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SOUTH AFRICAN RESERVE BANK
Prudential Authority

Ref.: 15/8/2/3

To: All 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

Matters related to the net stable funding ratio

Executive summary

On 1 January 2013, the amended Regulations relating to Banks (the Regulations) implemented, among other things, a framework for the calculation of a bank's net stable funding ratio (NSFR).

The Prudential Authority (PA), previously the Bank Supervision Department (BSD), informed all relevant persons that subsequent to the implementation of the Regulations on 1 January 2013, the Basel Committee on Banking Supervision (BCBS) issued various documents related to banks' exposure to liquidity risk, including revisions to the Basel III framework for the calculation of the minimum required NSFR. Accordingly, the aforementioned revisions and related NSFR requirements were incorporated into the amendments to the Regulations.

This Directive serves to inform banks, branches of foreign institutions, controlling companies and auditors of banks or controlling companies (hereinafter collectively referred to as 'banks') of the calibration of the NSFR and the national discretion exercised in respect of specified items related to the NSFR.

1. Introduction

1.1 On 12 December 2012, the amended Regulations were published in Government Gazette No. 35950, following which they became effective on 1 January 2013.

1.2 Subsequently, the BCBS issued an updated framework for calculating and implementing the NSFR[1].

1.3 The BCBS issued a press release[2] providing for additional national discretion in specified cases.

1.4 The NSFR framework makes provision for only a few specified cases of national discretion to be exercised by national supervisors.

1.5 Directive 8 of 2017, relating to Matters related to the net stable funding ratio, was issued on 13 December 2017.

[1]Basel III: the net stable funding ratio, available at http://www.bis.org/bcbs/publ/d295.pdf
[2]Implementation of net stable funding ratio and treatment of derivative liabilities, available at https://www.bis.org/press/p171006.htm

1.6 On 18 December 2020, the amended Regulations were published in Government Gazette No. 44003, following which they became effective on 1 January 2021. The majority of the amendments were made to incorporate the respective requirements contained in the Basel III framework.

1.7 The purpose of this Directive is to:

1.7.1 Inform banks of matters related to the calibration of the NSFR and the national discretion exercised in respect of specified items related to the NSFR.

1.7.2 Provide clarity on the treatment of the Restricted-use Committed Liquidity Facility (RCLF) within the NSFR framework;

1.8 This Directive replaces directive 8 of 2017.

2. Framework for the calculating and implementation of the NSFR

2.1 Calibration and implementation of the NSFR

2.1.1 The NSFR framework was assessed holistically to determine the feasibility of adopting the minimum standard within South Africa and the suitability of the calibration of the NSFR for South Africa, and the possible options available to incorporate the principles of the NSFR without causing undue harm to the banking sector and the economy. The PA also considered the implementation timelines, and it has been decided not to deviate from the internationally agreed implementation date of 1 January 2018.

2.1.2 Available stable funding (ASF)

2.1.2.1 The calibration of ASF assumes that longer-term funding is more stable than short-term funding.

2.1.2.2 The NSFR framework assumes that regulatory capital and funding provided by retail and small business customers are the most stable sources of funding and have the highest ASF factors assigned to them.

2.1.2.3 Funding with a residual maturity of less than one year received from non-financial corporate customers, sovereigns and public-sector entities, as well as funding from financial corporate customers with a residual maturity of between six months and one year, shall be assigned an ASF factor of 50 per cent.

2.1.2.4 The NSFR framework assigns an ASF factor of zero per cent to funding with a residual maturity of less than six months from financial corporate customers.

The PA concluded in 2017 that it would be appropriate to deviate from the international standard and to assign an ASF factor of 35 per cent to secured and unsecured funding received in Rand (ZAR) from financial corporate customers, excluding banks, with a residual maturity of less than six months. This dispensation was only available for banks conducting business in South Africa. In order to be fully compliant with the NSFR framework, the PA has decided to phase out the ASF factor in this regard as follows:

Table 1

Period	**ASF Percentage**
From 1 June 2023 to 31 December 2023	30
From 1 January 2024 to 31 December 2024	20
From 1 January 2025 to 31 December 2027	10
From 1 January 2028 onwards	0

2.2 Treatment of minimum required cash reserves.

2.2.1 The Required Stable Funding (RSF) assigned to a bank's minimum required cash reserves shall be 5 per cent. Any excess cash reserve balances held at the South African Reserve Bank in the relevant reserve account shall be assigned an RSF factor of zero per cent.

2.3 The required stable funding add-on relating to gross derivative liabilities.

2.3.1 Ten per cent of gross derivative liabilities (before any netting or collateral has been applied) are required to have stable funding raised against them.

2.4 Interdependent assets and liabilities

2.4.1 Paragraph 45 of the NSFR framework issued by the BCBS sets out the principles for interdependent assets and liabilities that qualify for the beneficial treatment. For banks to benefit from this treatment, it would be subject to supervisory approval following, among other things, due consideration of the internal governance structures of the bank. At minimum, interdependent assets and liabilities shall be approved by the relevant bank's executive committee responsible for liquidity risk management oversight.

2.5 The following contingent funding obligations are included in the NSFR framework:

2.5.1 Unconditionally revocable credit and liquidity facilities shall be assigned an RSF factor of 5 per cent;

2.5.2 Trade finance-related obligations (including guarantees and letters of credit) shall be assigned an RSF factor of 5 per cent;

2.5.3 Guarantees and letters of credit unrelated to trade finance obligations shall be assigned an RSF factor of 5 per cent, and

2.5.4 Non-contractual obligations such as:

2.5.4.1 potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities,

2.5.4.2 structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes, and

2.5.4.3 managed funds marketed to maintain a stable value shall all be assigned an RSF factor of zero per cent.

2.5.5 Required stable funding (RSF)

2.5.5.1 The RSF considers the need for resilient credit extension, bank behaviour, liquidity value, asset tenor and asset quality. Accordingly, the PA's assessment that the RSF factors set out in the NSFR framework are appropriate and shall be implemented accordingly by banks.

2.6 Treatment of the RCLF from the South African Reserve Bank (SARB)

2.6.1 The RCLF should be reported in accordance with Regulation (12)(b)(iii)(D) as level 2B high-quality liquid assets.

3. Invitation for comment

3.1. Banks and other interested persons are hereby invited to submit their comments with respect to the proposed Directive directly to SARB-PA@resbank.co.za and Cristel.Bakker@resbank.co.za for the attention of Ms Cristel Bakker by no later than 14 December 2022.

3.2. All comments received from banks and other interested persons may be published on the website of the PA unless a respondent specifically requests confidential treatment.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 11/11/22