



South African Reserve Bank  
From the Office of  
the Registrar of Banks

Ref.: 15/8/2

G5/2017

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

**Guidance Note 5/2017 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 requirements related to the liquidity coverage ratio (LCR). This facility was first announced in Guidance Note 5/2012, with further guidance provided in Guidance Note 6/2013, Guidance Note 8/2014, Guidance Note 5/2015 and Guidance Note 6/2016. This guidance note replaces Guidance Note 6/2016 and contains updated guidelines in terms of the eligible collateral, pricing and other requirements for the CLF and other related conditions for the period 1 December 2017 to 30 November 2018.

## **1. Introduction**

1.1 During 2012 the SARB approved the provision of a CLF in order to assist banks to comply with the requirements related to the LCR. Guidance Notes 5/2012, 6/2013, 8/2014, 5/2015 and 6/2016 were issued to inform banks of the relevant details related to eligible collateral for the CLF. This guidance note addresses some areas of uncertainty that have subsequently been identified and provides updated specifications related to the eligible collateral, pricing and other requirements related to the CLF for the period 1 December 2017 to 30 November 2018.

## **2. Size of the facility**

2.1 Each bank will be required to comply with the level 1 High Quality Liquid Asset (HQLA) requirement of the LCR prior to recognition of a CLF. 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 regulatory HQLA requirement for the year for which the application is made. For example, banks applying in 2017 for a CLF, for implementation in 2018, should project their minimum full HQLA requirement for 2018, and the CLF would be capped at 40 per cent of this projected amount. That is the CLF may not contribute to more than 40% of the minimum requirement.
- 2.3 The amount of the CLF that can be recognized for LCR purposes and that can be drawn down in stress will at all times be limited to the lesser of the amount of eligible collateral that is lodged with the SARB, after haircuts, and the size of the facility that has been granted.

### **3. Eligible collateral**

- 3.1 No changes are proposed to the eligible 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.
- 3.2 The eligible collateral for the facility granted but not lodged with the SARB at the beginning of the CLF contracting period shall be subject to the SARB's final approval before lodging thereof.

### **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) for the calculation of minimum required capital requirements. That is, with regard to credit risk, the amount of capital that banks would be required to maintain shall be equal to the capital requirement had the assets not been transferred for CLF purposes. Banks should report assets that have been transferred to the SPI for CLF purposes in the original asset class (for example, residential mortgage advances) on the form BA200, i.e. the bank may not derecognise these assets. From a monthly regulatory reporting perspective there is no change.
- 4.2 In addition, for CLF monitoring purposes, banks will be required to complete the form BA 200 on a quarterly basis based on the underlying assets in the SPI. This form BA 200 should be signed off by the banks internal audit function or an equivalent internal authority approved by this Office.
- 4.3 The aforesaid sign-off will be based on a control-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 regarding 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, regardless of whether the facility is utilised. The commitment fee for the facility for 2018 will remain unchanged at 58 basis points. The commitment fee is set on an annual basis.
- 5.2 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 limited to a 31 calendar-day period.

## 6. Shortage of HQLA

- 6.1 There has been a decrease in the shortage of HQLA within the South African (SA) environment in the past 2 years which has brought the continued provision of a CLF into question. The CLF is however still considered to be appropriate for SA and a three year phasing out process will be followed should the facility no longer be deemed necessary.

## 7. Operational arrangements

- 7.1 A complete list of the operational arrangements is contained in the Addendum to the Operational Notice of the Financial Markets Department of the SARB, which is available through the SARB's website.
- 7.2 The CLF will be granted for a 12 month period 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 August in the year preceding the facility date. Re-applications are due by 30 September on an annual basis.
- 7.3 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.

## 8. Acknowledgement of receipt

- 8.1 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: 25/07/2017

The previous guidance note issued was Guidance Note 4/2017, dated 15 May 2017.