



Ref.: 15/8/1/3

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

Proposed Directive issued in terms of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990)

Composition of the Board of Directors-appointed committee to approve large exposures and matters related to the requirements for measuring and controlling large exposures

Executive summary

This proposed Directive serves to direct banks, branches of foreign institutions and controlling companies (hereinafter collectively referred to as 'banks') to apply the conditions and/or limits specified herein for measuring and controlling large exposures (LEX) and the criteria required when the Prudential Authority (PA) considers the composition of the bank's Board of Directors (Board)-appointed committee for approval.

The Board of a bank is ultimately responsible for ensuring effective governance and risk management policies, processes and procedures are in place. In discharging its duties, the Board plays a critical role in overseeing, among other things, the credit-granting and credit risk management functions of the bank.

In terms of section 73 of the Banks Act, 1990 (Act No. 94 of 1990) (Banks Act), banks shall not make investments with, or grant loans or advances or other credit, to any person to an aggregate amount exceeding 10% of such amount of its capital and reserves as may be prescribed without first having obtained the approval of the bank's Board or a committee established by the Board and approved by the PA.

The proposed amendments to the Regulations relating to Banks (Regulations) incorporated the relevant revised market risk framework requirements impacting the LEX framework issued by the Basel Committee on Banking Supervision (BCBS).

The proposed Directive will become effective from the implementation date of the proposed amendments to the Regulations.

This proposed Directive is intended to replace Directive 5 of 2008 (dated 7 May 2008) and Directive 3 of 2022 (dated 1 April 2022).

1. Introduction

- 1.1 The BCBS standard issued in April 2014 titled ‘Supervisory framework for measuring and controlling large exposures’¹ (LEX framework) complements the BCBS’s risk-based capital standard. The LEX framework is designed to specifically protect banks from material losses resulting from the non-performance of a single counterparty or a group of connected counterparties that could ultimately threaten the solvency and liquidity of banks or banking groups.
- 1.2 Amendments to the LEX framework to incorporate the relevant revisions to the market risk framework, as published in January 2019 and revised in February 2019,² required specific amendment to regulation 24 of the Regulations to incorporate the relevant parts of the revised market risk framework into the LEX regulatory requirements, which form part of the Basel III post-crisis reforms.³
- 1.3 The LEX framework specifies that the sum of all exposure values of a bank to a counterparty or to a group of connected counterparties must be defined as a LEX if it is equal to or above 10% of the bank’s qualifying common equity tier 1 capital and reserve funds and additional tier 1 capital and reserve funds (Tier 1 capital and reserve funds).
- 1.4 Credit concentration can result in substantial losses without the adequate management thereof. When a bank evaluates a credit application for approval, the bank must take into consideration potential future changes in economic conditions and assess its credit risk exposures under stressful conditions. In terms of section 73 of the Banks Act, banks shall not make investments with, or grant loans or advances or other credit, to any person to an aggregate amount exceeding 10% of such amount of its capital and reserves as may be prescribed, without first having obtained the permission of the bank’s Board or a committee established by the Board and approved by the PA.
- 1.5 This proposed Directive serves to direct banks to apply the criteria related to the composition of the aforementioned committee as well as the requirements, conditions and/or limits specified herein.

2. Banks Act references

- 2.1 In terms of section 73(1)(a) of the Banks Act, a bank “shall not make investments with or grant loans or advances or other credit to any person, to an aggregate amount exceeding 10 per cent of such amount of its capital and reserves as may be prescribed, without first having obtained the permission of its board of directors, or of a committee appointed for such purpose (for the composition of which committee the prior written approval of the PA has to be obtained), to make such investments or to grant such loans, advances or other credit”.

¹ Available at https://www.bis.org/basel_framework/standard/LEX.htm

² Available at <https://www.bis.org/bcbs/publ/d457.pdf>

³ The Basel III post-crisis reforms are anticipated to become effective from 1 July 2025. Refer to paragraph 6.4 of [Proposed Directive on proposed amendments to the Regulations relating to Banks](#).

- 2.2 To enhance independence and objectivity of the bank's Board or the bank's appointed committee approved by the PA, section 60(3) of the Banks Act requires that the majority of a bank's Board members be non-executive directors.

3. Regulatory references

- 3.1 Regulation 8 of the Regulations deals with the calculation of average daily balances for a month in respect of any liability or asset item by totalling the amounts thereof for each day of the month and dividing the total by the number of calendar days in the particular month.
- 3.2 Regulation 23 of the Regulations deals with the measurement of credit risk exposures, including the application of credit conversion factors (CCFs) and credit risk mitigation (CRM).
- 3.3 Regulation 24 of the Regulations deals with various requirements relating to measuring, monitoring and controlling LEX in accordance with the LEX framework.
- 3.4 Regulation 37 of the Regulations specifies that foreign operations of South African banks must mutatis mutandis apply the directives and interpretations relating to the completion on a solo basis of the respective risk-based returns by a bank in the Republic of South Africa, or for the calculation on a solo basis of the relevant minimum required amount of capital and reserve funds of a bank in the Republic, to the form BA 610.
- 3.5 Regulations 39 to 41 of the Regulations deal with provisions relating to corporate governance and set out, among others, the duties and responsibilities of directors.

4. International references

- 4.1 The Basel Core Principles for Effective Banking Supervision (Core Principles) contain a set of 29 global standards developed by the BCBS to guide regulatory authorities in ensuring a sound and stable banking system. These Core Principles serve as a benchmark for prudential regulation, risk management and supervisory practices worldwide.
- 4.2 Basel Core Principle (BCP) 12 of the Core Principles⁴ issued by the BCBS on 25 April 2024 deals with consolidated supervision. BCP 12 imposes a duty on supervisors to supervise banking groups on a consolidated basis, and adequately monitor and, as appropriate, apply prudential standards to all aspects of the business conducted by the banking group worldwide.
- 4.3 BCP 19 of the Core Principles requires banking supervisors to ensure "banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis" and "set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties".

⁴ Available at <https://www.bis.org/bcbs/publ/d573.pdf>

- 4.4 BCP 20 of the Core Principles deals with transactions with related parties. To prevent abuses arising in transactions with related parties, and to address the risk of conflicts of interest, supervisors should require banks to enter into any transactions with related parties on an arm's length basis; monitor these transactions; take appropriate steps to control or mitigate the risks; and write off exposures to related parties in accordance with standard policies and processes.

5. Proposed Directive

- 5.1 Based on the aforesaid, and in accordance with the provisions of section 6(6) of the Banks Act, banks are hereby directed to comply with the respective requirements specified in paragraphs 6 to 14 below:

6. Criteria relating to composition of Board-appointed committees to approve large exposures

- 6.1 The Board of a bank is ultimately responsible for the maintenance of effective risk management in the bank. In discharging its responsibilities, the Board has to play a critical role in overseeing the credit-granting and credit risk management functions of the bank and has to ensure, among other things, that:
- 6.1.1 credit activities are conducted within the risk strategy, policies and tolerances approved by the Board;
 - 6.1.2 the bank conducts business within sound and well-defined credit-granting criteria;
 - 6.1.3 all extensions of credit are made on an arm's length basis;
 - 6.1.4 senior management is fully capable of managing the credit activities conducted by the bank;
 - 6.1.5 credit activities are subject to adequate internal controls and appropriate internal audit coverage; and
 - 6.1.6 the bank has adequate capital for the risks that it assumes.
- 6.2 A bank or controlling company must ensure that a credit committee appointed by the Board in order to approve LEX as a minimum consists of:
- 6.2.1 at least three independent non-executive directors, that is persons who are not employees of the bank or of any of its subsidiaries, its controlling company or any subsidiary of its controlling company, with one of whom being the Chairperson of the said committee;
 - 6.2.2 the Chief Executive Officer of the bank;
 - 6.2.3 the bank's Head of Finance;

- 6.2.4 the bank's Head of Risk or an equivalent function, such as the Head of Enterprise-wide Risk Management; and
- 6.2.5 the bank's Head of Credit.
- 6.3 When a bank's Board-appointed credit committee requires specific input from particular business units in respect of a proposed credit exposure, it may invite the relevant executive director or executive officer to make the required presentations to it.
- 6.4 The decisions on LEX made by the Board-appointed committee must be recorded in writing and tabled at the Board meeting immediately following the meeting of the said committee for the Board's review and ratification.
- 6.5 The credit committee of the bank must also periodically assess its own performance, determine where weaknesses exist and, where possible, take appropriate corrective actions.

7. Large exposures and the large exposure limit

- 7.1 An exposure must be considered a LEX if the relevant aggregate amount related to the exposure is equal to or exceeds 10% of the bank's Tier 1 capital and reserve funds as specified in regulation 24(7)(a) of the Regulations:
 - 7.1.1 after taking into consideration any relevant CCF subject to a CCF floor of 10%; and
 - 7.1.2 after taking into consideration any specific credit impairment raised against the exposure; but
 - 7.1.3 before taking into consideration any eligible CRM to mitigate the bank's original exposure to a person or counterparty.
- 7.2 The relevant aggregate amount relating to the LEX must be less than or equal to the limits specified in regulation 24(7)(c) of the Regulations after taking into consideration:
 - 7.2.1 any relevant CCF subject to a CCF floor of 10%;
 - 7.2.2 any specific credit impairment raised against the exposure; and
 - 7.2.3 any eligible CRM to mitigate or reduce the bank's original exposure to a person or counterparty.

8. Treatment of the revised market risk framework in the large exposure framework

- 8.1 All relevant requirements specified in this proposed Directive shall apply to the revised market risk provisions contained in regulation 24(6)(e) of the Regulations.

9. Application of the large exposure requirements on all subsidiaries within a banking group, where a bank within the group has been designated as a domestic systemically important bank, domestic systemically important financial institution or global systemically important bank

9.1 In the case where a bank within a banking group is designated as:

9.1.1 A domestic systemically important bank (D-SIB)/domestic systemically important financial institution (D-SIFI) by the PA or the South African Reserve Bank, for LEX purposes, and when determining the limit applicable to all other subsidiaries within the group where an entity within the group has been designated as a D-SIB/D-SIFI, the D-SIB/D-SIFI designation must be applied to the controlling company of the D-SIB/D-SIFI as well as all other subsidiaries of the bank and controlling company.

9.1.2 A global systemically important bank (G-SIB), as published by the Financial Stability Board (FSB) from time to time, for LEX purposes, and when determining the limit applicable to all other subsidiaries within the group where an entity within the group has been designated as a G-SIB, the G-SIB designation must be applied to the controlling company of the G-SIB as well as all other subsidiaries of the bank and controlling company.

9.2 Therefore, the D-SIB/D-SIFI/G-SIB limit applies to all subsidiaries of the bank's controlling company and not only to the designated D-SIB/D-SIFI/G-SIB. For each subsidiary within the banking group, the limit must be based on the relevant amount of Tier 1 capital and reserve funds, specified in regulation 24(7)(c) of the Regulations.

10. Treatment of intraday exposures

10.1 To avoid disturbing the payment and settlement system or any processes related thereto, any intraday interbank exposure is exempt from the LEX requirements specified in the Regulations.

10.2 Any intraday exposure, limit and facility, other than intraday interbank exposures, is subject to the respective LEX requirements specified in the Regulations.

11. Monitoring and managing interbank exposures

11.1 A bank other than a D-SIB or D-SIFI must manage its business in such a manner that the aggregate amount of its concentrated credit exposure, calculated in accordance with the relevant requirements specified in regulation 24(6) of the Regulations to a D-SIB or D-SIFI, complies with the requirements specified below:

11.1.1 The aggregate exposure must not at any time exceed 25% of the sum of the bank or controlling company's Tier 1 capital and reserve funds, as reported in the form BA 700, as at the end of the reporting date immediately preceding the reporting date to which the form BA 210 relates.

- 11.2 Following the 12th month after the date that the bank or controlling company itself has been designated as a D-SIB or D-SIFI, the aggregate amount of its concentrated credit exposure calculated in accordance with the relevant requirements specified in regulation 24(6) of the Regulations to a D-SIB or D-SIFI complies with the requirements specified below:
- 11.2.1 The aggregate exposure must not at any time on an average daily balance basis for the month (calculated in accordance with the requirements specified in regulation 8 of the Regulations) exceed 15% of the sum of the bank or controlling company's Tier 1 capital and reserve funds, as reported in the form BA 700, as at the end of the reporting date immediately preceding the reporting date to which the form BA 210 relates.
- 11.2.2 The maximum daily aggregate exposure during the month shall at no stage exceed 18% of the sum of the bank or controlling company's Tier 1 capital and reserve funds, as reported in the form BA 700, as at the end of the reporting date immediately preceding the reporting date to which the form BA 210 relates.
- 11.3 A bank other than a D-SIB or G-SIB must manage its business in such a manner that the aggregate amount of its concentrated credit exposure, calculated in accordance with the relevant requirements specified in regulation 24(6) of the Regulations to an institution designated as and included in the list of G-SIBs (which includes any branch of a G-SIB), published by the FSB from time to time, complies with the requirements specified below:
- 11.3.1 The aggregate exposure must not at any time exceed 25% of the sum of the bank or controlling company's Tier 1 capital and reserve funds, as reported in the form BA 700, as at the end of the reporting date immediately preceding the reporting date to which the form BA 210 relates.
- 11.4 A bank designated as a D-SIB must manage its business in such a manner that the aggregate amount of its concentrated credit exposure, calculated in accordance with the relevant requirements specified in regulation 24(6) of the Regulations to a G-SIB (which includes any branch of a G-SIB), complies with the requirements specified below:
- 11.4.1 The aggregate exposure must not at any time on an average daily balance basis for the month (calculated in accordance with the requirements specified in regulation 8 of the Regulations) exceed 15% of the sum of the bank or controlling company's Tier 1 capital and reserve funds, as reported in the form BA 700, as at the end of the reporting date immediately preceding the reporting date to which the form BA 210 relates.
- 11.4.2 The maximum daily aggregate exposure during the month shall at no stage exceed 18% of the sum of the bank or controlling company's Tier 1 capital and reserve funds, as reported in the form BA 700, as at the end of the reporting date immediately preceding the reporting date to which the form BA 210 relates.
- 11.5 Currently, credit concentration risk is not subject to a specified pillar 1 capital requirement in terms of the capital framework. However, due to the banks' LEX

to other individual banking counterparties, it is important to limit banking institutions' exposures to each other where possible. One of the reasons the interbank market in South Africa poses a significant credit concentration risk is due to the larger banking groups in South Africa creating a natural concentration in the interbank market. Therefore, to promote the safety and soundness of individual banks and assist in limiting the systemic impact the failure of one large banking institution could have on the South African banking sector, it is equally important to limit the exposures between these larger banking institutions and banking groups.

12. Application of the large exposure requirements on intragroup exposures

12.1 A bank or controlling company must manage its intragroup exposures in such a manner that the aggregate amount of its exposure to entities within the group complies with the requirements specified below:

12.1.1 Unless otherwise specified in writing by the PA, intragroup exposures risk weighted at 0% in terms of regulation 23(6)(j) of the Regulations are exempted from the LEX limit.

12.1.2 For intragroup exposures other than intragroup exposures risk weighted at 0% in terms of regulation 23(6)(j) of the Regulations, the bank or controlling company is not required to determine the connectedness of the intragroup entities, unless otherwise specified in writing by the PA. However, the aggregate exposure to each intragroup entity must comply with the relevant LEX limit specified in regulation 24(6) and 24(7) of the Regulations.

12.1.3 Where the bank or controlling company is of the opinion that the LEX limit specified or imposed is not appropriate for a certain intragroup entity, the bank or controlling company must demonstrate to the satisfaction of the PA that, due to the existence of specific circumstances, a different LEX limit or treatment should be considered.

12.2 The PA acknowledges the interconnectedness between entities within a group, but also acknowledges that, for the LEX requirements, intragroup exposures cannot necessarily and in all cases be regarded as a group of connected counterparties and be regarded as a single counterparty. Therefore, the Regulations have an enabling provision to specify conditions where intragroup exposures are not subject to all of the LEX requirements.

13. Application of the large exposure requirements on a foreign subsidiary or branch of a bank controlling company required to report on a solo basis

13.1 The PA acknowledges that foreign subsidiaries are subject to the regulatory requirements and concentration risk requirements as imposed by the prudential supervisors in the countries where they conduct business and that the controlling company is subject to regulatory requirements and concentration risk requirements as imposed by the PA as the home supervisor. Therefore, the LEX limit imposed on a foreign subsidiary must be based on the controlling company's Tier 1 capital and reserve funds, unless otherwise instructed by the PA.

- 13.2 Foreign subsidiaries are however exposed to concentration risk similar to any other separately capitalised institution or bank, which potentially endangers their survival, that of their bank controlling companies or even of the wider banking group. Therefore, for the PA to monitor and supervise concentration risk within a foreign subsidiary in accordance with the requirements specified in the LEX framework read with the Core Principles, the said subsidiary is required to report credit concentration risk exposures on the form BA 610 based on the foreign subsidiary's own Tier 1 capital calculated in accordance with the relevant requirements specified in the Regulations.
- 13.3 In the case of a foreign subsidiary of a controlling company required to report on a solo basis where the PA is also responsible for the supervision of the controlling company, the specified amount as contemplated in section 73(1)(a) of the Banks Act must for reporting purposes be 10% of the sum of the Tier 1 capital and reserve funds of the relevant foreign subsidiary, calculated in accordance with the relevant requirements specified in the Regulations.
- 13.4 In the case of a foreign subsidiary of a controlling company required to report on a solo basis, the specified percentage and the specified amount must be the relevant percentage of the sum of the Tier 1 capital and reserve funds of the controlling company of the foreign subsidiary unless specifically otherwise directed in writing in specific cases.
- 13.5 When completing returns in respect of a foreign operation of a South African bank, the definitions and interpretation of items in the Regulations must be applied. In this regard, for LEX purposes and with reference to the form BA610 reporting:
- 13.5.1 A foreign subsidiary or branch of a controlling company with an exposure to a South African designated D-SIB or D-SIFI must be reported under the 'D-SIB or D-SIFI' line item.
- 13.5.2 A foreign subsidiary or branch of a controlling company with an exposure to a bank not domiciled in South Africa and designated as a D-SIB or D-SIFI in the host/foreign jurisdiction must be reported in the 'Banks other than D-SIBs and G-SIBs' line item.
- 13.5.3 A foreign subsidiary or branch of a controlling company with an exposure to a bank designated as a G-SIB by the FSB must be reported in the 'G-SIBs' line item.

14. Treatment of breaches of the LEX limit

- 14.1 In instances where the prescribed LEX limit cannot be met, banks must engage the PA bilaterally to consider these specific circumstances. The PA will assess whether the limit breach may be allowed for a specified period, and, when allowed, banks must comply with the conditions specified in writing by the PA.

15. Effective date

- 15.1 The respective requirements specified in this proposed Directive shall be effective from the implementation date specified in Guidance Note 3 of 2023.

16. Invitation for comment

- 16.1 All interested persons are hereby invited to submit their comments on the proposed Directive to SARB-PA@resbank.co.za and RSD-CreditRisk@resbank.co.za, for the attention of Ms Asive Mahlamvu and Mr Jaden Riesenburger, by no later than 26 June 2025.

Fundi Tshazibana
Chief Executive Officer

Date:

Encl. 1