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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, 1993 (Act No. 124 of 1993)

Treatment of Investments in Flac or similar instruments

Executive summary

Prudential Standard RA03: Flac Instrument Requirements for Designated Institutions and Guidance Notice 1 of 2025, issued in terms of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017), set out the requirements and further guidelines in relation to Flac instruments.

The purpose of this proposed Directive is to direct mutual banks on the treatment of their investments in Flac or similar instruments.

Interested persons are hereby invited to submit their comments in respect of this proposed Directive to the Prudential Authority by no later than 23 September 2026.

1. Introduction

1.1 The South African Reserve Bank (Reserve Bank), as the Resolution Authority and in its pursuit of the implementation of an open bank resolution strategy, has introduced a new class of unsecured subordinated debt instruments termed 'Flac instruments' which are aimed at ensuring that banks that have been designated as a SIFI have sufficient loss-absorbing and recapitalisation capacity in resolution.

1.2 Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act) *Prudential Standard RA03: Flac Instrument Requirements for Designated Institutions* (Flac Standard)[1] sets out, among other things, key definitions, the qualifying criteria for Flac instruments, the calibration of the minimum Flac instrument requirements as well as the principles on loss absorption and recapitalisation in resolution. FSR Act Guidance Notice 1 of 2025 (Flac Guidance)[2] provides further clarity on the principles contained in the Flac Standard to enable a registered bank designated as a SIFI to comply with the requirements outlined therein.

1.3 This proposed Directive sets out the treatment of investments in Flac or similar instruments. It must therefore be read in conjunction with the Flac Standard and the Flac Guidance.

2. Proposed Directive

2.1 Mutual banks investing in Flac or similar instruments must deduct the investment from their secondary capital.

2.2 Where the secondary capital is insufficient to cover the deduction of the Flac or similar instruments, the investment must be deducted from primary capital.

2.3 Where an exposure to Flac or similar instruments is held through index holding securities, a mutual bank must look through its holdings of such index securities to determine the actual underlying holdings of Flac instruments of that relevant entity. The afore-determined value of the underlying exposures must then be used as the appropriate amount to be deducted.

2.4 Furthermore, where a mutual bank finds it operationally burdensome to look through and monitor its exact exposure to Flac instruments of those relevant entities or institutions as a result of its holdings of index securities, the mutual bank must obtain prior written approval from the Prudential Authority (PA) to use a conservative estimate, which estimate shall be well-founded and duly motivated by the relevant applicant.

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[1] Available at [Prudential Standard RA03 Flac]().
[2] Available at [Guidance Notice 1 of 2025]().

3. Invitation for comment

3.1 All interested persons are hereby invited to submit their comments on this proposed Directive to PA-ITS-Capital@resbank.co.za for the attention of Ms Sibongile Mbebe, by no later than 23 September 2026.

3.2 All comments received may be published on the website of the PA, unless the respondent specifically requests confidential treatment.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 20/08/26