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 3/2016 issued in terms of section 6(5) of the Banks Act 94 of 1990

Credit risk and accounting for expected credit losses

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'), 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 supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss accounting frameworks.

1. Documents issued by the Basel Committee on Banking Supervision relating to credit risk and accounting for expected credit losses

1.1 In December 2015, the Basel Committee on Banking Supervision (BCBS) released a document relating to supervisory guidance on sound credit risk practices associated with the implementation and ongoing application of expected credit loss accounting frameworks, namely "*Guidance on credit risk and accounting for expected credit losses*"[1]. The aforesaid document provides guidelines for and establishes sound practices applicable to all banks.

1.2 The Office of the Registrar of Banks (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 credit risk and accounting for expected credit losses.

[1] Available at http://www.bis.org/bcbs/publ/d350.pdf.

1.3 Regulation 23(22)(a) of the Regulations requires among other things, that every bank shall have in place-

1.3.1 a sufficiently robust system for the calculation of credit impairments in accordance with the relevant requirements specified in Financial Reporting Standards issued from time to time; and

1.3.2 sufficiently robust processes and board-approved policies, as well as sufficient dedicated resources, to ensure the early identification of assets of deteriorating credit quality, ongoing oversight of problem assets or credit exposure, etc.

1.4 In terms of the provisions of regulation 38(4)(c) and (e) of the Regulations, when this Office is of the opinion that a bank's policies, processes and procedures relating to its risk assessment are inadequate, this Office may require banks to, inter alia, strengthen its risk management policies, processes or procedures or, if deemed necessary, to maintain additional capital, calculated in such a manner and subject to such conditions as may be specified in writing by this Office.

1.5 As part of its supervisory review and evaluation process, 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' policies, processes and practices.

1.6 Banks are accordingly requested to assess their current policies, processes and practices against the principles contained in the aforesaid document, taking into account the nature, size, complexity and risk profile of their activities. Banks should develop a plan to remedy any deficiencies that come to their attention during the aforesaid assessments.

1.7 This Office will continue to engage with banks and auditors of banks through the relevant industry forums on the readiness of respective banks for the implementation of the International Financial Reporting Standard (IFRS) 9 and will issue in due course, if deemed necessary, any further guidance or requirements surrounding the implementation of IFRS 9, by banks.

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 2/2016, dated 3 February 2016.