



South African Reserve Bank

Prudential Authority

15/8/1/2

G2/2019

**To branches of foreign banks and external auditors of branches of foreign banks**

**Guidance Note 2/2019 issued in terms of section 6(5) of the Banks Act 94 of 1990**

**Meetings to be held during the 2019 calendar year with the executive management of branches of foreign institutions**

### **Executive summary**

**The purpose of this guidance note is to inform all branches of foreign institutions (hereinafter collectively referred to as 'foreign branches') and the auditors of foreign branches, of the flavour-of-the-year topic for the discussions to be held with the executive management of foreign branches during 2019.**

## **1. Background**

- 1.1 In order to assist the Prudential Authority (PA) in discharging its supervisory responsibilities, the scope of the meetings with the executive management of foreign branches, to be held during the 2019 calendar year, will include a discussion on the flavour-of-the-year topic, "Effective capital and liquidity risk management practices in foreign branches."

## **2. Format of the meetings to be held with the executive management of foreign branches**

- 2.1 Using the format outlined below, the executive management of all foreign branches will be required to make a presentation and engage in discussions on the above-mentioned flavour-of-the-year topic. The duration of the presentation should be targeted at approximately 60 minutes.
- 2.2 The PA also requires to be provided with a copy of the presentation at least three weeks prior to the executive committee meeting. The flavour-of-the-year topic is elaborated upon below.

**3. Presentation by the Chief Executive Officer of the foreign branch, with a specific focus on the South African operations, on the following:**

**3.1 Liquidity risk management**

3.1.1 An overview of the functioning of the Asset and Liability Management Committee (ALCO) structure(s) with respect to liquidity risk management of the foreign branch.

3.1.2 Liquidity management strategy as approved by executive management.

3.1.3 Role of executive management in ensuring that policies and processes for risk-taking are developed and adhered to in order to monitor, control and limit liquidity risk.

3.1.4 Discussion on how policies and processes for ongoing measurement and monitoring of funding requirements include the following:

- a) Impact of other risks, for example credit, operational and market risks on the foreign branch's overall liquidity strategy.
- b) Analysis of funding requirements taking into account:
  - Diversification of funding sources.
  - Review of concentration limits.
  - Early warning indicator methodology.
  - Liquidity stress testing and measurement of contingent liquidity requirement.
- c) Intra-day liquidity risk management.
- d) Fund Transfer Pricing.
- e) Intra-group exposures.
- f) Maintaining liquidity reserves.

3.1.5 Management of concentration risk in the foreign branch.

3.1.6 An outline of the foreign branch's contingency funding plans.

3.1.7 Liquidity risk management information systems.

3.1.8 Practices and assumptions employed to ensure compliance with regulation 26 of the Regulations relating to Banks.

### 3.2 Capital management

- 3.2.1 An overview of the functioning of the Risk and Capital Management Committee (RCMC) or similar structure(s) with respect to capital management of the foreign branch.
- 3.2.2 Capital management strategy as approved by executive management, including a three-year capital plan.
- 3.2.3 Overview of the branch risk appetite statement and link to how this is used to monitor risk and capital.
- 3.2.4 Management of concentration risk in the foreign branch.
- 3.2.5 An outline of the foreign branch's contingency capital plans.
- 3.2.6 Conditions attached to capital drawdowns from head office.
- 3.2.7 Repatriation / profit appropriation policies of the foreign branch.
- 3.2.8 Intra-group support measures including letters of comfort or support.

### 4. Acknowledgement of receipt

- 4.1 Kindly ensure that a copy of this guidance note is made available to your institution's external 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 the Prudential Authority at the earliest convenience of the aforementioned signatories.



**Kuben Naidoo**

**Deputy Governor and CEO: Prudential Authority**

**Date:** 1/4/2019

The previous guidance note issued was Guidance Note 1/2019, dated 1 February 2019.