

South African Reserve Bank

From the Office of
the Registrar of Banks

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

Guidance Note 5/2015 issued in terms of section 6(5) of the Banks Act, 1990

Provision of a committed liquidity facility by the South African Reserve Bank

Executive summary

The South African Reserve Bank (SARB) has approved the provision of a committed liquidity facility (CLF) available to banks to ensure banks' continued compliance with the liquidity coverage ratio (LCR). This facility was first announced in Guidance Note 5/2012, with further guidance provided in Guidance Note 6/2013 and Guidance Note 8/2014. This guidance note replaces Guidance Note 8/2014 and contains revised guidelines in terms of the acceptable collateral and other requirements for the CLF and other related conditions.

1. Introduction

1.1 During 2012 the SARB approved the provision of a CLF in order to assist banks in meeting the requirements of the LCR. Guidance Notes 5/2012, 6/2013 and 8/2014 were issued to inform banks about the details regarding acceptable collateral for the CLF. This guidance note addresses some areas of uncertainty that have subsequently been identified and updated specifications on the acceptable collateral and other related requirements for the CLF.

2. Size of the facility

2.1 Each individual bank will be required to meet the level 1 HQLA requirement of the LCR on its own. The CLF is only available to banks with a LCR shortfall that can be attributed to a shortfall of HQLA in South Africa. The CLF will be capped at 40 per cent of the total amount of HQLA any particular bank is required to hold in rand.

2.2 For the purpose of entering into a facility agreement with the SARB during the phase-in period of the LCR (that is, for the years up to 2018), the size of the CLF will be capped at 40 per cent of the full HQLA requirement as projected for the year for which the application is made. For example, banks applying for the CLF in 2015, for implementation in 2016, should project their maximum full HQLA requirement for 2016, and the CLF would be capped at 40 per cent of this projected amount.

2.3 The amount of the CLF that can be recognized for LCR purposes that can be drawn down in stress will at all times be limited to the lesser of the amount of collateral that is lodged with the SARB, after haircuts, and the size of the facility that has been granted.

3. Acceptable collateral

3.1 No changes are proposed to the acceptable collateral that was previously published. Detailed information on the collateral requirements can be found in the Addendum to the Operational Notice of the Financial Markets Department of the SARB, available through the SARB's website.

4. Capital and reporting requirements for SPI structures for CLF purposes

4.1 The look-through approach should be applied for assets transferred into a special purpose institution (SPI), that is, for the calculation of minimum required capital relating to credit risk, the amount of capital that banks would be required to maintain shall be equal to the capital had the assets not been transferred for CLF purposes. Banks should report the assets that form part of the SPI in the original asset class (for example, residential mortgage advances) on the form BA200, i.e. the bank may not derecognise the assets, and from a monthly regulatory reporting perspective nothing changes.

4.2 In addition, for CLF monitoring purposes, banks will be required to complete the form BA200 on a quarterly basis based on the underlying assets in the SPI. This form BA200 should be signed off by the bank's internal audit function.

4.3 The internal audit sign-off will be based on a controls based audit in order to verify the accuracy and completeness of the reporting of assets maintained in the SPI and that reasonable control measures are in place for the SPI, e.g the transfer of assets in and out of the SPI and that the risk management controls in place for the SPI are commensurate with those that are in place in the relevant business unit.

5. Pricing

5.1 Banks electing to make use of the CLF will pay a commitment fee to the SARB, even if they do not draw funds from the facility. In order for the fee charged by the SARB to provide an incentive for banks to reduce their liquidity risk exposure, and therefore their dependence on the CLF, a scaled commitment fee will be applied. Banks with a higher dependence on the CLF will be charged a higher weighted average commitment fee, as set out in the table below, which will be applicable to applications received during 2015 for facilities in 2016. The commitment fee will be set on an annual basis when the facility is renewed.

CLF as percentage of required HQLA	Proposed fee per tranche (basis points per year)	Weighted average fee* (basis points per year)
≤ 10%	30	30
> 10 ≤ 20%	40	35
> 20 ≤ 30%	50	40
> 30 ≤ 40% (to a maximum of 40%)	60	45

* If full tranche is used in the calculation.


- 5.2 In order to comply with the eligibility requirements for alternative liquidity approaches (ALA), the pricing is based on the difference between a three year weighted average yield earned on assets that have been used as collateral for the CLF and a three year weighted yield on a portfolio of government bonds and corporate bonds.
- 5.3 In the event that a bank draws funds from the CLF, the bank will pay a drawdown rate equal to the SARB's repo rate plus 100 basis points (equal to the SARB's normal standing facilities). Any drawdown of funds will be for a 31 calendar-day period.

6. Operational arrangements

- 6.1 A complete list of the operational arrangements is contained in the Operational Notice of the Financial Markets Department of the SARB, which is available on the SARB's website.
- 6.2 For the purposes of reducing administrative burden and risk over the December holiday periods, the CLF facilities for 2016 shall be granted only up to 30 November 2016, i.e. for eleven months. Thereafter the CLF will revert to a 12 month facility from 1 December to 30 November. It then follows that banks applying for the CLF for the first time have to do so by no later than 31 July in the year preceding the facility date. Re-applications are due by 30 September on an annual basis.
- 6.3 Should you have any questions in the above regard, please contact Dr Nicola Brink, Head: Resolution Planning, at 012 313 3614, or Mr Wessel Mostert, Manager: Asset and Liability Management, at 012 313 4652.

7. Acknowledgement of receipt

- 7.1 Two additional copies of this guidance note are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt, completed and signed by both the chief executive officer (CEO) of your institution and the said auditors, should be returned to BSD at the earliest convenience of the aforementioned signatories.



Registrar of Banks

The previous guidance note issued was Guidance Note 4/2015, dated 7 August 2015.