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SOUTH AFRICAN RESERVE BANK
Prudential Authority

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To: Banks and controlling companies designated as domestic systematically important banks.

Directive issued in terms of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990)

Matters related to leverage ratio buffer requirement for domestic systematically important banks

Executive summary

The minimum leverage ratio buffer requirement represents a simple, transparent, non-risk-based leverage measure that acts as a credible supplementary backstop to risk-based capital requirements.

The Basel Committee on Banking Supervision (BCBS) introduced the minimum leverage ratio buffer requirement through a document titled 'Basel III leverage ratio framework and disclosure requirements', published in January 2014. The disclosure requirements commenced on 1 January 2015 and the Pillar 1 minimum requirements commenced on 1 January 2018. The BCBS further published a document titled 'Basel III: Finalising post-crisis reforms' in December 2017, introducing the leverage ratio buffer requirement for global systemically important banks (G-SIBs). Further publications in respect of the leverage ratio buffer requirements are captured in a document titled 'LEV40 – Leverage ratio requirements for global systemically important banks'.

The introduction of a leverage ratio buffer requirement further reinforces the resilience of the banking system. While the leverage ratio buffer framework was initially contemplated for G-SIBs, the Prudential Authority (PA) extended the application of the framework to South African banks designated as domestic systemically important banks (D-SIBs).

The purpose of this Directive is to direct South African banks and controlling companies designated as D-SIBs to meet the minimum leverage ratio buffer requirement, equivalent to 50% of the respective bank or controlling company's higher loss-absorbency (HLA) requirement, in addition to the minimum leverage ratio requirement specified in regulation 38(15)(b)(iv) of the amended Regulations relating to Banks (Regulations).

1. Introduction

1.1 An underlying cause of the global financial crisis that commenced in 2007, was the build-up of excessive on- and off-balance sheet leverage in the banking system. In many cases, banks had built up excessive leverage while apparently maintaining strong risk-based capital ratios.

1.2 At the height of the crisis, financial markets forced the banking sector to reduce its leverage in a manner that amplified downward pressures on asset prices. This deleveraging process exacerbated the feedback loop between losses, reducing available bank capital and shrinking credit availability.[1]

1.3 The Basel III leverage ratio framework aims to restrict the build-up of excessive leverage in the banking sector to avoid the destabilising deleveraging process that could damage the broader financial system and economy and supplement the risk-based requirements with a simple, non-risk-based backstop measure.

1.4 Regulation 38(15)(b)(iv) of the Regulations states that a bank shall manage its business in such a manner that its leverage ratio at no time less than 4% or that such a leverage ratio may be determined by the PA in consultation with the Governor of the South African Reserve Bank, which leverage ratio shall in no case be less than 3%.

1.5 The BCBS agreed that a leverage ratio buffer requirement be set at 50% of a G-SIB's HLA requirements and be imposed on its common equity tier 1 (CET1) ratio. That is, a G-SIB with a 1% HLA requirement, imposed on its CET1 ratio, will be subject to a leverage ratio buffer requirement of 0.5% in addition to the relevant specified minimum leverage ratio requirement.

1.6 The design of the leverage ratio buffer requirement is akin to the capital buffers related to the risk-based capital requirements. Accordingly, the leverage ratio buffer will include minimum capital conservation ratios divided into five ranges, with capital distribution constraints being activated when G-SIBs fail to meet the leverage ratio buffer requirement. This implies that automatic distribution restriction to capital distribution for G-SIBs depends on their CET1 capital requirements as well as their tier 1 leverage ratio.

1.7 The PA extended the application of the leverage ratio buffer framework and its related requirements to South African banks and controlling companies designated as D-SIBs to maintain the intended constant backstop role of the framework. The capital distribution constraints on D-SIBs will depend on the bank or controlling company's CET1 capital requirements as well as its tier 1 leverage ratio requirement. That is, a bank or controlling company will be required to meet both its minimum CET1 capital requirements (including buffers) and its tier 1 leverage ratio requirement (including buffers) to avoid the specified distribution constraints being imposed.

1.8 For purposes of this Directive:

1.8.1 CET1 risk-based capital requirements include the 4.5% minimum requirement, 50% of Pillar 2A, 50% of Pillar 2B, a 2.5% capital conservation buffer, the D-SIB HLA requirement, and the countercyclical buffer.

[1] For further detail see: https://www.bis.org/bcbs/publ/d424.pdf

1.8.2 The tier 1 leverage requirement means the 4% minimum leverage ratio requirement and 50% of the D-SIB HLA requirement.

1.9 A D-SIB that does not meet both requirements envisaged in paragraph 1.8 of this Directive will be subject to distribution constraints in accordance with the ranges specified in Table 1 in paragraph 2.1.2 of this Directive.

1.10 The items that will be subject to restrictions on distributions are identical to those specified in regulation 38(8)(f)(iv) of the Regulations. Furthermore, banks and controlling companies that utilise their leverage buffers must consult the Chief Executive Officer of the PA, commensurate with the requirement in the proviso to regulation 38(8)(e) of the Regulations.

1.11 While the risk-based D-SIB buffers must be met fully with CET1 capital and reserve funds, paragraph 2.4 of Directive 5 of 2021 provides that the first 1% of the specified HLA requirement must be fully met by CET1 capital and reserve funds, the additional requirement up to the first 1.5% of the HLA requirement may be met by tier 1 capital and reserve funds, and up to 2.5% of the HLA requirement may be met with total capital and reserve funds. Leverage ratio buffer requirements must be met fully by tier 1 capital and reserve funds and be based on 50% of HLA requirements imposed on CET1 capital.

1.12 The decision of the PA to extend the application of the leverage ratio buffer framework to D-SIBs is in accordance with the PA's decision to apply specific aspects intended for G-SIBs to South African D-SIBs. Furthermore, the related framework enhances the safety and soundness of the local banking system.

2. Directive

2.1 Based on the aforesaid, and in accordance with the provisions of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990), banks and controlling companies designated as a D-SIBs are hereby directed as follows:

2.1.1 To maintain a leverage buffer equal to 50% of the HLA requirement imposed on CET1 capital, in addition to the minimum leverage ratio requirement specified in regulation 38(15)(b)(iv) of the Regulations.

2.1.2 Ensure that the leverage ratio buffer requirement is met fully by tier 1 capital and reserve funds and is based on 50% of the HLA requirements imposed on CET1 capital.

2.1.3 Apply the capital distribution constraints specified in Table 1 below when the bank or controlling company's leverage ratio declines below the minimum specified requirement. The capital distribution constraints will be undertaken in a manner that is aligned to the approach followed for the utilisation of the capital conservation buffer range in respect of the bank's risk-based capital ratios.

Table 1: Minimum capital conservation requirement imposed on D-SIBs' leverage buffer.

Common equity tier 1 (including other fully loss absorbing capital)[1]	Tier 1 leverage ratio[2]	Minimum capital conservation ratio (expressed as a percentage of earnings)
Within first quartile of the buffer	4% to (4% + 12.5% of HLA)	100%
Within second quartile of the buffer	> (4% + 12.5% of HLA) to (4% + 25% of HLA)	80%
Within third quartile of the buffer	> (4% + 25% of HLA) to (4% + 37.5% of HLA)	60%
Within fourth quartile of the buffer	> (4% + 37.5% of HLA) to (4% + 50% of HLA)	40%
Above the top of the buffer	> 4% + 50% of HLA	0%

1. Minimum capital conservation requirement imposed on the CET1 risk-based capital requirement
2. Concomitant tier 1 leverage requirement

3. Effective date

3.1 The effective date for the minimum leverage ratio buffer requirement, together with the capital distribution constraints, shall be on 1 July 2025.

4. Acknowledgement of receipt

4.1 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 signatories.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 19/06/25

The previous Directive issued was Directive 2/2025, dated 09 June 2025.