

Prudential Communication 19 of 2024

Financial Sector Regulation Act, 2017 (Act No 9 of 2017)

Publication of Prudential Standard RA03 – Flac Instrument Requirements for Designated Institutions

Objective of this Prudential Communication

This communication notifies all designated institutions of the making and publication of the Prudential Standard RA03 – Flac instrument Requirements for Designated Institutions. The Standard is issued in terms of section 105(2)(c) read with section 30(1A) of the Financial Sector Regulation Act, 2017 (Act No.9 of 2017)(FSR Act).

1. Application

- 1.1 This communication is applicable to specific designated institutions, which are banks that have been designated as systemically important financial institutions (SIFIs) and their holding companies.

2. Purpose

- 2.1 The purpose of this communication is to notify the relevant designated institutions that the Prudential Authority has made and published Prudential Standard RA03 – Flac Instrument Requirements for Designated Institutions (the Standard).

3. Introduction

- 3.1 One of the objectives of an effective resolution framework is the principle of sufficient loss absorbency and recapitalisation capacity, to reduce reliance on public funds and avoid exposing taxpayers to loss.
- 3.2 This principle underpins a resolution bail-in tool, which enables the South African Reserve Bank (Reserve Bank) to cancel shares, issue new shares, write down liabilities and convert liabilities into equity, in order for a designated institution to absorb losses and be recapitalised using resources on its own balance sheet.

- 3.3 To achieve a successful resolution bail-in, the FSR Act introduces a new class of debt instruments, termed Flac instruments. The relevant designated institutions will need to maintain a sufficient level of Flac instruments or Flac instruments and other qualifying instruments, that will be available in resolution for loss-absorption and recapitalisation.
- 3.4 The Standard sets out the following:
- (a) the qualifying criteria for Flac instruments to ensure that they are available for bail-in during a resolution; and
 - (b) the quantum of Flac instruments (and other eligible instruments) that designated institutions are required to build, to ensure sufficient loss-absorbing and recapitalisation capacity.

4. Implementation date

- 4.1 The implementation date for the Standard was initially proposed as 1 January 2025. However, due to operationalisation challenges including the delay in making the Standard, the implementation date has been shifted to 1 January 2026. It is to be noted that the phase-in period remains unchanged and will therefore also commence from the implementation date of 1 January 2026.
- 4.2 The consultation report as contemplated under section 104(1), together with the statement explaining the need for, the intended operation and the expected impact of the Standard as contemplated in section 98(1) of the Act, are published together with the Standard on the website of the Reserve Bank. The Standard will come into effect on 1 January 2026.
- 4.3 Any enquiries regarding this communication or the Prudential Standard may be submitted via email to FST-RPD@resbank.co.za for the attention of Mr Jacques Botes and Mrs Linah Masoha.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 11/12/24