South African Reserve Bank
Prudential Authority

Ref.: 15/8/1/3

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

Proposed directive issued in terms of section 6(6) of the Banks Act 94 of 1990

Temporary measures to aid compliance with the liquidity coverage ratio during the Coronavirus (Covid-19) pandemic stress period

Executive summary

The spread of Covid-19 is having an increasingly significant impact on global economic activity and has placed the local economy under immense strain. As part of the measures employed to address the impact of Covid-19, government, as well as business, have called upon the banking industry to continue to extend credit to sectors in need, particularly households and small businesses, and to provide relief measures to reduce the liquidity strain on these sectors in an effort to sustain the local economy and maintain financial stability. The financial market volatility, together with the reaction of other financial institutions, have placed pressure on market liquidity and the supply of term funding. The Prudential Authority (PA) has therefore decided to amend the minimum requirements relating to the liquidity coverage ratio (LCR) to provide temporary liquidity relief to banks, branches of foreign institutions and controlling companies (hereinafter collectively referred to as 'banks') during this time, in line with the intention of the Basel III LCR framework.

1. Introduction

1.1 The LCR represents one of the key regulatory reforms by the Basel Committee on Bank Supervision to develop a more resilient banking sector. The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted into cash easily and immediately in private markets to meet banks' liquidity needs during a 30 calendar day liquidity stress scenario. The LCR is intended to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial industry to the real economy.

1.2 Due to the current financial market turmoil, market liquidity has decreased, and banks have been under increased pressure to comply with the currently prescribed LCR requirements. This has largely been driven by risk averse depositors moving out of term funding and into short-term funding.

1.3 Large portions of the HQLA have also decreased in value due to negative mark-to-market adjustments caused by increases in the yields of the underlying instruments.

1.4 As contemplated in regulation 26(12)(f)(iii)(A) of the Regulations relating to Banks, the PA views the current financial market turmoil as a period of financial stress. Accordingly, the PA has deemed it appropriate to temporarily amend the required level specified for banks' compliance with the LCR.

2. Directive

2.1 Based on the aforesaid, and in accordance with the provisions of section 6(6) of the Banks Act 94 of 1990, banks are hereby directed to comply with a revised minimum LCR requirement of 80 per cent, with effect from 1 April 2020 until such time as the PA directs in writing that it is of the view that financial markets have normalised.

2.2 The PA will continue to monitor the evolving market developments and may amend the minimum LCR requirement specified herein at any time, by providing adequate and timely notice to the banks. Furthermore, once the PA determines that financial markets have normalised, the PA will specify in writing the appropriate phase-in arrangements to restore the minimum LCR requirement to 100 per cent.

2.3 Should a bank be unable to comply with this directive, the bank shall, in accordance with the provisions of regulation 5 of the Regulations, report its inability to comply in writing to the PA, stating the reasons for such failure or inability to comply.

3. Invitation for comment

3.1 Banks are hereby invited to submit their comments with respect to the proposed directive to SARB-PA@resbank.co.za and Wessel.Mostert@resbank.co.za for the attention of Mr Wessel Mostert by no later than 30 March 2020.

Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

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