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South African Reserve Bank
Prudential Authority

Ref.: 15/8/1/3

D6/2024

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

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

Implementation of a positive cycle-neutral countercyclical capital buffer

Executive summary

The Regulations relating to Banks (Regulations) set out, among other things, the prescribed minimum requirements related to the countercyclical capital buffer.

This directive directs banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') to maintain a positive cycle-neutral countercyclical capital buffer of 1 per cent with effect from 1 January 2026.

1. Introduction

1.1 The Basel Committee on Banking Supervision (BCBS) issued a document titled Risk-based capital requirements, RBC30, Buffers above the regulatory minimum',[1] as an integral part of the Basel capital framework. Paragraphs RBC30.6 to RBC30.23 of this document set out, among other things, the countercyclical capital buffer (CCyB) requirement. This requirement has been incorporated into regulation 38(8)(e)(v) and regulation 38(8)(g) of the Regulations respectively and was further clarified in Circular 8 of 2015. Furthermore, a materiality threshold in respect of the calculation of the overall CCyB to be applied in South Africa, considering the ultimate geographic location of private sector credit exposures, was specified in Directive 2 of 2018.

1.2 Directive 5 of 2021 sets out the components of the required total minimum regulatory capital, including the minimum requirement for each relevant component, which includes the CCyB and the minimum Pillar 2A capital requirement. The primary objective of the CCyB is to increase the resilience of the banking sector in response to periods that may be associated with the build-up of system-wide risk.

1.3 During the Covid-19 period, the Prudential Authority (PA) temporarily reduced the minimum Pillar 2A capital requirement to zero, as South Africa's CCyB was set to zero at that time. The PA reduced the Pillar 2A requirement to facilitate banks'

[1] Available online: Risk-based capital requirements

continued lending to the real economy during the Covid-19 stress period. However, the objectives of the Pillar 2A minimum requirement differ fundamentally from that of the CCyB. Various economic circumstances in South Africa warrant a minimum Pillar 2A requirement to appropriately enhance the safety and soundness of banks conducting business in South Africa. Furthermore, the Pillar 2A requirement was not intended to serve as a buffer that can be released for macroeconomic stress events. The PA, together with the South African Reserve Bank (SARB), therefore agreed to implement a positive cycle-neutral countercyclical capital buffer (PCN CCyB) in South Africa.

1.4 The BCBS also published a newsletter on a PCN CCyB on 5 October 2022,[2] highlighting the benefit of a PCN CCyB and expressing support for the implementation of a PCN CCyB.

2. Rationale for PCN CCyB in South Africa

2.1 The BCBS observed that banks may be more willing to utilise their buffers when they are released by regulatory authorities. A PCN CCyB therefore ensures that capital relief can be provided while compliance with the minimum capital standards is maintained.

2.2 The SARB requires that banks maintain a PCN CCyB to serve as a macroprudential tool that can be released in the event of sudden shocks, including those unrelated to the credit cycle.

2.3 The PCN CCyB would be built up and maintained when risks are assessed to be neither subdued nor elevated. Furthermore, the SARB would continually assess the appropriateness of the PCN CCyB and release the buffer in a timely manner when appropriate risks are identified.

3. Directive

3.1 PCN CCyB for South Africa

3.1.1 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:

3.1.2 The PCN CCyB shall be implemented effective from 1 January 2026.

3.1.3 The PCN CCyB shall be 1 per cent of risk weighted exposures as determined in Circular 8 of 2015 and Directive 2 of 2018.

3.1.4 The PCN CCyB shall have a 12-month implementation lead time, commencing on 1 January 2025 and ending on 31 December 2025.

4. Effective date

4.1 This directive becomes effective on 1 January 2025.

[2] Available online: PCN CCyB newsletter

5. Acknowledgement of receipt

5.1 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 said auditors, should be returned to the PA at the earliest convenience of the aforementioned signatories.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 10/12/24

The previous Directive issued was Directive 5/2024, dated 22 October 2024.