South African Reserve Bank

Prudential Authority

Ref.: 15/8/1/2

G5/2019

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

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

Continued provision of a committed liquidity facility by the South African Reserve Bank to banks

Executive summary

The South African Reserve Bank (SARB) will continue to provide a committed liquidity facility (CLF) to banks to ensure banks' continued compliance with liquidity coverage ratio (LCR) requirements. The Guidance Note provides for revised guidelines and conditions relating to the continued provision and the phase out of the CLF. This guidance note replaces Guidance Note 4/2018

1. Introduction

1.1 The Basel III LCR framework[1] makes provision for jurisdictions with an insufficient supply of High Quality Liquid Assets (HQLA), in their domestic currency to meet the aggregate demand of banks in domestic currency, to provide a committed liquidity facility by the central bank for a fee.

1.2 Since 2012, the SARB has made available a CLF in order to assist banks to comply with the requirements related to the LCR.

1.3 This Guidance Note contains revised guidelines and conditions relating to the continued provision of the CLF, specifically in respect of the period 1 December 2019 to 30 November 2020 and signals the SARB's intention to phase out the CLF by 1 December 2021.

2. Eligible collateral

2.1 No changes are made to the criteria for eligible collateral that was previously published. Detailed information on the collateral requirements is available in the Addendum to the Operational Notice of the Financial Markets Department of the SARB, which is available on the SARB's website[2].

[1] Available online at Basel III LCR framework

[2] http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/7514/CLFOperational%20Notice Addendum_August2016.pdf

2.2 Eligible collateral for a facility that has been granted, but which has not yet been lodged with the SARB at the beginning of the CLF contracting period, shall be subject to the SARB's final approval prior to the lodging thereof.

2.3 Banks are responsible for ensuring that the collateral lodged in respect of the CLF is and continues to be eligible throughout the CLF contract period.

2.4 Banks must indicate explicitly their intention (if any and as the case may be) to top-up their collateral during the CLF's contract period as part of their application.

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

3.1 The look-through principle must be applied for assets transferred into a special-purpose institution (SPI) for the calculation of minimum required capital and reserve funds. This means, with regard to credit risk, that the amount of capital that banks are required to maintain must be equal to the capital requirement had the assets not been transferred to the SPI for CLF purposes.

3.2 Banks must 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 BA 200. This means that a bank may not derecognise these assets.

3.3 Banks are required to complete the form BA 200 for the SPI on a quarterly basis based on the underlying assets in the SPI. This form BA 200 must be verified by the bank's internal audit function prior to being signed off.

3.4 The aforesaid verification process must be based on a control-based audit to verify the accuracy and completeness of the reporting of assets maintained in the SPI and to ensure that reasonable control measures are in place for the transfer of assets in and out of the SPI. The risk management controls in place for the SPI must be commensurate with those that are in place in a relevant business unit of the bank.

4. Pricing

4.1 On granting of the CLF, a commitment fee is payable to the SARB, regardless of whether the facility is utilised. The commitment fee for the facility for the period 1 December 2019 to 30 November 2020 will remain unchanged at 58 basis points. The commitment fee is set on an annual basis.

4.2 On drawing down on the CLF, a drawdown rate equal to the SARB's repo rate plus 100 basis points (equal to the SARB's normal standing facilities) is payable. Any drawdown of funds will be limited to a 31 calendar-day period.

5. Phasing out of CLF

5.1 As communicated in Guidance Note 5/2017, the shortage of HQLA within the South African environment has continued to decrease, to such an extent that the continued provision of the CLF is unlikely to comply with the qualifying criteria set out in the Basel III LCR framework.

5.2 As such, the SARB decided to phase out the CLF over a period of three years. Over the phase-out period, the size of the facility will be limited as follows:

Period	Cap as % of HQLA requirement
1 December 2018 – 30 November 2019	40%
1 December 2019 – 30 November 2020	30%
1 December 2020 – 30 November 2021	20%
1 December 2021 onwards	No longer provided

5.3 In the event that market conditions change, the SARB may re-evaluate its decision to phase-out the CLF.

5.4 The provision of the CLF will no longer be limited to banks that can demonstrate a shortage of HQLA for their LCR needs, but will be available to all banks that wish to apply for the CLF. However, the CLF will only be granted to applicant banks that are able to fulfil all the relevant qualifying conditions related to the CLF.

5.5 Only banks that meet the Level 1 HQLA requirement of the LCR may apply for the CLF.

5.6 The amount of the CLF that can be recognised for LCR purposes and that may be drawn down in periods of 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.

5.7 During the phase-out period the SARB will, in consultation with banks, investigate the appetite for and feasibility of possible alternative types of committed facilities that are similar to the CLF in nature, but not connected to the LCR or other regulatory requirements. The provision of such alternative facilities will remain the prerogative of the SARB and support the SARB's financial stability mandate.

6. Operational arrangements

6.1 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 on the SARB's website.

6.2 The CLF will be granted for a 12 month period, that is, from 1 December 2019 to 30 November 2020. All applications are required to be submitted by no later than 30 September 2019.

6.3 Any questions regarding this Guidance Note may be directed to Dr Nicola Brink, Head: Resolution Planning, at 012 313 3614 or Nicola.Brink@resbank.co.za, or Mr Wessel Mostert, Manager: Asset and Liability Management, at 012 313 4652 or Wessel.Mostert@resbank.co.za.

7. Acknowledgement of receipt

7.1 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: 23 August 2019

The previous guidance note issued was Guidance Note 4/2019, dated 4 April 2019.