



CO-OPERATIVE BANKS DEVELOPMENT AGENCY



SOUTH AFRICAN RESERVE BANK
Prudential Authority

Co-operatives Banks Act of 2007

Joint Communication 2 of 2021

COVID-19: Regulatory response

Objective of this Joint Communication

This Joint Communication (Communication) sets out an update on the the responses by the Prudential Authority (PA) to the coronavirus disease 2019 (COVID-19) as well as the observed and predicted impact it has had, and is likely to continue to have, on the South African economy, specifically co-operative financial institutions (CFIs) and co-operative banks (co-op banks). The actions of the PA are supported by the Co-operative Banks Development Agency (CBDA).

The PA and the CBDA recognise that COVID-19 has had, and will continue to have, an impact on the financial soundness of CFIs and co-op banks. The PA, nevertheless, expects that these institutions will continue to operate in a prudent, sound and socially responsible manner. To this end, this Communication outlines an update on some of the temporary regulatory and supervisory actions that was implemented by the PA to alleviate the stress caused by the COVID-19 pandemic on CFIs and co-op banks.

The PA and the CBDA will continue to engage with the financial co-operative sector as well as all other relevant stakeholders as further analysis on the impact of COVID-19 is conducted, and may issue further communication or implement additional actions in this regard.

1. Purpose

- 1.1 The purpose of the communication is to provide an update from the Prudential Authority on temporary relief measures for the CFIs and co-op banks sector since the last Joint Communication 1 of 2020 that was issued on 08 May 2020 (**Annexure A**). It sets the Prudential Authority's position concerning COVID-19 and its impact on the economy, and more especially, on the sector in which the CFIs and Co-op banks operates in. The approach of the Prudential Authority is supported by the CBDA.
- 1.2 This Communication is intended to signal and give guidance to the CFIs and co-op banks on the regulatory and supervisory approach to COVID-19 with respect to those matters that are an immediate priority to alleviate the stress experienced by the CFIs and co-op banks.
- 1.3 The CFIs and co-op banks are urged to continue to act in good faith towards their members, stakeholders and the citizens of South Africa, and to make prudent decisions in the spirit of solidarity. Any regulatory and supervisory relief granted by Prudential Authority should not be seen as a permanent relaxation of the prudential regulatory and supervisory requirements, or as an opportunity for CFIs and co-op banks to unduly benefit from any potential regulatory or supervisory relief provided by the Prudential Authority.

2. Prudential measures for consideration by CFIs and co-op banks

2.1 The proposed measures for consideration have been categorised into prudential policy issues; supervisory activities, including regulatory reporting; and governance and operational issues.

2.2 The following are some of the updated relief measures to be granted to CFIs and co-op banks to ensure that the impact of COVID-19 on the financial institution is minimised, and that the insolvency of the institutions is limited and as far as possible avoided. It must be noted that all measures are proposed in the context of a system and framework that promotes and enhances safety and soundness.


Proposed measures for 2021-2022 financial year

Activity	Current relief measure	Proposed measure
1. <i>Prudential policy related issues:</i>	The PA considers these on case-by-case basis: <ul style="list-style-type: none"> • Capital adequacy; • Loan delinquency ratio • Loan provisioning requirements 	Status quo remains for the next 12 months from March 2021
➤ External credit	Institutions to request PA approval where there is a need to increase external credit limit	Status quo remains for the next 12 months from March 2021
➤ Non-earning assets (cash)	Increased from 5% to 15%	Allow a maximum of 10%
➤ Loan default window for institutions that apply IFRS 9	Increased from 90 to 120 days	Status quo remains for the next 12 months from March 2021
2. <i>Supervisory activities:</i>		
➤ On-site inspections	Yearly on-site inspections extended	Perform virtual on-site inspections until further notice
➤ Submission of quarterly returns	Submission date extended by a month	No further extension. Submissions must be made according to the prescribed timelines. For an example, the returns for quarter 4 of the 2020/21 financial year are due by 31 March 2021

3. <i>Governance:</i>	Extension of AGMs	Hold AGMs either virtually or in person, where possible, a hybrid approach can be adopted by the Board. The Board must ensure that all health protocols and Level 1 Lockdown restrictions as published in terms of the Disaster Management Act of 2002 with amended regulations on 28 December 2020, are all observed and adhered to
4. <i>Operational issues:</i> ➤ Loan restructures	Credit restructures due to COVID to be managed separately	Status quo remains for the next 12 months from March 2021

2.3 In the interim, the institutions are required to submit their Board approved draft Annual Financial Statements before 31 May 2021.

Requests for further information about the Communication may be submitted via email to Lebogang.tshabalala@resbank.co.za and David.DeJong@treasury.gov.za



PRUDENTIAL AUTHORITY

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