



**South African Reserve Bank**

From the Office of  
the Registrar of Banks

G2/2010

2010-05-12

**To: All banks and controlling companies**

**Banks Act Guidance Note 2/2010 issued in terms of section 6(5) of Banks Act, 1990**

**Meetings to be held during the 2010 calendar year with the boards of directors of banks and controlling companies**

### **Executive Summary**

**This guidance note serves to inform all reporting banks and controlling companies of the flavour-of-the-year topic for the discussions to be held with the respective boards of directors during 2010**

#### **1. Introduction and discussion**

Since the board is the most important player in the supervisory process and accepts ultimate responsibility for the risk profile of the bank and the banking group, it is essential for this Office to conduct, as part of its supervisory programme, a meeting with the board to obtain, *inter alia*, the directors' views on the risk profile, risk management and risk appetite of the bank and banking group.

Therefore, in order to assist the Office of the Registrar of Banks (this Office) in discharging its responsibilities, the scope of this year's meetings with banks and banking groups' boards will entail a discussion of issues relating to consolidated supervision and, to be more specific, the management and board oversight of the risks posed and the controls instigated to mitigate the risks posed by diversified banking groups.

Institutions will be required to make a presentation on the said topic during this Office's meeting with boards.

As is well known, diversified banking groups conduct part of their business through subsidiaries and affiliates. This exposes the diversified banking group to potential (and sometimes significant) risks outside those of its normal banking operations. It is therefore of paramount importance that the management and boards of such diversified groups consider the risks of the diversified groups from a group-wide perspective.

The board and management of the diversified banking group therefore need to evaluate the strength of the entire group, taking into account all the risks that may affect the bank, regardless of whether these risks are carried in the books of the bank or those of related entities.

Recent global experiences have highlighted the importance of a consolidated oversight by management and the boards of diversified banking groups. Diversified banking groups can incur substantial losses stemming from entities elsewhere in the banking group and the size of the losses can be substantial.

It is against this backdrop that this Office has decided that the group structures of diversified banking groups and the consolidated oversight by management and boards of such diversified banking groups be a flavour of the year topic.

## **2. Outline of flavour of the year topic**

In light of the aforementioned, boards are required to make a presentation to this Office that will address the following aspects:

### *2.1. Overall group structure*

- 2.1.1. The composition of the overall group structure split between banking, insurance and other activities.
- 2.1.2. The major operating entities within the group.

### *2.2. Governance*

- 2.2.1. Governance structures existing at various levels within the group such as the board, audit committee, risk capital and compliance committee and remuneration committee.
- 2.2.2. The organisational structure of the group focusing on the key roles and responsibilities for line management of the group and major operating entities within the group.
- 2.2.3. The extent to which specialist knowledge exists at the board of the group that is commensurate to the complexity and nature of risks undertaken by the group.
- 2.2.4. The process followed by the Board to apprise themselves of material issues within the group entities.
- 2.2.5. Materiality levels within the group.

### *2.3. Risk appetite and risk tolerance*

- 2.3.1. The diversified banking group's risk appetite statement and tolerance levels, and the extent to which the risk appetite statement and tolerance levels are incorporated into other major group operating entities.
- 2.3.2. Examples evidencing the extent to which risk appetite and tolerance levels have been breached owing to exposures outside the bank.

#### 2.4. *Risk framework*

- 2.4.1. The establishment of an enterprise-wide risk management framework within the group.
- 2.4.2. The implementation of an integrated risk measurement and management framework for credit, market, operational and other risks.
- 2.4.3. The organisational structure of the group focusing on the key roles and responsibilities for risk management of the group and major operating entities within the group.
- 2.4.4. Future enhancements to be made to the group risk management framework.

#### 2.5. *Risk assessment*

- 2.5.1. The aggregation of risk exposures and the subsequent reporting to the Board.
- 2.5.2. Examples of the extent to which other risk exposures originating from outside the bank have been highlighted to the Board and the actions taken.
- 2.5.3. The contribution to group net income before taxation by each of the major entities within the group.

#### 2.6. *Information technology*

- 2.6.1. The adequacy of the information technology to facilitate the production of adequate, reliable and timely management information at group and at major operating entity levels.
- 2.6.2. Identified enhancements to be made to the group information technology infrastructure.

### 3. **Acknowledgement of receipt**

Two additional copies of this Banks Act Guidance Note are enclosed for use by 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 this Office at the earliest convenience of the aforementioned signatories.



E M Kruger  
**Registrar of Banks**

The previous guidance note issued was Guidance Note 1/2010, dated 12 May 2010.