



SOUTH AFRICAN RESERVE BANK
Prudential Authority

DRAFT FOR CONSULTATION

Prudential Standard CODI 1 - Fund liquidity

Objectives and Key Requirements of this Prudential Standard

This Standard sets out the requirements applicable to the funds to be held by banks that hold covered deposits, in the account of the Fund for purposes of the Fund liquidity of the Corporation for Deposit Insurance's funding model in accordance with subsection 166BH of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017).

It is the responsibility of the board of directors of a bank to ensure that the bank meets the requirements set out in this Standard on a continuous basis.

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1. Commencement

- 1.1 This Standard commences on 1 April 2024.

Version number	Commencement date
1	1 April 2024

2. Legislative authority

- 2.1 This Standard is made under sections 105 and 108 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (the Act) as requested by the Corporation for Deposit Insurance (the Corporation) in terms of subsection 166BA.

3. Definitions

- 3.1 The terms used in this Standard, unless indicated otherwise, are defined in the Act, and have the same meaning in this Standard.

‘auditor’ has the same meaning as ‘registered auditor’ as defined in the Auditing Profession Act, 2005 (Act No. 26 of 2005);

‘board’ means board of directors of a bank;

‘Corporation’ means the Corporation for Deposit Insurance established by subsection 166AE, as defined in section 1 of the Act;

‘covered deposit’ means the portion of a qualifying deposit covered by the Deposit Insurance Fund provided for in subsection 166AB, as defined in section 1 of the Act;

‘Fund’ means the Deposit Insurance Fund established by subsection 166BD of the Act, as defined in section 1 of the Act;

‘fund liquidity contribution’ means the minimum amount maintained by a bank, that holds covered deposits, in the account of the Fund in accordance with subsection 166BD(1) of the Act;

‘Investment Committee’ means the Investment Committee established by the Corporation’s Board in accordance with subsection 166AO of the Act;

‘profit-share’ means the return paid to a bank, whose banking activity must comply with the rules of Sharia and its practical application, on its fund liquidity contribution;

‘qualifying deposit’ means a deposit with a bank, other than—

- (a) a deposit evidenced by a bearer deposit instrument; or
- (b) a deposit where the depositor holds the deposit in the capacity of—
 - (i) a financial institution, excluding a financial institution that is a co-operative financial institution as defined in subsection 1(1) of the Co-operative Banks Act;
 - (ii) the national government, a provincial government, a local government or an organ of state;
 - (iii) an entity listed in Schedule 2 to the Public Finance Management Act, (Act No. 1 of 1999);
 - (iv) the Corporation for Public Deposits established by section 2 of the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984); or

(v) the Public Investment Corporation established by section 2 of the Public Investment Corporation Act, 2004 (Act No. 23 of 2004), as defined in section 1 of the Act;

'qualifying deposit balance' means the sum of all qualifying deposits;

'qualifying product' means a product included in depositor protection, namely a deposit, qualifying deposit or a product where the capital amount is guaranteed and repayable at par, regardless of its term or currency;

'reporting date' means the date on which the information for the preparation of SCV calculations is based;

'SCV calculations' means the calculation of a bank's total qualifying deposits and total covered deposits based on the SCV records of its qualifying depositors;

'Sharia' means the body of Islamic religious law applicable to police, banking, business, contracts, and social issues. Sharia is a system of laws, rather than a codification of laws, based on the Koran and other Islamic sources;¹

'single customer view (SCV) record' means a consolidated view of a qualifying depositor's accounts and associated balances in qualifying products for purposes of calculating the qualifying depositor's qualifying deposit balance and covered deposits;

'total covered deposits' means the total of all covered deposits at a bank.

4. Application

- 4.1 This Standard applies to a bank, as a member of the Corporation, as defined in the Act.

5. Roles and responsibilities

- 5.1 The board is ultimately responsible for ensuring that the bank complies with the requirements of this Standard.
- 5.2 The control functions of a bank must regularly review and report to the board on the bank's compliance with this Standard.
- 5.3 The Prudential Authority may request the auditor of a bank to provide assurance to the Prudential Authority, the bank, and the Corporation that the bank complies with the requirements of this Standard.

6. Granting a loan to the Corporation for the fund liquidity contribution

- 6.1 In terms of subsection 166BD(1) of the Act, a bank that holds covered deposits must maintain a fund liquidity contribution as prescribed in this Standard.
- 6.2 A bank must grant a loan to the Corporation under a standardised contract, developed and managed by the Corporation, for its fund liquidity contribution for as long as it is required by the Corporation.
- 6.3 Where applicable, banks whose banking activity must comply with Sharia law and its practical application, must enter into specific transactions with the Corporation, the characteristics of which are comparable with those of the loans specified in subparagraph 6.2.

¹ Garner, B. A. (2009). Black's Law Dictionary (9th Edition).

7. Minimum amount to be maintained by members of the Corporation in the account of the Fund

7.1 A bank's fund liquidity contribution must be calculated, as follows:

$P \times A$

where: P is the percentage referred to in subparagraph 7.2 below and;
A is a bank's total covered deposits, calculated and reported according to the rules specified in the Deposit Insurance Regulations², as reported at the last reporting date.

7.2 The Corporation will determine the size of the fund liquidity on an annual basis by no later than 28 February of each year as a percentage of total covered deposits held by banks.

7.3 The Corporation will publish the percentage referred to in subparagraph 7.2 on the Reserve Bank's website to take effect on a date determined by the Corporation.

8. Transfer and maintenance

8.1 The fund liquidity contribution by a bank must—
(a) be transferred to the account of the Fund on a date specified by the Corporation;
(b) be maintained for the duration that the bank is a member of the Corporation or until the Corporation no longer requires it, and it is paid back to the bank by the Corporation in accordance with paragraph 12; and
(c) be rolled and adjusted monthly with changes in the bank's total covered deposits.

8.2 The Corporation will—
(a) calculate a bank's monthly fund liquidity contribution adjustment based on the total covered deposits submitted to it by the bank; and
(b) issue a statement to the bank for the fund liquidity contribution adjustment by the end of the month following the month to which the submission relates.

8.3 Where a bank's total covered deposits increased, the bank must pay its fund liquidity contribution adjustment to the Corporation by no later than the end of the month following the statement's date.

8.4 Where a bank's total covered deposits decreased, the Corporation will repay the fund liquidity contribution adjustment to the bank by no later than the end of the month following the statement's date.

8.5 Failure by a bank to pay the fund liquidity contribution adjustment to the Corporation in accordance with subparagraph 8.3 above will be considered as non-compliance with the provisions of this Standard and the Corporation will deal with such non-compliance in the manner prescribed in paragraph 13 below.

² The Deposit Insurance Regulations (the Regulations) contains detailed rules explaining the procedural and/or administrative matters relating to the establishment and operations of the Corporation and the Deposit Insurance Fund and are still in draft form. The Corporation is currently working with National Treasury to take the Regulations through Parliament for approval and sign-off by the President. A copy of the Regulations will be published in due course.

9. Interest payable on the fund liquidity contribution

- 9.1 The Corporation will determine the interest or profit-share payable to a bank based on the methodology approved by the Corporation's Investment Committee and specify the interest rate in the standardised contract referred to in subparagraph 6.2 above.

10. Application of the Fund when reimbursing covered deposits in accordance with section 166AA(1)(b) of the Act

- 10.1 If a bank is placed in resolution and the Corporation reimburses the depositors of the bank in resolution in respect of their covered deposits in accordance with section 166AA(1)(b) of the Act, the Corporation will set-off the bank in resolution's fund liquidity contribution against the funds used to reimburse the bank's depositors in respect of their covered deposits.
- 10.2 The Corporation will subsequently claim the amount paid out of the Fund to the depositors of the bank in resolution, less the bank in resolution's fund liquidity contribution, from the estate of the bank in accordance with section 166AD of the Act.

11. Application of the Fund for non-payout resolution support in accordance with section 166AA(1)(c) of the Act

- 11.1 The Corporation may set-off a bank in resolution's fund liquidity contribution against the funds used to fund a transaction, as a result of an agreement in relation to the covered deposits of the bank in resolution, referred to in section 166AA(1)(c) of the Act from the Fund.
- 11.2 Where the circumstances referred to in subparagraph 11.1 occur and if applicable, the Corporation will subsequently claim the amount contributed from the Fund, less the bank in resolution's fund liquidity contribution, from the estate of the bank in resolution in accordance with section 166AD of the Act.

12. Repayment of the fund liquidity contribution

- 12.1 Except in the circumstances referred to in paragraphs 10 and 11 respectively, the Corporation will gradually repay a loan granted by a bank to the Corporation for its fund liquidity contribution in line with the build-up of the Fund and in accordance with the terms specified in the contractual loan agreement referred to in subparagraph 6.2 above.

13. Extension of compliance and exemptions

- 13.1 If a bank is unable to comply or fails to comply with the provisions of section 166BH(1) of the Act³ or with the requirements of this Standard, it must immediately report, in writing, its failure or inability to the Prudential Authority and the Corporation, stating the reasons for the failure or inability and request more time to become compliant.

³ Subsection 166BH (1) states that "Members of the Corporation that hold covered deposits must maintain a minimum amount in the account of the Fund as specified by the Corporation in a standard".

- 13.2 The Prudential Authority may, in consultation with the Corporation and in accordance with section 279 of the Act, afford the bank more time to comply with the relevant requirements, subject to conditions specified by the Corporation.
- 13.3 The Prudential Authority may, in consultation with the Corporation, and in accordance with section 281 of the Act, exempt the bank from complying with subsection 166BH(1) of the Act's requirement to maintain a minimum amount in the account of the Fund in respect of a particular reporting period.
- 13.4 Where a bank fails to comply with the requirements of this Standard, the Corporation will refer the matter to the Prudential Authority for it to consider imposing an administrative penalty on the bank in accordance with the provisions of section 167 of the Act.

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