



Ref.: 15/8/1/3

D5/2022

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 relating to liquidity risk

Executive summary

The Prudential Authority (PA) has become aware that there is some ambiguity in the interpretation and application of various matters related to banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as banks) respective exposures to liquidity risk.

The purpose of this Directive is to provide clarity in specified cases and to direct banks in respect of the liquidity coverage ratio and net stable funding ratio requirements of foreign entities as well as requirements related to “liquid assets month to date average held” to be reported on the form BA 325.

1. Introduction

- 1.1 The liquidity coverage ratio (LCR) was introduced as a minimum liquidity requirement, effective from 1 January 2015. The LCR promotes the short-term resilience of a bank’s liquidity risk profile by ensuring that it has sufficient unencumbered high-quality liquid assets (HQLA) that can be converted into cash easily and immediately in private markets to meet its liquidity needs for a 30-calendar day liquidity stress scenario.
- 1.2. The net stable funding ratio (NSFR) requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities by ensuring a sustainable funding structure to reduce the risk of a bank’s liquidity position being eroded by disruptions to its regular sources of funding.
- 1.3. Since the implementation of the LCR and NSFR requirements, a number of interpretive-related matters appear to have arisen related to the liquidity risk returns. Therefore, clarification and specified requirements regarding these matters are set out below.

2. Directive

Based on the aforesaid and in accordance with the provisions of section 6(6) of the Banks Act 94 of 1990, banks are hereby directed as follows:

- 2.1 Regulation 37(3) of the Regulations relating to Banks (Regulations) states that “Unless specifically otherwise provided in this regulation 37 or specified in writing by the Authority, all the relevant directives and interpretations (a) relating to the completion on a solo basis of the respective risk-based returns by a bank in the Republic shall mutatis mutandis apply to the return to be completed in respect of any foreign operation of the said bank in the Republic”. In this regard, banks are hereby directed to hold sufficient liquidity buffers at a group level to appropriately compensate for cases where the bank’s foreign entity is not able to meet the minimum LCR and NSFR requirements at a jurisdictional level in order to ensure overall Group LCR and NSFR compliance and to appropriately compensate for any shortfalls in banks’ foreign entities.

Banks do not need to apply for condonation if they have sufficient liquidity buffers at the group level to compensate for banking entities within the group that are unable to maintain the required minimum LCR and NSFR requirements in a particular foreign jurisdiction. The currency used for the liquidity buffer is at the bank’s discretion since the bank is ultimately responsible for the management of adequate liquidity within the group and is in the best position to determine which currency is the most suitable to hold the required buffer in, in terms of, among others, fungibility and transferability.

- 2.2 Regulation 29 of the Regulations contains, among others, directives for the completion of the daily return form BA 325. Line item 13 of the form BA 325 relates to the liquid assets month to date average held. Accordingly, banks are hereby directed to ensure that the amount of liquid assets disclosed in line item 13 of the form BA 325 must be the month to date average calculated from the 15th business day of the current reporting month to the 14th business day of the month following the current reporting month. This aligns with the prescribed holding period and enables the PA to monitor whether a bank will meet the liquid asset requirement over the prescribed holding period.

3. Acknowledgement of receipt

- 3.1. Kindly ensure that a copy of this Directive is made available to your institution’s external auditors. In addition, 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.

Fundi Tshazibana
Chief Executive Officer

Date:

The previous Directive issued was Directive 04/2022, dated 21 June 2022.