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SOUTH AFRICAN RESERVE BANK
Prudential Authority

Ref.: 15/8/1/3

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

Inclusion of excess cash reserves in high-quality liquid assets

Executive summary

The amended Regulations relating to Banks (Regulations), in which the framework for the liquidity coverage ratio (LCR) was included, were implemented with effect from 1 January 2013.

Over the past few years, the South African Reserve Bank (SARB) has worked on reviewing its framework for implementing monetary policy. However, the onset of the COVID-19 pandemic has highlighted the urgency of these reforms, prompting the SARB to accelerate its efforts.

Based on a review of global practices, the SARB is replacing the shortage system with a tiered floor. In terms of the revised framework, rather than creating a shortage, the SARB would allow an excess supply of bank reserves and then manage this additional liquidity by paying interest on reserves at the repo rate.

In addition, banks would face limits ('tiers') on the amounts they could deposit at the SARB, which would prevent hoarding of reserves and safeguard the SARB's balance sheet.

1. Introduction

1.1 On 12 December 2012, the amended Regulations were published in Government Gazette No. 35950. The majority of amendments were made to incorporate the Basel III framework. The Regulations became effective on 1 January 2013.

1.2 On 7 January 2013, the Basel Committee on Banking Supervision released an updated framework for calculating and implementing the LCR.

1.3 On 27 May 2022, the SARB published the revised monetary policy implementation framework (MPIF).

1.4 The role of the MPIF is to implement the interest rate decisions of the Monetary Policy Committee.

1.5 For this framework, rather than the current practice of creating a money market shortage, the SARB would operate an ample-reserve system and pay interest on excess reserves. Banks would be remunerated at the policy rate for reserves beyond their cash reserve requirements, up to the limits established by the quotas.

2. Directive

2.1 Based on the aforesaid information, and in accordance with the provisions of section 6(6) of the Banks Act 94 of 1990, banks are hereby directed as follows:

2.1.1 Treatment of cash reserves when calculating the bank's LCR and net stable funding ratio (NSFR):

i. Banks must include their statutory cash reserves as envisaged in regulation 27(2) of the Regulations as Level 1 high-quality liquid assets (Level 1 HQLA); and

ii. Excess cash reserves held in a bank's settlement account must also be included as part of the bank's level 1 HQLA.

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 24 June 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: 10/06/22