that information, among other things, to make an accurate assessment of the bank's financial condition, including, but not limited to, its capital adequacy position, and its liquidity position, financial performance, leverage ratio, ownership, governance, business activities, risk profile and risk management practices."

In this regard the Basel Committee on Bank Supervision (BCBS) issued a revised Pillar 3 framework in January 2015 and the consolidated and enhanced framework in March 2017 as well as the updated framework on Pillar 3 disclosure requirements in December 2018.

The Pillar 3 disclosure requirements aim to promote market discipline by providing users with key information relating to, for example, a bank's regulatory capital and risk exposures. A key goal of the revised Pillar 3 disclosure requirements is to improve comparability and consistency of disclosures. Therefore, the BCBS incorporated standardised disclosure templates as part of the revised Pillar 3 disclosure requirements.

The Prudential Authority (PA) hereby informs all banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') that the PA is in the process of proposing amendments to regulation 43 of the Regulations to remove the Pillar 3 disclosure requirements from the Regulations.

The purpose of this directive is to consolidate the disclosure requirements set out in the revised Pillar 3 framework and the consolidated and enhanced framework respectively issued by the BCBS in January 2015 and in March 2017, to create a single point of reference for the disclosure requirements and to direct banks to comply with the requirements specified in this directive in order to ensure that the internationally agreed Pillar 3 disclosure framework is fully implemented. This directive replaces directives 11/2015 and 1/2018.

1. Introduction

1.1 As part of its process to update legislation with recent developments in the Pillar 3 framework, the PA is proposing amendments to regulation 43 of the Regulations to remove the disclosure requirements currently specified in regulation 43 of the Regulations.

1.2 This directive serves as a single reference point for the respective disclosure requirements applicable to banks.

1.3 The BCBS has issued separate documents related to disclosure requirements. Following the completion of the first phase review to the framework the BCBS issued 'the revised Pillar 3 disclosure requirements' in 2015[1] and following the completion of the second phase of the review of the Pillar 3 framework the BCBS issued 'the consolidated and enhanced framework' in 2017[2].

1.4 The BCBS issued a document on 'Pillar 3 disclosure requirements – updated framework' in December 2018[3]. The updated framework sets out the disclosure requirements issued by the BCBS. The PA hereby informs banks that the disclosure requirements in the latest updated framework will be communicated at a later date through an updated directive.

1.5 The aforementioned documents issued by the BCBS serve as the current framework and have consolidated all the existing BCBS's Pillar 3 disclosure requirements.

1.6 During August 2018, the BCBS issued a technical amendment to the rules text relating to additional Pillar 3 disclosure requirements[4] for those jurisdictions implementing an expected credit loss (ECL) accounting model as well as for those jurisdictions adopting transitional arrangements for the regulatory treatment of accounting provisions.

1.7 The provisions of this directive are not related to any disclosure requirements that may be specified by the Johannesburg Stock Exchange Limited (JSE) in respect of the Stock Exchange News Service (SENS) from time to time.

2. Directive relating to general requirements

In accordance with the provisions of section 6(6) of the Banks Act 94 of 1990, banks are hereby directed as follows:

2.1 General

2.1.1 With regard to retrospective disclosures, templates which require the disclosure of data points for current and previous reporting periods, the disclosure of data points for the previous period is not required when metrics for new standards are reported for the first time.

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[1] Available online at: https://www.bis.org/bcbs/publ/d309.pdf
[2] Available online at: https://www.bis.org/bcbs/publ/d400.pdf
[3] Available online at: https://www.bis.org/bcbs/publ/d455.pdf
[4] Available online at: https://www.bis.org/bcbs/publ/d446.pdf

2.1.2 Banks must publish the Pillar 3 report either as a stand-alone document that provides a readily accessible source of prudential information to users, or the Pillar 3 report must be appended to, or form a discrete section of, the bank's financial report, but the Pillar 3 report shall in all cases be easily identifiable to users.

2.2 Scope of application

2.2.1 The Pillar 3 disclosure requirements, as a minimum, apply to all banks at the top-consolidated level, in accordance with the relevant requirements specified in regulation 43(1) read with regulation 43(3) of the Regulations.

2.3 Archive period

2.3.1 Banks must make available on their websites an archive of Pillar 3 reports in respect of the required quarterly, semi-annual or annual disclosures relating to prior reporting periods that must ultimately cover a period of not less than five years from the initial implementation date.

2.4 Timing of disclosures

2.4.1 Banks must publish their Pillar 3 reports concurrently with their full set of financial statements for the corresponding period, in accordance with the revised Pillar 3 standards issued by the BCBS.

2.4.2 In instances where the Pillar 3 disclosure is required to be published for a period when the bank does not produce a full set of financial statements, the disclosure requirements must be published as soon as practicable. However, the time lag shall in no case exceed three months for the bank's semi-annual reporting date and two months for the bank's quarterly reporting date.

2.4.3 When a bank is unable to meet the abovementioned requirements related to the timing of disclosure, the bank shall request extension of the publication date for the required information from the PA, in writing, indicating the affected templates, and the reasons for the delay as well as the detailed actions to ensure the timely publication in future.

2.5 Format of disclosures

2.5.1 The respective disclosure requirements, whether they form part of the flexible or fixed format, as well as the required frequency for each relevant table or template are specified in Annexure A attached to this directive.

2.5.2 Where the format of a template is described in Annexure A as fixed, banks must complete the fields in accordance with the relevant instructions provided in the aforesaid BCBS's revised Pillar 3 disclosure requirement document.

2.5.3 With respect to the fixed templates, a bank may add extra rows and extra columns to the fixed format templates, if the bank would like to provide additional detail to a disclosure requirement, by adding sub-rows or columns; however, the numbering of the prescribed rows and columns in the template must not be altered.

2.5.4 Where the format of a template is described in Annexure A as flexible, banks may present the required information either in the format provided in the aforesaid BCBS's revised Pillar 3 disclosure requirement document or in a format that the bank considers most relevant to its business model.

2.6 Presentation of the disclosure requirements

2.6.1 In order to ensure that banks produce transparent, high-quality Pillar 3 risk disclosures that enable users to better understand and compare banks' businesses and risks, a bank must ensure that its disclosures comply with the five guiding principles, in accordance with the BCBS's revised Pillar 3 disclosure requirements document, that is, a bank must ensure that disclosures are:

- clear;
- comprehensive;
- meaningful to users;
- consistent over time; and
- comparable across banks.

2.6.2 Banks must supplement the quantitative information provided in both fixed and flexible templates with a narrative commentary to explain at least any significant changes between reporting periods and any other issues that management considers to be of importance to users.

2.7 Assurance of disclosures

2.7.1 In accordance with the relevant requirements specified in regulation 43(1) of the Regulations, the Board of Directors (Board) and senior management of a bank are responsible for establishing and maintaining an effective internal control structure in respect of the disclosure of financial information, including Pillar 3 disclosures.

2.7.2 In this regard, the Board and senior management must ensure that appropriate review of the relevant disclosures takes place. One or more senior executive officers of the bank, at Board level or equivalent, must attest in writing that the relevant Pillar 3 disclosures have been prepared in accordance with the Board-approved internal control processes. The bank must also describe the key elements of its Board-approved disclosure policy in the year-end Pillar 3 report, or provide the cross-reference to another location where such a policy is available.

2.8 Signposting of disclosure requirements

2.8.1 Banks may disclose, in a document separate from their Pillar 3 report, the relevant required tables with a flexible format as indicated in Annexure A. The disclosure requirements for templates with a fixed format, as indicated in Annexure A, may also be disclosed in a document separate from the Pillar 3 report, provided that:

- the information contained in the signposted document is equivalent in terms of presentation and content to that required in the fixed template and allows users to make meaningful comparisons with information provided by banks disclosing the fixed format templates;
- the information contained in the signposted document is based on the same scope of consolidation as the one used in the disclosure requirement;
- the disclosure in the signposted document is mandatory; and

- any supervisory authority responsible for ensuring the implementation of the Basel standards is subject to legal constraints in its ability to require the reporting of duplicative information.

2.8.2 In all relevant cases, when a bank disclosed the required information in a document separate from the Pillar 3 report, the bank must clearly specify, in its Pillar 3 report, where the disclosure requirements have been published, provided that the signposting in the Pillar 3 report must include:

- the title and number of the disclosure requirement;
- the full name of the separate document in which the disclosure requirement has been published;
- a web link, where relevant; and
- the page and paragraph number of the separate document where the disclosure requirements are located.

2.8.3 In all relevant cases, banks may only make use of signposting to another document when the level of assurance on the reliability of data in the separate documents is equivalent to, or greater than, the internal assurance level required for the Pillar 3 report.

3. Directives relating to specific disclosure requirements

In accordance with the provisions of section 6(6) of the Banks Act 94 of 1990, banks are hereby directed as follows:

3.1 Linkages between financial statements and regulatory exposures

3.1.1 Banks must disclose the disclosure requirements in respect of the linkages between financial statements and regulatory exposures using template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories, template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements and table LIA: Explanation of differences between regulatory and accounting exposure amounts, as specified in the revised Pillar 3 disclosure requirements issued by the BCBS.

3.2 Composition of capital and total loss-absorbing capacity

3.2.1 The disclosure requirements which were set out in the 2012 capital disclosure standard in respect of all relevant required reporting periods from 1 January 2018 onwards, have 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: composition of regulatory capital 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.

3.2.2 Banks must disclose on a semi-annual basis their composition of regulatory capital using template CC1, as specified in the consolidated and enhanced framework issued by the BCBS and Annexure B attached to this directive.

3.2.3 Banks must disclose on a semi-annual basis the required information set out in table CCA relating to the main features of regulatory capital instruments and other TLAC-eligible instruments, in accordance with the requirements specified in the consolidated and enhanced framework issued by the BCBS. Table CCA represents the minimum level of disclosure that banks are required to report in respect of each regulatory capital instrument and, where applicable, other TLAC-eligible instruments issued.

3.2.4 A bank must update table CCA on its website whenever it issues or repays a capital or TLAC-eligible instrument, or whenever there is a redemption, conversion, write down or other material change in the nature of any existing capital or TLAC-eligible instrument. The bank must also disclose the reconciliation of the regulatory capital to the balance sheet using template CC2: reconciliation of capital to balance sheet, semi-annually.

3.3 Disclosure requirements – dashboard of key prudential metrics

3.3.1 Key metrics template (KM1) of the consolidated and 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 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.

3.3.2 Banks must disclose on a quarterly basis their key prudential information using template KM1. Furthermore, banks must publicly disclose whether or not they apply a transitional arrangement for the impact of ECL accounting on regulatory capital as required in Directive 5 of 2017 and in the BCBS's publication on the regulatory treatment of accounting provisions. 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 had the transitional arrangement not been applied.

3.4 Disclosure requirements for macro prudential supervisory measures

3.4.1 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 consolidated and enhanced framework issued by the BCBS.

3.4.2 Template CCyB1 must be published semi-annually and banks are hereby directed to disclose template CCyB1 on geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer, in respect of jurisdictions where the countercyclical buffer rate is higher than zero, as specified in the consolidated and enhanced framework issued by the BCBS.

3.5 Disclosure requirements relating to G-SIBs

3.5.1 Template G-SIB1 provides users of Pillar 3 data with details of the indicators used to assess how a G-SIB has been determined, by the BCBS. 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 PA based on supervisory judgment.

3.5.2 At present, the PA is not the home supervisor to any G-SIB and 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 (both of 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 finally template KM2 (which requires G-SIBs to disclose key metrics on TLAC).

3.6 Disclosure requirements for the leverage ratio

3.6.1 Banks must complete leverage ratio template LR1 to report a summary comparison of accounting assets versus leverage exposure measure and template LR2: leverage ratio common disclosure and must further include the basis for their disclosures, that is, either quarter-end, daily averaging or monthly averaging, subject to approval of and conditions as may be specified in writing by the PA, and the bank may calculate its leverage ratio based on either daily or monthly average numbers.

3.6.2 Banks must publish on a quarterly basis, both templates LR1 and LR2, as specified in the consolidated and enhanced framework issued by the BCBS.

3.7 Disclosure requirements for the Liquidity Coverage Ratio

3.7.1 The quantitative disclosure template and the qualitative information requirements set out in the Liquidity Coverage Ratio (LCR) disclosure standards of January 2014 have been consolidated into template LIQ1 on LCR and table LIQA-liquidity risk management. As such, banks must disclose the information specified in template LIQ1 (LCR in accordance with the consolidated and enhanced framework and the LCR standards on disclosure), on a quarterly basis. When disclosing the average amounts for LCR purposes, a bank must calculate and disclose an average amount based on the average of daily observation amounts over the previous quarter in the local currency. The bank must, in all cases, publish the number of data points used in the calculation of the aforesaid average amounts.

3.7.2 Banks must disclose the qualitative and quantitative disclosure requirements on liquidity in accordance with table LIQA: liquidity risk management, annually as specified in the consolidated and enhanced framework issued by the BCBS. Template LIQA provides examples of elements that banks may choose to describe, where relevant. Banks must disclose the relevant information depending upon their business models and liquidity risk profiles, organisation and functions involved in liquidity risk management.

3.8 Disclosure requirements for the net stable funding ratio

3.8.1 Banks must disclose the relevant required information specified in template LIQ2: Net Stable Funding Ratio (NSFR) as specified in the consolidated and enhanced framework issued by the BCBS, semi-annually with two data sets covering the latest and the previous quarter-ends, e.g. for December year-ends banks must include the NSFR at December quarter-end and September quarter-end. Banks must present data as quarter-end observations in the local currency as specified in the consolidated and enhanced framework and the NSFR standards respectively issued by the BCBS.

3.9 Disclosure requirements for credit risk requirements

3.9.1 Banks must disclose the credit risk requirements using relevant disclosure tables and templates, according to the required frequencies specified in Annexure A of this directive and the revised Pillar 3 disclosure requirements issued by the BCBS in January 2015, as referred to by the BCBS in the consolidated and enhanced framework, issued in March 2017.

3.9.2 Banks must disclose template CR1: credit quality of assets and table CRB: additional disclosure related to the credit quality of assets as specified in the technical amendment "Pillar 3 disclosure requirements – regulatory treatment of accounting provisions" issued by the BCBS in August 2018, with effect from all relevant reporting periods from 1 January 2019 onwards.

3.10 Disclosure requirements for counterparty credit risk

3.10.1 Banks must disclose relevant tables and templates relating to counterparty credit risk, according to the required frequencies as specified in Annexure A of this directive and the revised Pillar 3 disclosure requirements issued by the BCBS in January 2015, as referred to by the BCBS in the consolidated and enhanced framework, issued in March 2017.

3.11 Disclosure requirements for securitisation

3.11.1 Banks must disclose relevant disclosure tables and templates, according to the required frequencies in respect of securitisation disclosure requirements as specified in Annexure A of this directive and the revised Pillar 3 disclosure requirements issued by the BCBS in January 2015, as referred to by the BCBS in the consolidated and enhanced framework, issued in March 2017.

3.12 Disclosure requirements for interest rate risk in the banking book

3.12.1 The disclosure requirements for the revised interest rate risk in the banking book (IRRBB) standards have been consolidated into the Pillar 3 – consolidated and enhanced framework issued by the BCBS. Tables A and B in the revised IRRBB standards have been transferred into a new table (table IRRBBA) and template (template IRRBB1) respectively. With regard to the disclosure requirement for IRRBB banks must disclose the relevant required information specified in template IRRBBA and IRRBB1 as specified in the BCBS's consolidated and enhanced framework for all relevant reporting periods commencing from such date as may be directed in writing by the PA in due course.

3.13 Disclosure requirements for prudent valuation adjustments

3.13.1 The consolidated and enhanced framework issued by the BCBS in March 2017 introduces a new disclosure template relating to prudent valuation adjustments (PVAs) (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, and this disclosure requirement remains unaltered. Template PV1 will provide users with a detailed breakdown of how the aggregate PVA was derived. The PA has resolved at this stage to postpone the detailed breakdown requirement until end of December 2019. As such, banks are not required to publicly disclose PVA related information as required on template PV1.

3.13.2 In future banks will be required to publish, on an annual basis, the PVA requirements required in template PV1. 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 and advise the relevant bank on an appropriate treatment.

3.14 Disclosure requirements for market risk

3.14.1 The revised Pillar 3 disclosure requirements issued by the BCBS in January 2015, sets out the current disclosure requirements for market risk. These market risk disclosure requirements have been revised to reflect the changes in the market risk standard. Banks must disclose the market risk requirements from the relevant reporting periods commencing on such date as may be directed in writing by the PA in due course using the templates and tables as specified in the consolidated and enhanced framework issued by the BCBS in March 2017. The disclosure requirements specified in the consolidated and enhanced framework shall supersede the requirements specified in the revised Pillar 3 disclosure requirements issued by the BCBS in 2015 from the relevant date directed in writing by the PA in due course.

3.15 Disclosure requirements for remuneration

3.15.1 The disclosure requirements on remuneration issued in July 2011 have been consolidated into the consolidated and enhanced framework issued by the BCBS 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 (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.

3.15.2 Banks must publish the required information related to remuneration using the table and templates as specified in the consolidated and enhanced framework issued by the BCBS.

3.16 Disclosure requirements for operational risk requirements

3.16.1 The PA hereby informs banks that the operational risk disclosure requirements are among the disclosure requirements that the BCBS has addressed in its third phase of its review of the Pillar 3 framework. The relevant details related to these requirements will be communicated at a later stage by means of an updated directive.

3.17 Implementation date and frequency of different disclosure requirements

3.17.1 In the case of any disclosure requirements specified in the Regulations, banks must continue to comply with such disclosure requirements in accordance with the relevant requirements specified in the Regulations.

3.17.2 In the case of any disclosure requirements other than the disclosure requirements specified in the Regulations, banks must comply with the Pillar 3 disclosure requirements, including the respective implementation dates and frequency of disclosure, as set out in the consolidated and enhanced framework issued by the BCBS, i.e. where applicable the first disclosures due in a banks' pillar 3 report in respect of all reporting periods commencing after their 2018 financial year-end.

4. Acknowledgement of receipt

4.1 Kindly ensure that a copy of this Directive is made available to your institution's external 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: 20 MAY 2019

Encl. 2

The previous directive issued was Directive 5/2018 dated 7 December 2018.