



South African Reserve Bank

From the Office of
the Registrar of Banks

G5/2013

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

Guidance Note 5/2013 issued in terms of section 6(5) of the Banks Act, 1990

Foreign Exchange Settlement Risk

Executive summary

Regulation 39 of the Regulations relating to Banks (the Regulations) requires banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks'), among other things, to establish and maintain a process of sound corporate governance that (i) is consistent with the nature, complexity and risk inherent in the bank's on- and off-balance-sheet activities, and (ii) responds to changes in the bank's environment and conditions. This process includes the maintenance of effective risk and capital management by banks. In order to achieve the objective of maintaining effective risk and capital management, every bank should have in place relevant risk management processes, procedures and board-approved policies.

The purpose of this guidance note is to bring to the attention of banks the latest developments in international best practices related to foreign exchange settlement risk (FXSR). Banks are accordingly expected to incorporate the relevant principles and guidance into their governance and risk management processes, procedures and board-approved policies.

1. **Document issued by the Basel Committee on Banking Supervision on foreign exchange settlement risk**
- 1.1 In February 2013, the Basel Committee on Banking Supervision (BCBS) released a document relating to FXSR, entitled "Supervisory Guidance for Managing Risks Associated with the Settlement of Foreign Exchange Transactions".¹ The aforesaid document provides guidelines for, and establishes sound practices applicable to, all banks.

¹ Available at <http://www.bis.org/publ/bcbs241.htm>.

- 1.2 This Office is currently in the process of updating its supervisory framework to remain up to date with the latest international best practices, including the latest developments regarding FXSR.
- 1.3 In future, as part of its Supervisory Review and Evaluation Process (SREP), this Office will review the progress made by banks to incorporate the principles and guidance set out in the aforesaid document issued by the BCBS into banks' FXSR policies, processes and practices.
- 1.4 Banks are accordingly requested to assess their current policies, processes and practices against the principles and guidance contained in the aforesaid BCBS document related to FXSR.

2. Acknowledgement of receipt

- 2.1 Two additional copies of this guidance note are enclosed for use by your institution's independent 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.



René van Wyk
Registrar of Banks

The previous guidance note issued was Guidance Note 4/2013, dated 23 July 2013.