

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 2/2017 issued in terms of section 6(5) of the Banks Act 94 of 1990

Meetings to be held during the 2017 calendar year with the boards of directors of banks and controlling companies

Executive summary

This guidance note serves to inform all banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') of the flavour-of-the-year topics for the discussions to be held with the respective boards of directors during 2017.

A. Meetings with boards of directors

1. Introduction

In order to assist the Office of the Registrar of Banks (this Office) to discharge its supervisory responsibilities, the scope of the meetings with banks' boards of directors (boards) and in the case of the branches of foreign institutions, the executive committees, to be held during the 2017 calendar year, will consist of a discussion on the following two flavour-of-the-year topics:

- 1.1 Risk data aggregation and risk reporting; and
- 1.2 The implementation of King IV requirements.

2. Format of the meetings to be held with the banks' boards

All banks' boards will be required to make a presentation and engage in discussions on the above-mentioned flavour-of-the-year topics. The duration for each presentation should be targeted at approximately 45 minutes. It is intended that each presentation should cover only the key elements of the specific topic. This Office also requires to be provided with a copy of each presentation at least three weeks prior to the board or executive committee meeting. The two flavour-of-the-year topics are discussed in greater detail below.

3. Risk data aggregation and risk reporting

3.1 Background

The Principles for effective risk data aggregation and risk reporting¹ (the Principles) were issued by the Basel Committee on Banking Supervision (BCBS) in January 2013. The Principles aim to strengthen banks' risk management practices by improving their risk data aggregation and risk reporting. It is anticipated that complying with the Principles will improve banks' ability to provide rapid and comprehensive risk data by legal entity and business line, which will ultimately enhance banks' decision-making processes and improve their resolvability.

The Principles were specifically addressed to global systemically important banks (G-SIBs) and apply not only at a group level, but also to all material business units or entities within the G-SIB group. National supervisors may nevertheless choose to apply the Principles to all banks in their jurisdiction.

This Office has decided to apply the Principles on a proportional basis to all banks in South Africa and has consequently adopted the Principles as an integral part of its regulatory and supervisory framework.

3.2 Format of discussion

The Chairperson of the capital and risk management subcommittee (or equivalent) is required to make a presentation to this Office on the progress made in achieving full compliance with the Principles. The following aspects should be covered during the presentation:

- a. How the Board ensures it has the required awareness, knowledge and understanding to provide oversight of the Principles;
- b. The Board's awareness and assessment of their institutions' data architecture, data adaptability, data capability and - limitations as well as risk reporting practices;
- c. Consideration of the business impact associated with the Principles including the quantification of benefits and the interdependency between the risk and finance disciplines;
- d. How the bank articulates its risk data aggregation and risk reporting expectations in line with their risk appetite in both normal and stress periods;
- e. Investment made by the bank associated with the Principles e.g. headcount, spend and governance structures established;
- f. The bank's interpretation of key terminology used e.g. scope, legal entities, materiality, metrics, full compliance, manual processes;
- g. Progress (milestones reached and still to be achieved, gaps identified, challenges encountered and plans to overcome these, oversight and internal accountability);
- h. Involvement of internal and external audit/consultants pre- and post-implementation;
- i. As compliance with the principles need to be dynamic and forward-looking and not a one-time compliance exercise, the Board must describe which process(es) have/will be adopted to ensure periodic assessment, continued application, monitoring, improvement and embedment of the principles in ongoing risk management frameworks.

¹ See <http://www.bis.org/publ/bcbs239.pdf>

4. King IV

4.1 Background

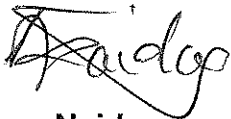
The King IV Report on Corporate Governance was published during November 2016 and contains various amendments when compared to King III.

4.2 Format of discussion

Boards are required to present on their compliance with King IV, specifically highlighting any gaps or areas for improvement and how the boards intend to ensure compliance and against which timeframe.

5. Acknowledgement of receipt

- 5.1 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.



Kuben Naidoo
Deputy Governor and Registrar of Banks

Date: 2/2/2017

The previous guidance note issued was Guidance Note 1/2017, dated 6 January 2017.