Chapter 2

Current issues in banking supervision

As has become customary, some of the most important supervisory and regulatory trends and developments, locally and internationally, during the year under review are addressed in this chapter. The Bank Supervision Department's interaction with the Basel Committee on Banking Supervision, as well as participation in the Committee's activities, remained important. In this regard, developments with the new Basel Capital Accord again represented an important focus area for the Department. Other issues discussed include the impact of changes to accounting standards, banks' implementation of anti-money-laundering measures, the important issue of providing broader access to finance and the Department's participation in regional bank-supervisory activities.

new Basel Capital Accord represented an important focus area

Interaction with the Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision, established by the central-bank governors of the Group-of-ten (G10) countries at the end of 1974, meets four times a year. The Basel Committee does not have any formal supranational supervisory authority, and its conclusions do not, and were never intended to, have legal force. Instead, the Committee formulates broad supervisory standards and guidelines and recommends statements of best practice, in the expectation that individual authorities will take steps to implement them through detailed statutory or other arrangements suited to their own national systems. In this way, the Committee encourages convergence towards common approaches and common standards, without attempting detailed harmonisation of member countries' supervisory techniques.

Committee formulates broad supervisory standards and guidelines and recommends statements of best practice

The Basel Committee's secretariat is provided by the Bank for International Settlements (BIS), in Basel, Switzerland. The Secretariat is responsible for facilitating the operations and activities of the approximately 30 technical working groups and task forces of the Basel Committee. These technical working groups and task forces, which meet regularly, consist mainly of financial supervisors from the G10 countries. In this regard, the Core Principles Liaison Group (CPLG) and the CPLG's Working Group on Capital (CPWG) are exceptions. The CPLG consists of supervisors from both within and outside the G10 countries, as well as representatives of the World Bank and the International Monetary Fund (IMF). The CPWG, which consists solely of selected non-G10 members of the CPLG, meets regularly with the Accord Implementation Group (AIG), also a working group of the Basel Committee. The Bank Supervision Department is represented on both the CPLG and the CPWG.

technical working groups and task forces

Activities during 2002/2003

A meeting of the CPLG held in Basel, on 20 November 2002, was structured into two parts. Firstly, the previous CPWG/AIG meeting was discussed. Secondly, there was a forward-looking discussion on possible work by the CPLG in preparation for a revision of the Basel Core Principles for Effective Banking Supervision. This discussion was based on workshops held at the last International Conference of Banking Supervisors, in South Africa, during September 2002. It was agreed to develop the CPLG's thinking on supervisors' autonomy and, to a lesser extent, on microfinance lending.

At a joint meeting of the CPWG and the AIG, held in Basel, on 19 February 2003, there was a preliminary exchange of views on important topics of concern to both groups. These topics included the scope of implementation of the new Capital Accord (generally known as Basel II), issues relating to pillar 2 (supervisory review process) of Basel II and cross-border supervision. Issues relating to data and validation of internal systems in respect of Basel II were also discussed. At this meeting, it was decided that the CPWG and the AIG should meet twice a year.

The CPWG and the AIG held their next meeting in Basel, on 28 April 2003. In his introductory remarks, the Chairman of the AIG presented the AIG's thinking on the adoption of Basel II in AIG jurisdictions (G10 countries). Supervisors from Canada, China, the Czech Republic, Saudi Arabia, South Africa and the United States of America made presentations on Basel II-related topics. The Bank Supervision Department's presentation dealt with cross-border implementation issues. Also discussed were the four principles established for pillar 2 of Basel II, namely:

four principles established for pillar 2 of Basel II

- Banks should have not only a process for assessing their overall capital adequacy in relation to their risk profile, but a strategy for maintaining their capital levels.

- Supervisors should review and evaluate banks' internal capital-adequacy assessments and strategies, as well as the ability of banks to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate action if they are not satisfied with the result of this process.

- Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.

- Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

At a meeting held in Basel, on 29 April 2003, the CPLG was updated on progress towards the finalisation of Basel II, the latest discussions relating to International Accounting Standards 32 and 39 and a draft IMF paper on managing systemic banking crises. The Secretariat of the Basel Committee presented the results of the third quantitative impact study undertaken in non-G10 countries, discussed later in this chapter. The CPLG also decided to move forward its ongoing efforts on supervisors' autonomy, legal protection and accountability.

On 27 and 28 August 2003, the CPLG held a meeting in St Petersburg, Russia. The Chairman of the CPLG, who is also the Secretary General of the Basel Committee, presented the current thinking of the Basel Committee's future work and its discussions on capital. The CPLG members were requested to provide input into the Basel Committee's future work. A topic also discussed was how interaction between the Basel Committee members and other supervisors could be improved. Further, the CPLG continued its discussion on issues relating to supervisors' autonomy, accountability and legal protection, in preparation for a revision of the Basel Core Principles. An update was also provided on the joint IMF/World Bank Global Bank Insolvency Initiative, discussed at the end of this chapter.

Based on discussions held at AIG meetings, the Secretariat of the Basel Committee prepared a note on pillar 2 of Basel II. This note was discussed at the joint CPWG/AIG

meeting held in Basel, on 1 December 2003. Discussions centred on the four established principles of pillar 2 listed above. Cross-border issues and national discretion were also discussed.

Interaction with the Financial Stability Institute

The Basel Committee and the BIS jointly created the Financial Stability Institute (FSI) in 1999 to assist supervisors around the world with improving and strengthening their financial systems. Since the establishment of the FSI, the Bank Supervision Department has been an active participant in all FSI initiatives in which it has been requested to participate.

objectives of the FSI

The objectives of the FSI are to:

- Promote sound supervisory standards and practices globally, and support full implementation of these standards in all countries.

- Provide supervisors with the latest information on market products, practices and techniques to help them to adapt to rapid innovations in the financial sector.

- Help supervisors to develop solutions to their multiple challenges by sharing experiences in focused seminars and regional workshops.

- Assist supervisors with employing the practices and tools that will allow them to meet everyday demands and tackle more ambitious goals.

variety of activities

The FSI meets its objectives through a variety of activities, aimed at providing supervisors with the information and support that they need to fulfil their tasks. These activities include the following:

- *Focused seminars:* These seminars, typically held in Basel, provide a venue for senior supervisors to learn about, and exchange views on, important concepts relating to financial-sector supervision and regulation.

- *Regional workshops:* The FSI works closely with 13 regional supervisory groups to offer workshops in locations around the world, as also indicated towards the end of this chapter. These workshops allow a more detailed discussion of the issues unique to a particular region. The FSI determines the topics for each workshop in close consultation with the head of the particular regional group.

- *Special seminars:* Each year, the FSI offers several special seminars to select audiences. The participants are given an opportunity to discuss important topics, assess trends and help to craft strategies to assist the supervisory world. Several of these seminars are listed in the annual programme, and others are added during the course of the year when issues of special concern are identified.

- *FSI Information Programme:* The FSI provides supervisors with relevant information on the latest supervisory developments and on key supervisory issues from both official and market sources. This information is disseminated through the FSI's quarterly newsletter, FSI World, as well as the publication of occasional papers and mass mailings of other material.

The Bank Supervision Department was fortunate in that at least 12 members of its middle and junior management were invited to attend various training interventions of the FSI.

Further developments with the new Capital Accord

The Bank Supervision Department has embraced the principles of the new Capital Accord (Basel II). These principles are intended to align capital-adequacy requirements more closely with the key elements of banking risks and to provide for banks to enhance their risk-measurement and risk-management capabilities. Implementation of Basel II will be one of the Department's high-priority strategic focus areas for the forthcoming number of years.

high-priority strategic focus area

The 2002 annual report focused on some of the important technical aspects on which the Basel Committee on Banking Supervision reached agreement in July 2002. One such issue was the one-year delay in the implementation date of the stndarised and foundation approach, which has now been set at 31 December 2006. Banks wishing to adopt the more advanced approaches will be able to do so only into the end of 2007. The year under review was eventful in that many countries announced their position on the scope of application in their country, following the release of the Basel Committee's third consultative paper, known as CP 3. The Bank Supervision Department also made clear its position on the implementation of Basel II in South Africa, as discussed in more detail below.

International developments

Subsequent to completion of the most comprehensive field test of Basel II, in the form of the third quantitative impact study (QIS 3), in October 2002, the Basel Committee made appropriate modifications to the Basel II proposals and released CP 3 in April 2003. The Basel Committee received more than 200 comments on CP 3 from banks, bank supervisors, various trade associations and academics.

comments on CP 3

The responses indicated that there was broad support for the structure of Basel II, as well as agreement on the need to adopt a more risk-sensitive capital framework. The comments, however, also revealed various important technical issues requiring attention, and the Basel Committee committed to resolve these by no later than mid-2004. The final text of the Accord will thus be available only in the second half of 2004.

Cross-border implementation

One of the issues raised by the industry and addressed by the Basel Committee was that of cross-border implementation of Basel II. In August 2003, the Basel Committee released a publication titled "High-level principles for the cross-border implementation of the new Accord". In its press release, the Basel Committee stated that it recognised that Basel II would require more cooperation and coordination between home-country and host-country supervisors, especially for complex banking groups.

more cooperation and coordination

Closer cooperation between supervisors can assist the implementation efforts of both supervisors and banking groups. There are a variety of supervisory responsibilities under Basel II, including initial approval and validation of the advanced approaches (such as the internal ratings-based (IRB) approach to credit risk) under pillar I, the supervisory review process under pillar II and ongoing assessments to verify that banking groups are applying Basel II properly and that the conditions for advanced approaches are still being met. The degree and nature of cooperation between supervisors may differ across these different supervisory responsibilities.

variety of supervisory responsibilities

The Basel Committee believes that closer practical cooperation between supervisors is

six principles for cross-border implementation

essential for the effective and efficient implementation of Basel II. In this regard, the Basel Committee developed the following six principles for the cross-border implementation of Basel II:

- *Principle 1:* The new Accord will not change the legal responsibility of national supervisors for the regulation of their domestic institutions or the arrangement for consolidated supervision already put in place by the Basel Committee.

- *Principle 2:* The home-country supervisor is responsible for the oversight of the implementation of the new Accord for a banking group on a consolidated basis.

- *Principle 3:* Host-country supervisors, particularly in jurisdictions where banks operate in subsidiary form, have requirements that have to be understood and recognised.

- *Principle 4:* Enhanced and pragmatic cooperation among supervisors with legitimate interests will be required. The home-country supervisor should lead this coordination effort.

- *Principle 5:* Whenever possible, supervisors should avoid performing redundant and uncoordinated approval and validation work, in order to reduce the implementation burden on banks and to conserve supervisory resources.

- *Principle 6:* In implementing the new Accord, supervisors should communicate, as clearly as possible, the respective roles of home-country and host-country supervisors to banking groups with significant cross-border operations in multiple jurisdictions. The home-country supervisor would lead this coordination effort in cooperation with the host-country supervisors.

The Bank Supervision Department endorses the above principles and will apply them in the cross-border implementation of Basel II.

Modifications to Basel II proposals

opportunities to improve

In its press release of 11 October 2003, the Basel Committee listed the following principal areas in which it had identified opportunities to improve the capital framework:

- Changing the overall treatment of expected versus unexpected credit losses.
- Simplifying the treatment of asset securitisation.
- Reviewing the treatment of credit-card commitments and related issues.
- Reviewing the treatment of certain credit-risk mitigation techniques.

During the last quarter of 2003, the Basel Committee, through its various working groups, worked on resolving some of the issues raised by interested stakeholders. In January 2004, the Basel Committee published three detailed technical documents, containing proposals on concrete modifications necessary to implement the proposals made in the above-mentioned press release.

risk-weighting construct for unexpected losses only

The first document, titled "Modification to the capital treatment for expected and unexpected credit losses in the new Basel Accord", deals with the Basel Committee's announcement of its intention to move to a risk-weighting construct for unexpected losses only. The IRB approach produces a statistical measurement of both the unexpected and the expected losses that banks face in relation to their credit-risk exposures. The CP 3 framework incorporated both expected and unexpected loss

components into the IRB capital requirement. After consultation, the Basel Committee now believes that separation of the treatment of unexpected and expected losses within the IRB approach will result in a superior and more consistent framework. Under this modified approach, the measurement of risk-weighted assets would be based solely on the unexpected loss portion of the IRB calculations.

The Basel Committee, however, believes that it is critical to put in place a separate treatment of expected loss, in order to ensure strong incentives for banks to make proper provisions against expected losses. Under the separate treatment, banks will compare the IRB measurement of expected losses with the total amount of provisions that they have made, including general and specific provisions. For any individual bank, this comparison will produce either a shortfall if the expected loss amount exceeds the total amount of provisions, or an excess if the total amount of provisions exceeds the expected loss amount. The Basel Committee proposes that the shortfall amounts be deducted from capital. Excess amounts of provisions will be eligible for inclusion in tier 2 capital, subject to a cap.

separate treatment of expected loss

In the second document, “Changes to the securitisation framework”, the Basel Committee specifies changes that address industry concerns relating to the complexity of the securitisation proposal and the operational burden of its implementation. The Basel Committee is simplifying the securitisation framework and promoting greater consistency among the available approaches in the following manner:

simplifying the securitisation framework and promoting greater consistency among the available approaches

- First, the Basel Committee is planning to adopt a treatment for certain low-risk unrated positions that more closely reflect leading banks’ current risk-management practices, by introducing an internal assessment approach for banks’ exposure to asset-backed commercial paper conduits, based on methodologies that banks in some jurisdictions currently use for internal purposes.

- Secondly, the Basel Committee will make available simpler alternatives to the supervisory formula presented in CP 3 for the treatment of unrated positions, which some respondents considered to be unnecessarily complex and computationally burdensome.

- Thirdly, the Basel Committee is considering ways to add flexibility to the top-down approach (quantifying the risk of a pool of exposures rather than the risk of individual exposures) to calculating capital charges on purchased receivables, in order to facilitate calculation of the capital charge that would have been applied to the underlying exposures had they not been securitised.

- Fourthly, all externally rated positions will be treated under the ratings-based approach, regardless of whether the bank is an originator or an investor and whether the position falls above or below the above-mentioned capital-charge threshold.

- Finally, the lowest set of risk weights under the tables of the ratings-based approach in CP 3 will be applied to senior positions, that is, high-quality exposures, rather than so-called thick positions, that is, the ratio of the nominal size of the tranche of interest to the notional amount of exposures in the pool of assets. Some changes to the risk weights are also proposed.

In the third document, relating to the advanced measurement approach (AMA) and titled “Principles for the home-host recognition of AMA operational risk capital”, the Basel Committee is pursuing an approach to operational-risk capital allocation that addresses

approach to operational-risk capital allocation

the concerns about practical impediments to the cross-border implementation of the AMA to operational risk that a number of organisations have expressed in their comments on CP 3. The Basel Committee is pursuing a hybrid approach for AMA banks. In terms of this hybrid approach, a banking group would be permitted, subject to supervisory approval, to use a combination of stand-alone AMA calculations for significant internationally active banking subsidiaries and an allocated portion of the group-wide AMA capital requirement for its other internationally active banking subsidiaries.

hybrid approach

Under the hybrid approach, a significant internationally active banking subsidiary wishing to implement AMA and able to meet the qualifying criteria would have to calculate its AMA capital requirements on a stand-alone basis. In calculating stand-alone AMA capital requirements, a significant internationally active banking subsidiary may incorporate a well-reasoned estimate of diversification benefits of its own operations, but may not consider group-wide diversification benefits. When such a subsidiary is part of a group that wishes to implement an AMA on a group-wide basis, the subsidiary would be permitted to utilise the resources of its parent or other appropriate entities within the group. Such a subsidiary could rely on, for example, data and parameters calculated at the group level, provided that the necessary adjustments have been made to those variables to make them consistent with the subsidiary's operations. Other internationally active subsidiaries determined not to be significant in the context of the overall group would be permitted, subject to supervisory approval, to use an amount that has been allocated to them from the group-wide AMA calculation as their pillar I charge for operational risk.

Third quantitative impact study (QIS 3)

most comprehensive field study

The Basel Committee undertook a most comprehensive field study of Basel II, in the form of QIS 3, from about June 2002. QIS 3 included 365 banks from 43 countries. There were 188 banks from 13 Group-of-ten (G10) countries and 177 banks from 30 other countries. Of the 177 banks from other countries, 111 banks were from 18 non-European Union (EU) and non-G10 countries. Eight South African banks participated in this comprehensive impact study. These eight banks represented approximately 80 per cent of the total South African banking sector (as measured by the size of assets).

steps

The QIS 3 process undertaken by the Bank Supervision Department involved intensive work with the participating banks, including the following steps:

- Banks were given comprehensive guidelines to complete the QIS 3 questionnaire, which was in the form of a very detailed spreadsheet, with embedded formulae.

- Banks were guided through the spreadsheets during a workshop and were given an opportunity to pose questions whenever they required assistance.

- Several months of intensive data collection followed, during which the banks deployed teams to retrieve information, in most cases manually. The spreadsheets were then populated with the data to calculate capital requirements automatically.

- The completed spreadsheets were submitted to the Bank Supervision Department, which analysed the spreadsheets in detail.

- The Department then populated a template, which had been designed to consolidate summarised individual bank data and to perform analysis of the data.

- The data were validated through extensive discussions with each individual bank. Each validation session lasted a full day.

- The final validated data were then consolidated and analysed, and a report on the findings was submitted to the Basel Committee, for analysis.

- Finally, the banks were invited to a presentation at which the findings were discussed.

Regardless of the approach that was adopted, there was an overall increase in risk-weighted assets for South African banks. The average increase in risk-weighted-assets may be broken down as follows for the different approaches:

overall increase in risk-weighted assets for South African banks

- For group 1 banks (assets over euro 3 billion), the increases were 8 per cent for the standardised approach, 15 per cent for the foundation IRB approach and 27 per cent for the advanced IRB approach.

- For group 2 banks (assets less than euro 3 billion), the increases were 6 per cent for the standardised approach, 2 per cent for the foundation IRB approach and 4 per cent for the advanced IRB approach.

These findings were consistent with the experience of non-EU, non-G10 countries, where the capital requirements for all approaches increased by between 9 per cent and 19 per cent on average. In the opinion of the Bank Supervision Department, the increase can be attributed to the following factors, amongst others:

- QIS 3 was done on a best-effort basis, since banks were not expected to be Basel II compliant.

increase can be attributed to the following factors

- The higher capital requirement is reflective of South Africa's emerging market status, as argued by certain critics. The risk-quantification methodology may have factored a higher risk weighting for emerging markets.

- There was a general lack of credit-risk mitigation data. The implications, therefore, are that exposures did not receive a preferential risk weighting if credit-risk mitigation mechanisms were in force for some of the risks inherent in the exposures. A higher risk weighting will therefore result in an additional capital requirement for such exposures.

- Generally, banks were very conservative in their estimates.

- There were significant increases in the risk-weighted asset requirement for the sovereign, bank and equity portfolios, since the current regulatory treatment thereof is not sensitive to risk.

- The operational-risk charge, which is additional to the current regulatory requirements, made the highest contribution to the overall increase in risk-weighted assets.

Although QIS 3 was an excellent starting point, conclusive reliance cannot be placed on the results, since it was done on a best-effort basis. The Bank Supervision Department, therefore, plans to undertake a further QIS during the latter half of 2004, or early in 2005. All banks will be given an opportunity to participate in the proposed QIS and will reap the same benefits as the initial eight banks that participated in QIS 3.

done on a best-effort basis

Scope of application for South African banks

timelines

In Banks Act Circular 14/2003 of 6 November 2003, the Bank Supervision Department stated that, it fully supported Basel II. The Department believes that Basel II is suitable for application in both G10 and non-G10 countries, since it provides a menu of approaches suitable for both sophisticated and the least sophisticated banks. Therefore, Basel II will be implemented within the South African banking sector in accordance with the Basel Committee timelines of 31 December 2006 for implementation of the stndardised and foundation approach and 1 January 2006 for the parallel run, whereby banks will be required to perform parallel calculations in terms of both Basel II and the current capital-adequacy framework. Banks wanting to adopt the more advanced approaches will be able to do so, on a casy-by-case basis, only once minimum requirements have been met, after the end of 2007, as proposed by the Basel Committee.

base requirement

On the common implementation date of 31 December 2006, all South African registered banks will have to be Basel II compliant. The base requirement will be compliance with, at least, the simplified standardised approach to credit risk, the basic indicator approach to operational risk and the requirements of pillars II and III. The current capital-adequacy framework (based on the 1988 Basel Accord) will no longer be available as from the implementation date. An explicit approval process will not be required for the base requirements, but banks will be required to consult with the Bank Supervision Department prior to adopting such approaches. Explicit approval, in the prescribed format, will be required for all other approaches.

developing a supervisory framework

The Bank Supervision Department will direct resources to developing a supervisory framework involving all approaches up to and including the foundation IRB approach to corporate credit exposures, the advanced IRB approach to retail credit exposures and the standardised (and alternate standardised) approaches to operational risk. The advanced IRB approach to corporate credit exposures and the AMA to operational risk, however, will be available to banks only on a case-by-case basis. Although foreign banks will be allowed to adopt the advanced approaches, reliance will be placed on the home supervisor, with whom the Department will work closely.

Principles on which the Bank Supervision Department based its scope of application

scope of application principles

The Bank Supervision Department based its decision on the scope of Basel II application on the following principles:

- The Department will continue to follow a consultative approach, involving stakeholders at every step of the implementation process. The Accord Implementation Forum, discussed in the previous annual report, is an ideal platform to engage with the relevant stakeholders and to negotiate the successful resolution of implementation issues. The Department will also produce a series of consultative papers and guidelines to assist banks in their implementation process.

- The Department will closely follow international developments with the implementation of Basel II and will work closely with the Basel Committee and its working groups, as well as with supervisors in both developed and developing countries, internationally active foreign banks and local banks. Global implementation efforts and the work done by local banks will guide the Department's implementation efforts.

- The Department requested all banks in South Africa to give an indication of the Basel II approach that they were likely to adopt on the implementation date. Most banks indicated their intention to adopt the intermediate approaches, such as the foundation IRB approach to credit risk and the standardised approach to operational risk. Accordingly, the Department will plan its implementation initiatives to cater for the approaches that banks are most likely to adopt.

- The Department will adopt a flexible and phased approach to implementation. Early work will focus on the simpler approaches, followed by the intermediate approaches. Preparation for the advanced approaches may well extend beyond the common implementation date as banks make progress towards the more sophisticated approaches.

- The Department wants to encourage innovation in the risk-management efforts of banks. Accordingly, the Department will work closely with banks that believe that, on the implementation date, they will qualify to use the more advanced approaches in their day-to-day risk-management activities and in the calculation of their regulatory capital requirement. Sophisticated risk-management practices may give such banks a competitive advantage in the market.

Scope of application in other jurisdictions

As indicated earlier in this chapter, a number of countries announced the scope of their application of Basel II after the release of CP 3 in April 2003.

United States of America

In the United States of America, regulators stated that they would apply Basel II to ten core US banks and that a further ten or more banks would voluntarily adopt Basel II, for competitive reasons, at the end of 2006. All US banks operating under Basel II will be required to adopt the most advanced approaches to capital-adequacy calculations. All other US banks will remain on the 1988 Basel Capital Accord.

United Kingdom

The United Kingdom, on the other hand, stated its intention to adopt Basel II more holistically and proposed an approach of no compulsion and no prohibition to the implementation of Basel II within its jurisdiction. In terms of this approach, the Financial Services Authority (FSA) will leave it to firms to decide, taking into account costs and benefits, whether to apply to adopt the advanced approaches. The FSA will therefore make the multiplicity of Basel II approaches to risk quantification and capital calculation available to banks. The FSA believes that the IRB approach to credit risk and the AMA to operational risk apply more widely than simply to the largest, most complex firms. The FSA observed that it may be easier for less complex firms, with fewer portfolios or business lines, to adopt an IRB approach or AMA.

Australia

The Australian Prudential Regulation Authority (APRA) stated that it was confident that the country's financial institutions were well placed for the implementation of Basel II. APRA expects the four largest banks to implement the advanced approach. Like the FSA, APRA will make the multiplicity of approaches available to banks.

Hong Kong and Singapore

As in South Africa, the authorities in Hong Kong and Singapore will adopt a more gradual approach to implementation. They will make the intermediate approaches, such as the foundation IRB approach to credit risk and the standardised approach to operational risk, available to banks upon implementation of Basel II in December 2006. Banks will be allowed to move to the more complex approaches at a later stage, potentially in about 2010.

India

India proclaimed its commitment to implementing the best international practice, but cautioned that some of the issues relevant in the context of emerging markets and developing countries may not yet have been addressed fully by the Basel Committee. The Reserve Bank of India (RBI) believed that the level of preparedness of the banking system and supervisors would vary from country to country. Consequently, the RBI was of the view that it would be desirable to assign greater flexibility to national supervisors to calibrate risk weights on different types of exposure under the standardised approach to credit risk.

The RBI reiterated that the focus of Basel II should be on internationally active banks. Since the main objectives of Basel II are to ensure competitive equality and to provide a reasonable degree of consistency in application, it is necessary for all supervisors, worldwide, to have a common definition of internationally active banks. Therefore, the RBI wants the Basel Committee to define internationally active banks. The RBI is of the view that all banks with cross-border business exceeding 20 per cent or 25 per cent of their total business may be defined as internationally active banks.

China

Finally, the China Banking Regulatory Commission (CBRC) affirmed its strong support for the objectives of Basel II and stated that it believed Basel II to be more about risk management than capital regulations. The CBRC cautioned, however, that Basel II might need to be revised and recalibrated before its underlying principles and its essential provisions could be implemented consistently by more countries outside the G10 fold. The CBRC was of the view that Basel II would be only marginally more risk sensitive than the 1988 Basel Capital Accord, but would increase the overall capital requirement for the entire banking system. Therefore, China would remain on the current regulatory framework, at least for a number of years after the G10-implementation date of 2006. In an effort to improve capital regulations, however, the CBRC has apparently revised the existing capital rules to incorporate pillar II and III principles.

Conclusion

The Basel Committee has made much progress with the design of a sophisticated risk-sensitive capital-adequacy framework. The intention is to improve the level of risk management in banks and, thereby, to improve the safety and soundness of global financial markets. The Basel Committee's efforts over the past five years are bearing fruit. As indicated above, the final Accord will be released during the middle of 2004. Despite a delay in the release of Basel II, banks and supervisors around the world are making significant progress with their implementation initiatives. Supervisors are encouraged by the fact that banks have gained an understanding of the business benefits of adopting Basel II principles. The journey towards Basel II implementation promises to be challenging, yet exciting, and holds the potential of an overall improvement in the stability of financial markets worldwide.

significant progress

Impact of changes to accounting standards

The previous annual report contained a relatively comprehensive exposition of the implications of Accounting Standard AC 133 for banks. The objective of AC 133, which came into effect for companies' year-ends commencing on or after 1 July 2002, is to establish principles for the recognition, measurement and disclosure of information relating to financial instruments in the financial statements of business enterprises, including banks. As envisaged, the impact of AC 133 became evident only in 2003, once companies reported their interim and annual financial statements in terms of AC 133.

impact of AC 133 became evident only in 2003

In terms of AC 133, a bank, for example, has to:

- Recognise a financial asset or financial liability in its balance sheet when the bank becomes a party to the contractual provisions of the instrument. This means that a bank has to recognise all its contractual rights or obligations under derivative instruments as assets or liabilities in its balance sheet.

- Classify financial instruments into predetermined categories, such as instruments held for trading, instruments available for sale, instruments held to maturity, etc.

The selected classification category has a direct impact on the original and subsequent measurement of the financial instruments. For example, instruments held in certain categories may be measured and disclosed at their fair value or market value, whereas instruments held in other categories may be measured and disclosed at the amortised cost.

Furthermore, AC 133 contains comprehensive directives on matters such as the following:

comprehensive directives

- Recognition and measurement of derivative instruments.
- Criteria relating to the derecognition of financial assets or liabilities.
- Impairment of financial assets.
- Hedging.
- Trade-date versus settlement-date accounting in respect of certain financial instruments.

The above-mentioned matters have a material impact on the manner in which banks and banking groups measure and report their transactions in financial instruments to their respective boards of directors and management, as well as the general public.

Because the risk returns that banks and banking groups submit to the Bank Supervision Department are based on the information that is submitted to the boards of directors and management of the institutions, as well as on the information disclosed to the general public, amendments to some risk returns have become necessary. For this purpose, a forum, consisting of representatives of banks, the auditing profession and the Department, was established. The forum meets on a regular basis in order to finalise the required amendments to the regulatory framework.

amendments to some risk returns have become necessary

Review of legislation on accounting profession

In the aftermath of the Enron and Worldcom international debacles and local corporate failures, such as those of Macmed, Leisurenet and the former Regal Treasury Private Bank Limited, amongst others, the Minister of Finance set up a panel to formulate proposals to assist in restoring public confidence in the integrity of financial markets. The Ministerial Panel for the Review of the Draft Accountancy Profession Bill, chaired by Dr Len Konar, was appointed on 5 December 2002.

The Panel's terms of reference covered matters affecting auditor independence, including consideration of issues such as auditor rotation, determination and approval of audit fees, performance of non-audit work by companies' external auditors and the relationship between auditors and the boards of client companies. Furthermore, the Panel had to consider mechanisms that would be appropriate to determine the liabilities and discipline of, firstly, auditors for incorrect audit opinions and, secondly, the

Panel's terms of reference

management of client entities for failure to disclose correct and relevant information about the entities' financial health to auditors. Finally, the Panel had to consider, among other issues, whether accounting standards were appropriate and relevant, as well as advise the Minister on the feasibility and appropriateness of regulating internal audit and audit committees.

Panel's key recommendations

The Panel presented its report to the Minister of Finance on 17 October 2003. Among the Panel's key recommendations were the following:

- The Accountancy Profession Bill should be renamed the Auditors' Act, since it should deal solely with the auditing profession.

- The board of the regulatory body for auditors, especially its disciplinary arm, should be reconstituted, by removing control thereof from auditors to increase the board's independence.

- Audit committees should comprise solely independent non-executive directors, who would have the exclusive power to deal with matters such as the appointment of auditors and the setting of auditors' fees. The Panel suggested that such committees would also have to consider, within the context of their responsibility of continuously assessing and ensuring the independence of the external auditors, the matter of rotation of audit partners and senior staff, whose maximum term should be five years. The Panel further proposed that the transparency of the disciplinary process in respect of auditors be increased to enhance its credibility and that statutory offences for reckless incorrect reporting, as well as mandatory deregistration of auditors found guilty of fraud, be introduced.

- Criminal sanction should be introduced for false and material non-disclosure to auditors of true and relevant information about an entity's financial position by management. Failure, by any of the parties involved in the process of financial-statement preparation, to present information to be included in financial statements fairly should also constitute a statutory offence.

- The establishment of an audit committee should be legally mandatory for listed and public-interest entities. The Panel, however, did not consider the regulation of internal audit to be appropriate.

The Panel's recommendations are being considered by the National Treasury for possible incorporation into future amendments to corporate law. Where applicable, the Panel's recommendations will be taken into consideration in the formulation of future amendments to the Banks Act, 1990, and the Regulations relating to Banks.

Implementation of anti-money-laundering measures by banks

The events of 11 September 2001 accelerated efforts by many countries, including South Africa, to prevent the use of their financial systems for the transmission of illegally obtained funds. The Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001 – the FIC Act), was promulgated on 1 January 2002, and Regulations thereto were gazetted in December 2002 in order to facilitate implementation of the FIC Act. South Africa's admission, in June 2003, to the Financial Action Task Force, established by the Group-of-seven summit in June 1989 to examine measures to combat money laundering, also places an obligation on the South African banking sector.

The FIC Act facilitated the drafting of appropriate anti-money-laundering (AML) measures by regulatory bodies and provided a central point to which institutions would have to report suspicious and/or unusual transactions. The FIC Act provides for the establishment of the Money Laundering Advisory Council (MLAC), the role of which is to advise the Minister of Finance on regulations in terms of the FIC Act.

Supervisory process

In terms of the FIC Regulations, banks are obliged to report any transaction considered to be unusual or suspicious to the FIC. Such reporting became mandatory as from February 2003. An important aspect of the FIC Regulations is the duty to:

reporting became mandatory

- Implement internal controls, policies and procedures.
- Establish identification procedures.
- Keep records for a period of at least five years.
- Recognise suspicious and/or unusual transactions.
- Educate and train relevant employees.
- Appoint an AML compliance officer.

In terms of principle 15 of the Basel Core Principles for Effective Banking Supervision, banking supervisors have to determine that banks operating in their jurisdictions have in place policies, procedures and practices that promote high ethical and professional standards. Furthermore, supervisors have to ensure that such standards prevent banks from being used, intentionally or unintentionally, to promote criminal activities.

In order to fulfil its obligations and to monitor compliance with the FIC Act and other AML provisions, the Bank Supervision Department required each bank to complete a questionnaire, to be signed by the chief executive officer of the particular bank, to enable the Department to do an initial assessment of the status of the AML measures implemented by banks in South Africa. The questionnaire was also intended to form a basis for the on-site reviews undertaken by the Department, from time to time.

initial assessment of the status of the AML measures implemented by banks

Guidelines provided

In order to ensure banks' compliance with the requirements of section 45 of the FIC Act and principle 15 of the Basel Core Principles, Banks Act Circular 13/2002 was issued in December 2002. The circular provided guidelines on the types of measure that banks had to implement in order to prevent them being used to launder the proceeds of crime.

In terms of the above-mentioned circular, each bank had to furnish the Department with a detailed plan, with time frames by which it intended to achieve full implementation of and compliance with the FIC Act and the FIC Regulations. If called for, appropriate supporting evidence had to be submitted.

In order to ensure that the Department and banks had a common understanding of the requirements, a meeting of all AML compliance officers was convened at the South African Reserve Bank's head office, in Pretoria, on 19 February 2003. Participants were informed of the structure and nature of the information that the Department would require in its assessment of banks' compliance with the legislation.

Reporting of suspicious transactions

Section 29 of the FIC Act places a reporting obligation on persons who conduct a business, or who are in charge of or manage a business, or who are employed by a business. If such a person has certain specified knowledge or a suspicion about a

reporting obligation

transaction or receipt of funds, the person has to report, within a prescribed time, the grounds for that knowledge or suspicion, together with prescribed particulars, to the FIC.

Banks have to make detailed reports of all unusual and/or suspicious transactions to the FIC. In addition, banks have to report the number of such reports to the Registrar of Banks. From February 2003 to December 2003, banks reported some 5 464 unusual/suspicious transactions, totalling R2 560 691 000, to the FIC. The figures reported to the Department also indicated that, during that period, 63 535 people in banks had received AML training.

In terms of section 52 of the FIC Act, failure to report a suspicious or unusual transaction to the FIC is an offence. A person found guilty of such an offence is liable to imprisonment for a period not exceeding 15 years, or to a fine not exceeding R10 million.

Illegal deposit-taking

regulate and control illegal deposit-taking

One of the auxiliary functions of the Bank Supervision Department is to regulate and control illegal deposit-taking. The taking of deposits without being registered as a bank, or falling within and complying with one of the exemptions from the Banks Act, 1990, amounts to an offence. The reason is that registered banks have to comply with certain minimum prudential requirements, whereas illegal deposit-takers obviously do not comply therewith and enter into direct competition with registered banks, to the detriment of the banking and financial system and, ultimately, the investors in illegal schemes.

inspections

During 2003, the Bank Supervision Department continued to inspect and close down persons and institutions acting in contravention of the provisions of the Banks Act. Twenty-two new inspections, together with 21 inspections carried over from the previous year, were undertaken. Some members of the Department were also assigned to act as expert witnesses in court proceedings during the year under review.

The Department has found that although some illegal schemes are masterminded by unscrupulous individuals prepared to defraud others of their funds, other schemes start as bona fide microlending businesses. Since money is lent to borrowers at an interest rate of between 25 per cent and 30 per cent, the owners of such microlending businesses tend to believe that an increase in their loan book will increase their income. Microlenders often obtain the capital for their operations from family and friends, who are paid interest of 10 per cent to 15 per cent per month. These interest rates, which are generally higher than those available elsewhere, tend to attract more investors, resulting in more money flowing into the business and more funds being lent out. The resulting increase in the loan book leads to increased risk of default by borrowers. When loans are not serviced, microlenders are no longer able to pay the interest owed to investors.

motivation of the public

The motivation of the public investing in such schemes also deserves mention. Many members of the public invest in illegal schemes because of greed or ignorance. Greedy investors usually wish to make money easily and quickly and do not care how this is achieved, provided they benefit. When they discover that their investment has been lost, they usually report the matter. There are also those that wish to hide their funds from, for example, the tax authorities. Such investors are unlikely to report the loss of their investment. Despite ongoing efforts by the Department and various media to warn the public of the dangers of investing in illegal schemes, they appear to be increasing in number and sophistication.

Particularly at risk are persons who have recently received their retirement benefits. This holds particularly true when such persons are illiterate or semi-illiterate. Employers should therefore inform prospective pensioners of the dangers of illegal schemes and warn them against losing their hard-earned funds to fraudsters. Schools and churches could also play a role in this regard. The Department believes that harsh sentences should be given to the operators of illegal schemes to deter prospective criminals from defrauding others of their funds.

Broader access to finance

In South Africa, there is a need to facilitate and extend access to banking and financial services on a wider basis than is currently possible. The Bank Supervision Department, therefore, is doing research on various models to create easier access to financial services for the under- and unbanked portion of the population.

Narrow and core banks

An initiative to establish narrow and core banks commenced in 2002. During the year under review, draft legislation was developed to facilitate the establishment of narrow and core banks, which fall into the category of second-tier banking. Once the proposed legislation has been approved and implemented, narrow and core banks could create greater access to basic banking services at a lower cost than first-tier bank institutions.

draft legislation was developed

Minor changes to the draft legislation, intended to provide for the regulation and supervision of the activities of certain public companies registered as dedicated banks, were proposed at a meeting of the Standing Committee for the Revision of the Banks Act, 1990, in October 2003. The draft legislation is expected to be made available for comment during 2004.

Community deposit-taking institutions

The concept of community deposit-taking institutions was discussed extensively in the previous annual report. Since community deposit-taking institutions are normally member based, they are managed and controlled by their members. Most of these member-based institutions are able to mobilise the savings of their members, an aspect regarded as important for sustainable economic development in the communities that such institutions serve.

During the year under review, the National Economic Development and Labour Council continued a process of establishing cooperative banks, as an outcome of member-based financial institutions. Draft legislation to establish cooperative banks is expected to be made available for comment during 2004.

draft legislation is expected

Problems in the financial-service cooperative market

In 2002, 33 financial-service cooperatives (FSCs) under the control of FinaSol, one of the previous self-regulatory bodies, were audited. During the year under review, the Bank Supervision Department contracted an auditing firm to do a more in-depth audit of these FSCs. The audit showed that most of the FSCs had been mismanaged and had financial difficulties. Since FSCs are registered as cooperatives and the Department has no legal means of salvaging FSCs in distress, the finalised audit reports were handed to the Registrar of Cooperatives, in order for the FSCs in distress to be dealt with in terms of the legislation on cooperatives.

in-depth audit of FSCs

a joint working committee was established

A joint working committee (JWC), comprising representatives of the National Treasury, the National Department of Agriculture and the Bank Supervision Department, was established during the year under review. The objective of the JWC is to discuss broader issues relating to the FSC market, in order to find a solution to the problems prevailing in that market. The JWC held several meetings and also attended a strategic workshop, organised by the National Department of Agriculture, with the Financial Cooperative of South Africa (FICOSA), in December 2003. FICOSA is aspiring to become a self-regulatory body for FSCs. As reported in the 2002 annual report, the previous self-regulatory bodies, FinaSol and the Financial Services Association (FSA), ceased operations in 2002. The objective of the workshop was to provide the members of FICOSA with a discussion forum, in order to prepare them for the process of registering as a self-regulatory body. The JWC attended the workshop to elucidate various legal, financial and commercial aspects relevant to the establishment of a self-regulatory body.

It should be noted that, in terms of one of the conditions of the notice exempting FSCs from the provisions of the Banks Act, 1990, an FSC has to be a member of a self-regulatory body that has been approved, in writing, by the Registrar of Banks.

Other developments in microfinance

good progress with formalising the micro-lending industry

One of the rules of the Micro Finance Regulatory Council (MFRC), which was established as a regulatory body in 1999, requires microlenders to be registered with the MFRC. Over the years, the MFRC has made good progress with formalising the microlending industry. This is illustrated by the fact that 1 430 entities, representing 7 280 branches, were registered with the MFRC at the end of 2003.

unregistered lenders

A major problem for the MFRC has been the large number of unregistered lenders and the problems associated therewith. In brief, registered lenders have to comply with the rules of the MFRC, whereas unregistered lenders fall outside the ambit of the MFRC's rules.

The situation, however, improved during the year under review, when the High Court handed down a decision against the Southern African Money Lending Affairs Council, A-Z International Finance Brokers (Pty) Limited and the Second-hand Dealers and Pawn Board, following an application brought by the MFRC. In terms of the judgment, schemes implemented or promoted with the intention of avoiding or circumventing registration with the MFRC were declared to be unlawful, and microlenders and pawnbrokers are prohibited from implementing such schemes.

direct inspection powers were created for the MFRC

Furthermore, the Department of Trade and Industry implemented an amendment to the Usury Act, 1968 (Act No. 73 of 1968), whereby direct inspection powers were created for the MFRC. The amendment, which came into effect on 23 April 2003, extended the MFRC's mandate to include unregistered microlenders in the regulation process. A number of inspections have already been undertaken under this mandate, and there has been a fair level of success in obtaining successful prosecutions, even though there appears to be a considerable delay between the completion of investigations and the conclusion of legal prosecutions.

National Loan Register

Microlenders are placing an increasing number of credit records onto the National Loan Register (NLR), and more than 5 million loan records had been registered on the NLR by the end of 2003. The MFRC is placing emphasis on measures to combat reckless lending and has formulated a rule compelling all registered lenders to perform

affordability assessments. It is believed that these measures will play an important role in curbing overindebtedness, while assisting credit grantors with improving their credit quality and decreasing their credit risk.

The Black Micro Finance Association (BMFA) was launched in 2003. The BMFA apparently concentrates primarily on developing the so-called township lenders and on facilitating the integration of the formal and the informal lending sector. Provided the same rules apply to the latter in terms of statutory registration, there should be no resistance from formal lenders.

A conference on current issues in microfinance, attended by over 200 delegates from 21 countries, was held in South Africa, during the year under review. The objective of the conference was to involve African practitioners and policy-makers in the international discussion on microfinance. It is envisaged that this conference will be held in Africa every two years.

other areas that received attention

Other areas that received attention during the year under review and which impacted on the broader evolution of microfinance in South Africa include the following:

- Introduction of a standard loan-disclosure statement by the MFRC, which is based on the so-called truth-in-lending disclosure applied in the United States of America and which should contribute to improved disclosure.

- Considerable progress with a review of the Usury Act and related credit legislation, in order to replace the said legislation with a modern, integrated consumer-credit act. These measures should assist in reducing the fragmentation and segmentation of the consumer-credit and microlending market, by enhancing consumer protection and competition.

market conduct appears to have improved substantially

As a result of ongoing attention to consumer education and awareness, implementation of measures, such as the NLR, to improve lending practices and consistent disciplinary action against lenders found not to comply with rules and regulations, market conduct in the microlending sector appears to have improved substantially.

Problems identified by the Microlenders Association

problems

In general, there is good cooperation between the Microlenders Association (MLA) and the MFRC in resolving complaints against microlenders. The MLA, however, has highlighted problems such as the following, amongst others:

- Inadequate access to the National Payment Systems, a factor that is regarded as hampering development in the microlending industry.

- Registered microlenders bearing the brunt of the MFRC's regulatory actions, whereas unregistered lenders often escape unscathed.

- The fees for registration with the MFRC being exceptionally high, compared to, for example, the registration fees of estate agents.

- Microlenders funding consumer education at three levels, that is, by investing a substantial amount of their own money in consumer education, through MFRC registration fees, which could be reduced if they did not include funding for consumer education, and through normal company tax, which is used to fund the consumer desks of the various provincial governments.

The MLA and responsible microlenders have stated that they are in favour of responsible regulation. They have also expressed their willingness to extend various services to lower income groups, including savings, housing finance and funding for small, medium and micro enterprise. The geographical spread of microlenders, even in the remotest areas and with more outlets than banks, positions them well to extend financial services to lower income groups. The formalised part of the microlending industry is already worth R15 billion, despite having to rely on own funding only. The MLA believes that if the microlending industry could be freed from the restrictions currently imposed on it, such as being limited to granting loans and having to use own funds, effective free-market forces could come into play, with benefits such as competitiveness, lower interest rates and a wider range of products and services, to the benefit of the economy and individuals.

Developments within the savings and credit-cooperative sector

A member of the Bank Supervision Department has been co-opted to the board of the Savings and Credit Cooperative League of South Africa Limited (Saccol). Saccol is the recognised self-regulatory body of all savings and credit cooperatives (saccos) and credit unions in South Africa and provides representative, developmental and regulatory functions to its member owners. Saccol monitors and regulates saccos through a regime of progressive regulatory requirements.

In 2003, 25 saccos, with a combined membership of 12,500 and with a membership subscription, in the form of shares, savings and other deposits, of R20 million and a net loan book of R15,5 million, were affiliated to Saccol. The year under review was challenging for Saccol, in that two saccos were placed under its direct administration and three members were suspended for failing to comply with Saccol's minimum standards.

Bank-supervisory activities at regional level

harmonisation of bank-supervisory philosophies and practices

The Bank Supervision Department continued to participate in the activities of the East and Southern African Supervisors Group (ESAF). ESAF is the forum for bringing together the views of regional bank-supervisory bodies, with the objective of promoting the overall standard of bank supervision in ESAF member countries, in line with best international practice. ESAF, through its Executive Committee, actively promotes the harmonisation of bank-supervisory philosophies and practices in the region. At the Annual General Meeting of ESAF held in Malawi, in June 2003, Malawi was elected to fill the ESAF chair, and the Department was re-elected to perform ESAF's secretariat function for another five-year tem.

projects

During 2003, members of the Department attended two meetings of the ESAF Executive Committee. Projects of the ESAF Executive Committee include:

- Compliance with the Core Principles for Effective Banking Supervision.
- Microfinance research project.
- Financial soundness indicators.
- Report on aggregated financial information.
- Bank supervision harmonisation project.
- ESAF implementation plan and programme for the new Capital Accord.

Bank supervision harmonisation project: Business-process models and supporting information systems

generic and integrated bank-supervisory solution

The Bank Supervision Application (BSA) system was developed to provide a generic and integrated bank-supervisory solution, based on the harmonised bank-supervisory requirements of all ESAF member countries and in line with ESAF's best-practice strategy. The BSA system consists of six integrated modules for the management of the supervisory infrastructure, licensing of banks, off-site analysis, on-site investigation, enforcement action and risk analysis.

implementation

During 2003, the BSA system was implemented in the Bank of Mozambique. This was seen as a pilot project to enable fine-tuning of the BSA solution before its deployment in other central banks. Minor problems with the implementation in Mozambique were successfully resolved in November 2003. Implementation of the system in the Bank of Zambia is to be completed by April 2004.

The BSA system will then be deployed in Angola and another country. In order to achieve knowledge transfer, these deployments will be undertaken by ESAF central-bank information and communication technology (ICT) staff, instead of the current third-party solution providers. Deployment of the BSA system in ESAF member countries is expected to be completed in December 2005.

support

The first line of support for the BSA system will be each central bank's own ICT staff. The second line of support will be sited at the South African Reserve Bank, which will also provide the necessary infrastructure and venue for development of enhancement of the application. If serious problems should arise, use will be made of the third line of support, consisting mainly of technology and service providers.

Courses in bank supervision

regional bank-supervisory seminars

The ESAF Secretariat is tasked with coordinating regional bank-supervisory training for ESAF member countries. Such regional training is provided mainly by the Financial Stability Institute (FSI), to which reference is made earlier in this chapter.

regionally focused seminars

During the year under review, the FSI presented two regionally focused seminars. The first seminar, which covered the new Capital Accord (Basel II) and implementation challenges, was held in Cape Town, South Africa, and was attended by 20 participants from ten ESAF countries. The second seminar, which covered risk management, was held in Maputo, Mozambique, and was attended by 41 participants from 12 ESAF countries.

objectives of seminars

The objectives of the seminars were to:

- Provide an overview of the latest developments with Basel II.
- Update participants on current best practices in risk management.
- Provide a forum for the exchange of ideas on common problems and the implementation of best supervisory practices, such as improving corporate governance in banks.
- Provide the FSI with information on the most important needs in the ESAF region.

In addition, a regional banking leadership course, run by the Toronto International Leadership Centre for Financial Sector Supervision (Toronto Centre) and attended by 19 delegates from 13 ESAF countries, was held in Cape Town. The Toronto Centre focuses exclusively on helping financial-sector supervisors to build and hone leadership skills by sharing the real-world experience of current and former supervisory agency executives and other senior government officials in the banking, insurance and securities fields. Originally, the Toronto Centre provided its courses in Toronto, but, in recent years, the Centre has started providing training in various regions, in close co-operation with a local host partner, normally the regional association of regulators.

The Bank Supervision Department also successfully hosted two intermediate courses in banking supervision, in Pretoria. These courses were attended by 45 participants from 11 ESAF member countries, as well as delegates from the Gambia and India.

As part of its ongoing initiative to work with central banks in Southern Africa on technical bank-supervisory training, the South African Reserve Bank has again indicated its willingness to host further courses in bank supervision in 2004.

Global Bank Insolvency Initiative

At the invitation of the World Bank, the Bank Supervision Department successfully hosted a seminar as part of the Global Bank Insolvency Initiative (GBII), namely, the Regional Seminar on Comparative Experiences in Confronting Banking Sector Problems in Sub-Saharan Africa. The seminar, which was held in Cape Town, on 14 and 15 October 2003, was attended by 32 participants from 20 countries.

main objective

The GBII is an international initiative led by the World Bank and the International Monetary Fund, in collaboration with the Financial Stability Forum, the Bank for International Settlements, the Basel Committee on Banking Supervision, the Financial Stability Institute and other international financial institutions. The main objective of the GBII is to reach international consensus on the legal, institutional and regulatory framework that countries should have in order to deal with bank insolvency, including in the context of systemic crises. In order to achieve a high level of international consensus, the initiative is based on a process of broad consultation with bank authorities, practitioners and academics from a large number of countries.

The consultation seminar was aimed at reviewing the experiences of Sub-Saharan African countries in dealing with bank insolvency and drawing best practices to guide countries in strengthening their legal, regulatory and institutional framework for dealing with bank insolvency.