



SOUTH AFRICAN RESERVE BANK
Prudential Authority

Statement of the need for, expected impact and intended operation of the draft prudential standard for designated institutions in respect of requirements for the identification of resolution groups and reporting obligations for designated institutions

(Draft for Consultation)

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1. Introduction

- 1.1 The draft Prudential Standard (the Draft Standard) relating to the requirements for the identification of resolution groups and reporting obligations for designated institutions gives effect to the principles contained in the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (the Act).
- 1.2 The Draft Standard will be issued in terms of section 105(2)(c) of the Act. Its objective is to stipulate the requirements for the identification of resolution groups by designated institutions in line with international standards and principles, to enable the orderly resolution of designated institutions by the South African Reserve Bank, as resolution authority (Reserve Bank).
- 1.3 In terms of section 29A of the Act, an institution can fall within the scope of the resolution framework either in its own right as provided for under sections 29A(1)(a) to (d) of the Act or through being part of a financial conglomerate as determined by the Prudential Authority (PA) in terms of section 160 of the Act.
- 1.4 The essence of section 29A(1)(e) of the Act is that all entities in a financial conglomerate are designated institutions and therefore subject to the resolution framework unless they are explicitly excluded by the Governor.
- 1.5 Section 29A(2) of the Act provides that the Governor may, by written notice to a person or body that is a designated institution by virtue of being part of a financial conglomerate, determine that such a person or body is not a designated institution.
- 1.6 In this regard, the provision under section 29A(2) of the Act enables the Reserve Bank to avoid the inclusion of a multitude of group entities in a resolution plan, in circumstances where some of those group entities are determined to not be relevant for the orderly resolution of a designated institution.
- 1.7 To this end, a resolution group as contemplated in the Draft Standard will be made up of designated institutions together with all entities identified as resolution entities and/ or resolution support entities.

2. Statement explaining the need for the standard

- 2.1 Among the general resolution powers set out in the Key Attributes of Effective

Resolution Regimes for Financial Institutions (Key Attributes) is the power to ensure the continuity of essential services and functions.

- 2.2 In this regard, to ensure the continuity of essential services and functions other group entities would be required to continue to provide essential services to a designated institution in resolution, or a successor, or an acquiring entity.
- 2.3 An understanding of which entities within the designated institution's group that perform critical functions, critical shared services, core business lines and core shared services is essential to the exercise of the general power referred to in paragraph 2.1 above.
- 2.4 The current regulatory requirements contained in the Regulations relating to Banks for the reporting of group structures are not adequate for the identification of resolution groups as it does not focus on entities that are important for the resolution of a designated institution. Put differently, these requirements invariably result in group structures that would not provide the Reserve Bank with sufficient background information to enable the identification of the critical functions, critical shared services, core business lines and/ or core shared services that a particular entity performs.
- 2.5 Section 166E of the Act puts an obligation on the Reserve Bank to develop resolution plans for designated institutions.
- 2.6 The development of a feasible resolution plan is dependent on among others, an understanding of a designated institution's group structure.
- 2.7 The identification of entities within the designated institution's group that will be relevant and necessary for the achievement of an orderly resolution of the designated institution is important.
- 2.8 The Draft Standard sets out requirements for designated institutions to identify which entities may form part of a resolution group.
- 2.9 The identification of entities that may form part of a resolution group will enable the identification and determination of entities within a financial conglomerate which the Governor may decide to exclude from the definition of designated institution without impeding the Reserve Bank's ability to conduct an orderly resolution of a designated institution.

3. Statement of the expected impact of the proposed Standard

- 3.1 It is expected that the Draft Standard may place an additional administrative burden on designated institutions. However, the Reserve Bank and the PA is not in a position to determine the full extent of the expected impact or any other unintended consequences. As a result, a set of questions will be used to solicit industry inputs on the expected impact of implementing the Draft Standard. The questions are included under **Section C** of the Comments template as part of the consultation process.
- 3.2 Interested stakeholders are encouraged to respond to the questions under **Section C** of the Comments template and to identify any potential risks or unintended consequences that might arise from the implementation of the Draft Standard and submit their responses and comments to the PA as part of the consultation process.

4. Statement explaining the intended operation of the standard

- 4.1 Once finalised, the Standard will apply to all institutions that fall within the ambit of a designated institution as provided for under subsections 29A(1)(a) to (d) of the Act.
- 4.2 The Standard sets out the criteria to be applied by designated institutions, in line with paragraph 4.1 above to identify entities that may form part of a resolution group.
- 4.3 Designated institutions will be expected to use the criteria in the Standard to identify entities that should form a resolution group, for resolution planning purposes.

5. Conclusion

An important element of resolution planning for the Reserve Bank and the designated institutions is to identify the entities that should be included in a resolution group. The requirements provided for in the Draft Standard will, if complied with, enable the Governor to determine, in the case of a financial conglomerate, entities which may be excluded from the definition of a designated institution without affecting the ability of the Reserve Bank to conduct an orderly

resolution of a designated institution. Additionally, in the case of a financial group, the identification of the entities that should be included in a resolution group will enable the Reserve Bank to identify those entities, within the financial group which the designated institution forms part, that are necessary for the continuity of the critical economic functions provided by the designated institution.