



DRAFT FOR CONSULTATION

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

Prudential Standard RAXX

Requirements for Funding and Liquidity in Resolution

Objectives and key requirements of this Standard

This Standard sets out the principles and requirements for funding and liquidity needs in resolution that must be complied with by all designated institutions in line with sound principles, practices and processes for the orderly resolution of a designated institution in resolution.

This Standard gives effect to the objective(s) and requirements of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017).

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1. Commencement

1.1 This Standard comes into effect on **Day-Month-Year**.

Version number	Commencement date
01	Day-Month-Year

2. Legislative authority

2.1 This Standard is made in terms of section 105(2)(c) read with section 30(1A) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017).

3. Definitions and interpretation

3.1 In this Standard, **'the Act'** means the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) and any word or expression to which a meaning has been assigned bears the meaning so assigned to it by the Act unless the context indicates otherwise.

3.2 For the purposes of this Standard –

'core business lines' means business lines and associated services that represent material sources of revenue or profit and are essential for the sustainability of the designated institution;

'core shared services' means activities performed by a designated institution or outsourced to a third party where failure would impair a designated institution's ability to continue its core business lines;

'critical shared services' means activities performed by or within the designated institution or outsourced to a third party, where failure would lead to the designated institution's inability to perform critical functions;

'material currencies' means the aggregate liabilities denominated in that currency amounting to 2% or more of a designated institution's total liabilities;

'material liquidity entity' means a legal entity within a group of companies that either:

- (a) provides material liquidity to one or more entities making up a resolution group and supports the resolution group's overall liquidity stability in resolution; or

- (b) depends on material targeted liquidity support from one or more entities making up a resolution group to ensure they remain liquid and operational in resolution; and/or
- (c) performs material liquidity management functions for one or more entities making up a resolution group;

‘Reserve Bank’ means the South African Reserve Bank in its capacity as the resolution authority in terms of section 166A of the Act;

‘resolution entity’ means a designated institution as provided for under section 29A(1)(a) to (d) of the Act and any other entity within a financial group or financial conglomerate that performs a critical function and/or a core business line;

‘resolution group’ means a group consisting of two or more resolution entities and resolution support entities; and

‘resolution support entity’ means a designated institution or an entity within a financial group or financial conglomerate, that provides critical shared services or core shared services to a resolution entity.

4. Application

- 4.1 This Standard applies to all designated institutions and must be read in conjunction with the Act and other relevant financial sector laws.

5. Roles and responsibilities

- 5.1 The governing body must ensure that the designated institution has adequate measures in place to continuously meet the requirements set out in this Standard.

6. Governance requirements

- 6.1 A designated institution must have clearly defined and documented policies, procedures, practices and internal systems in place to monitor and ensure ongoing compliance with the requirements set out in this Standard.
- 6.2 The development, approval, monitoring, reporting and review of the policies, procedures, practices and internal systems must be governed by a clearly defined governance framework.

6.3 The framework referred to in paragraph 6.2 should assign specific roles and responsibilities to operational staff, senior management and the governing body, ensuring accountability and effective oversight.

6.4 The policies, procedures, practices and internal systems must be subject to an annual review to ensure continued relevance, effectiveness and alignment with regulatory requirements.

6.5 The governance process may leverage off existing governance structures for the management of liquidity risk.

7. Estimation of funding and liquidity needs in resolution

7.1 A designated institution in resolution must primarily rely on its internal liquidity resources and market-based funding sources to meet its liquidity and funding needs in resolution. These sources should be mobilised in a timely and efficient manner, subject to prevailing market conditions.

7.2 A designated institution must be able to estimate its funding and liquidity needs in resolution. This estimation process may leverage existing risk management frameworks including, but not limited to, its:

- (a) liquidity risk management framework;
- (b) enterprise-wide risk management framework;
- (c) contingency funding plans;
- (d) stress testing frameworks, and/or
- (e) recovery plans.

7.3 A designated institution must have a documented methodology in place to estimate *ex ante* adequate funding and liquidity in resolution, considering various stress scenarios to ensure an orderly resolution. The methodology should, at a minimum, enable the designated institution to estimate:

- (a) the positioning and availability of liquidity, the accessibility of potential market-based funding sources, and the anticipated timeframes for accessing such liquidity and funding, which must be clearly identified and assessed;

- (b) the aggregate amount of liquidity required to stabilise and ensure the entities making up a resolution group can continue to operate in resolution with minimal disruption;
- (c) how intragroup liquidity needs would affect the movement of liquidity within the group;
- (d) the liquidity required to fulfil all the obligations related to payment, clearing and settlement activities, including any change in demand for and sources of liquidity needed to meet such obligations;
- (e) the potential liquidity impacts of any adverse actions by financial market infrastructures where the designated institution participates, whether directly or indirectly;
- (f) the effect of mitigation actions implemented by management on liquidity available in resolution, such as the implementation of recovery plan options;
- (g) the expected counterparty behaviour and relevant requirements including, but not limited to, increased margin requirements during resolution;
- (h) for each entity that forms part of a resolution group, intraday liquidity needs, operating expenses and working capital needs based on current and estimated future exposures, considering how these needs may change during resolution; and
- (i) the number of days a designated institution could remain viable and have sufficient liquidity in resolution.

7.4 In designing the methodology referred to in paragraph 7.3 above, a designated institution must, at a minimum, consider:

- (a) identifying material liquidity entities and material currencies, and evaluate their impact on liquidity in resolution;
- (b) identifying and mitigating any operational, legal and regulatory impediments to accessing and mobilising liquidity, including on a cross-border intragroup basis;

- (c) forecasting its liquidity needs in resolution for at least 90 calendar days from the point of entry into resolution, considering both the current and projected balance sheets under stress conditions;
- (d) preparing for reduced availability of high-quality liquid assets to secure funding in the market in the run up to, during and when it ceases to be in resolution;
- (e) ensuring it has the operational capacity, governance and systems to identify and rapidly mobilise eligible unencumbered assets as collateral and addressing any legal, regulatory or operational obstacles;
- (f) using behavioural assumptions and scenario analysis to support cash flow forecasts and identifying key drivers of liquidity needs in resolution;
- (g) engaging with relevant counterparties during business as usual to understand the likely implications of resolution on its funding and liquidity needs; and
- (h) developing a viable plan to maintain or restore its compliance with prudential requirements while in resolution and when it ceases to be in resolution.

8. Capabilities to measure, monitor and mobilise funding and liquidity sources in resolution

- 8.1 A designated institution must develop the capability and establish processes to measure, monitor and mobilise the funding and liquidity available to it in resolution.
- 8.2 A designated institution must ensure that its management information systems can provide the necessary level of detail required to enable it to measure, monitor and rapidly mobilise funding and liquidity in resolution.

9. Liquidity support

- 9.1 To the extent that a designated institution in resolution is unable to source adequate internal liquidity and funding from market-based sources to ensure the continuity of its critical functions, it must be capable of:

- (a) projecting its potential need to access temporary liquidity support in resolution from the South African Reserve Bank, subject to applicable criteria and relevant terms and conditions;
- (b) identifying eligible unencumbered assets that can be rapidly mobilised for use as collateral for accessing temporary liquidity support. This assessment should consider relevant collateral conditions, including applicable haircuts, legal and operational constraints, and the designated institution's capability to pre-package such collateral to ensure timely deployment in resolution;
- (c) conducting valuations for assets identified for use as collateral; and
- (d) developing and documenting a plan that outlines the operational procedures required to obtain such temporary liquidity support and demonstrates how the designated institution will repay the temporary liquidity and strengthen its future liquidity position to minimise, to the extent possible, the need for future temporary liquidity support.

10. Testing requirements

- 10.1 A designated institution must regularly test its funding and liquidity in resolution arrangements as well as capabilities to ensure such arrangements and capabilities are fit for purpose.
- 10.2 At a minimum, the testing referred to in paragraph 10.1 must assess the:
 - (a) underlying methodologies;
 - (b) decision-making processes; and
 - (c) supporting documentation.
- 10.3 Testing must be conducted under a range of stress scenarios and updated to reflect changes in the designated institution's risk profile, market conditions and regulatory expectations.
- 10.4 Designated institutions must at least annually test their ability to estimate, measure, and monitor adequate funding and liquidity in resolution and assess their ability to mobilise such funding and liquidity in resolution, as set out in this Standard.

10.5 The testing may vary, including, but not limited to, internal tests, dry runs, desktop reviews, fire drills and/or simulations.

11. Assurance

11.1 A designated institution must conduct its testing in a manner that facilitates independent assurance, which may include internal audit reviews or assurance by suitably qualified third-party service providers.

11.2 A designated institution must document the outcomes of its testing and assurance processes, including lessons learnt, and report these outcomes to the Reserve Bank in writing upon completion thereof, or as may be specified in writing by the Reserve Bank.

12. Reporting requirements

12.1 The form, manner, and period for reporting in terms of this Standard may be determined by notice on the website of the Prudential Authority as directed by the Reserve Bank.

13. Short title

13.1 This Standard shall be called 'Prudential Standard RAXX – Requirements for Funding and Liquidity in Resolution'.