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SOUTH AFRICAN RESERVE BANK
Prudential Authority

Ref.: 15/8/1/3

To: All mutual banks and auditors of mutual banks

Proposed directive issued in terms of section 4(6) of the Mutual Banks Act 124 of 1993

Minimum regulatory requirements relating to the mutual banks' fund liquidity contributions to the Corporation for Deposit Insurance.

Executive summary

On 24 March 2023, the Minister of Finance published a commencement schedule for the Financial Sector Laws Amendment Act 23 of 2021 which amends the Financial Sector Regulation Act 9 of 2017 (FSR Act), setting out the implementation dates for the resolution and deposit insurance provisions in the FSR Act. The *Government Gazette* notice established the Corporation for Deposit Insurance (the Corporation) as a legal entity effective 24 March 2023. The Corporation became operational on 1 April 2024.

In this regard, the Prudential Authority (PA) aims to inform all mutual banks and auditors of mutual banks of the minimum regulatory requirements relating to the mutual banks' fund liquidity contributions to the Corporation from 1 April 2024.

Regulation 23 of the Regulations relating to Mutual Banks (Regulations) specifies the minimum requirements that banks must comply with for the measurement of their exposures to credit risk. Mutual banks will be exposed to credit risk through their fund liquidity contribution to the Corporation. This funding is an interest-bearing loan facility from mutual banks to the Corporation. The Regulations prescribe the relevant risk weighting schemes applicable to the mutual banks, for the calculation of the minimum required regulatory capital and reserve funds relating to credit risk.

Accordingly, the purpose of this proposed directive is to instruct mutual banks on the prudential treatment of the fund liquidity contribution in relation to regulation 23 of the Regulations.

1. Introduction

- 1.1. The Corporation is established to give depositors reasonable access to their covered deposits when their mutual bank has been placed in resolution.
- 1.2. In terms of the Corporation's funding model, mutual banks must provide the Corporation with a fund liquidity contribution, the details of which are specified in the Fund Liquidity Prudential Standard¹, which was published by the PA on 8 March 2024. Contributions by mutual banks to the fund liquidity are interest-bearing loans to the Corporation that will be guaranteed by the South African Reserve Bank (SARB) and will impact the mutual banks' prudential treatment of the fund liquidity contribution in relation to regulations 23 of the Regulations.

2. Reference to the Regulations

- 2.1. Regulation 23 of the Regulations prescribes the relevant risk weighting schemes applicable to the mutual banks for the calculation of the minimum required regulatory capital and reserve funds relating to credit risk. The Regulations also make provision for the treatment of the guaranteed exposures.

3. Proposed directive

- 3.1. Based on the aforesaid and in accordance with the provisions of section 4(6) of the Mutual Banks Act 124 of 1993, mutual banks are hereby directed to comply with the requirements specified in paragraph 3.2 below.

3.2. Minimum regulatory requirements relating to Credit Risk

- 3.2.1. In the calculation of the minimum required capital and reserve funds related to credit risk exposure to the Corporation; mutual banks must apply the minimum requirements outlined as follows:
 - 3.2.1.1. Regulation 23(7)(a) of the Regulations specifies that when a loan transaction is guaranteed, the risk weightings applicable to the transaction in question may be reduced to the risk weightings applicable to the guarantor. The lower weighting shall apply only to the outstanding amounts of the transaction covered by the guarantee. According to the risk weightings table found in regulation 23(6)(p) of the Regulations, exposures to the central bank of the Republic of South Africa meet the criteria for a 0% risk weight. Hence, mutual banks will apply a 0% risk weight for the exposure to the Corporation based on the explicit guarantee provided by the SARB. The mutual banks' exposure to the Corporation should be reported in line item 47 of the form DI 100 and line item 24, column 2 of the form DI 500.

¹ [Prudential Standard CODI 1_Fund liquidity.pdf \(resbank.co.za\)](#)

4. Invitation for comment

- 4.1. Mutual banks are hereby invited to submit their comments with respect to the proposed directive to SARB-PA@resbank.co.za and Bongani.Mtsweni@resbank.co.za by no later than 1 May 2024

Fundi Tshazibana
Chief Executive Officer

Date: