Chapter 1: Registrar of Banks' review

1.1 Introduction

The aftermath of the global financial market crisis remained a key focus area for the Department during the period under review. The myriad of new regulatory and supervisory standards and requirements issued by international standard-setting bodies such as the Basel Committee on Banking Supervision (the Basel Committee) and the Financial Stability Board (FSB)[1] necessitated continual review and assessment of the Department's domestic regulatory and supervisory framework to ensure alignment with international standards. During 2011 the Department finalised its process of incorporating the enhancements to the Basel II framework, issued by the Basel Committee in July 2009, into the domestic regulatory framework and the amended Regulations were subsequently implemented with effect from 1 January 2012. In addition, the Basel III framework, originally issued by the Basel Committee in December 2010, will necessitate substantial further efforts to ensure the successful implementation of, among other things, the various capital and liquidity standards. The implementation of the Basel III framework will be based on a phased-in approach commencing on 1 January 2013 and continuing up to 2018, in line with the timelines determined by the Basel Committee.

This chapter describes in more detail the above-mentioned key international developments, recommendations and focus areas, and the Department's response thereto. In addition, it provides some insight into other domestic regulatory developments such as the strengthening of the domestic financial market crisis resolution framework, the implementation of a twin peaks model of financial regulation in South Africa and actions taken by the Department to monitor compliance by the banking sector with anti-money laundering (AML) and the combating of the financing of terrorism (CFT) standards.

1.2 Key international developments, recommendations and focus areas, and the Department's response thereto

1.2.1 Enhancements to the Basel II framework

In its annual reports of 2007 to 2010,[2] the Department comprehensively reported on the background to and causes of the global financial crisis, and the identified weaknesses that required specific attention.

key lessons learnt from the global financial crisis

Some of the key lessons learnt from the global financial crisis include the following:

- The importance of banks' risk exposures being backed by a high-quality capital base.
- The need to address the inconsistent definition of capital across jurisdictions.
- A lack of disclosure prevented the market from fully assessing and comparing the quality of capital held by banks.
- The need to strengthen the risk coverage of the capital framework since a failure to capture major on- and off-balance-sheet risks and derivative-related exposures was a key destabilising factor during the global financial crisis. In this regard, the risk coverage of the capital framework has already been strengthened through the implementation of the Basel II.5 framework. In addition, the Basel III framework introduces further measures to strengthen the capital requirements for counterparty credit exposures arising from banks' derivatives, repurchase agreements and securities financing activities.

1 The Financial Stability Board, an international standard-setting body and abbreviated in this Report as FSB, is not to be confused with the Financial Services Board, which is a domestic financial services supervisory body.
2 Available at http://www.resbank.co.za/Publications/Reports/Pages/BankSupervisionAnnualReports.aspx.

- The risks arising from excessive leverage should be mitigated. One of the underlying features of the global financial crisis was the build-up of excessive on- and off-balance-sheet leverage in the banking system. This build-up of excessive leverage has also been a feature of previous financial crises, for example, the Asian financial crisis in 1997 and the Russian financial crisis (or Ruble crisis) in 1998. During the most severe part of the latest financial crisis, the banking sector was forced by the market to reduce its leverage in a manner that amplified downward pressure on asset prices, which further exacerbated the positive feedback loop between losses, declines in bank capital and the contraction in credit availability.[3]

various new or amended requirements and standards have been issued to address the weaknesses revealed by the global financial crisis

In the four years subsequent to the global financial crisis that commenced in 2007, international standard-setting bodies such as the Group of Twenty (G-20), the FSB and the Basel Committee have continually worked towards a comprehensive set of initiatives and strategies to avoid future crises. In addition, various new or amended requirements and standards have been issued to address appropriately the fundamental weaknesses revealed by the global financial crisis.

For example, as extensively reported in the Department's 2009 and 2010 annual reports, the Basel Committee issued three documents during July 2009 that materially impacted on the regulation and supervision of banks and banking groups, namely:

1. "Enhancements to the Basel II Framework";[4]
2. "Revisions to the Basel II Market Risk Framework";[5] and
3. "Guidelines for Computing Capital for Incremental Risk in the Trading Book".[6]

As part of a transparent and consultative process undertaken by the Department during 2010 and 2011, which involved all key players, the requirements contained in the aforesaid three documents, which are commonly collectively referred to as 'Basel II.5', were incorporated into the Regulations and implemented with effect from 1 January 2012.

1.2.2 Basel III: A global regulatory framework

1.2.2.1 Introduction

On 16 December 2010, the Basel Committee issued two further documents, namely:

1. "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems";[7] and
2. "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring".[8]

These two documents are generally collectively referred to as 'the Basel III framework' or 'the Basel III reforms'. However, for the purposes of the *Annual Report*, 'the Basel III framework' will be used. Along with the measures taken by the Basel Committee in July 2009 to strengthen the Basel II framework, the further requirements contained in the Basel III framework form part of the Basel Committee's comprehensive response to address the lessons learnt from the global financial crisis related to, among other things, the regulation, supervision and risk management of globally active banks.

Essentially the Basel III framework represents the details of global regulatory standards on banking capital adequacy and liquidity as agreed to by the Governors and Heads of Supervision (GHOS), which is the oversight body of the Basel Committee and is endorsed by the G-20.

3 Basel Committee, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel: Basel Committee, revised version, June 2011), 4.
4 Available at http://www.bis.org/publ/bcbs157.htm.
5 Available at http://www.bis.org/publ/bcbs158.htm.
6 Available at http://www.bis.org/publ/bcbs159.htm.
7 Available at http://www.bis.org/publ/bcbs189.htm.
8 Available at http://www.bis.org/publ/bcbs188.htm.

At the time of its release in December 2010, Mr Nout Wellink, Chairman of the Basel Committee and President of De Nederlandsche Bank at the time, described the Basel III framework as:

> ... a landmark achievement that will help protect financial stability and promote sustainable economic growth. The higher levels of capital combined with a global liquidity framework will significantly reduce the probability and severity of banking crises in the future.[9]

The Basel III framework strengthens bank-level or microprudential regulation, which will help raise the resilience of individual banking institutions during periods of stress. More specifically, based on the key lessons learnt from the global financial crisis, the Basel III framework sets out requirements for higher and better-quality capital; better risk coverage; the introduction of a leverage ratio as a backstop to the risk-based requirement; measures to promote the build-up of capital that can be drawn down in periods of stress; and the introduction of two global liquidity standards, which are discussed in greater detail below.

Strong capital requirements are a necessary condition for banking-sector stability. However, in isolation they are not sufficient. As revealed by the global financial crisis, a strong liquidity base reinforced with robust supervisory standards proved to be of equal importance.[10]

strong capital requirements necessary for banking-sector stability

Moreover, the Basel III framework also includes a macroprudential focus; addressing system-wide risks that can build up across the banking sector and dealing with the procyclical amplification of these risks over time. These micro- and macroprudential approaches to supervision are interrelated as greater resilience at an individual bank level is likely to reduce the risk of system-wide shocks.

1.2.2.2 Minimum standards for funding liquidity

The difficulties experienced by some internationally active banks were largely due to lapses in basic principles of liquidity risk management. In response to these difficulties and as the foundation of its liquidity framework, the Basel Committee published a document entitled "Principles for Sound Liquidity Risk Management and Supervision"[11] during 2008. These principles provide detailed guidance on the management and supervision of funding liquidity risk and should help to promote better risk management in this critically important area.

In order to complement these principles, the Basel Committee has further strengthened its liquidity framework by developing two minimum standards for funding liquidity. The first is a liquidity coverage ratio (LCR), which aims to ensure that banks maintain an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet their liquidity needs for a 30 calendar-day period under a significantly severe liquidity stress scenario. The second minimum standard is a net stable funding ratio (NSFR), which aims to promote medium- and long-term funding of banking institutions' assets and activities.[12]

the Basel Committee further strengthened its liquidity framework

The Basel Committee has put processes in place to ensure the rigorous and consistent implementation of the Basel III framework across all jurisdictions. For example, the higher capital and liquidity standards prescribed by the Basel III framework will be phased in gradually so that the banking sector would still be in a position to support lending to the real economy. Both the LCR and the NSFR are subject to an observation period and include a review clause to address any unintended consequences.

LCR and NSFR subject to an observation period

Following the observation period which commenced on 1 January 2011, it is envisaged that the LCR will be implemented as a minimum standard on 1 January 2015, after which the NSFR will be implemented on 1 January 2018. The Basel Committee has required regulators to monitor the ratios during the transition period and will continue to review the implications of these standards for financial markets, credit extension and economic growth in order to address unintended consequences as and when they arise.

---

9 Basel Committee, press release issued in terms of the "Results of the Comprehensive Quantitative Impact Study" (Basel: Basel Committee, 16 December 2010). The press release is available at http://www.bis.org/press/p101216.htm.
10 Basel Committee, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel: Basel Committee, revised version, June 2011), 8.
11 Available at http://www.bis.org/publ/bcbs138.htm.
12 The calculation of the LCR and the NSFR is specified in the BIS document entitled "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring" referred to in section 1.2.2.1 of this Report.

1.2.2.3 Leverage ratio

With respect to the leverage ratio, the Basel Committee has specified the transition period to assess whether its proposed design and calibration are appropriate over a full credit cycle and for different types of business models. Based on the results of a parallel run to be conducted during the transition period, "any adjustments to the leverage ratio would be carried out in the first half of 2017 with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration."[13]

1.2.2.4 Systemically important banks

excessive inter-connectedness among systemically important banks

While procyclicality amplified shocks during the global financial crisis, excessive inter-connectedness among systemically important banks also transmitted shocks across the international financial system and economy.[14] Therefore standard-setting bodies such as the Basel Committee stated that systemically important banks should have loss-absorbing capacity beyond the minimum standards.

During the global financial crisis, the failure or impairment of a number of large, global financial institutions sent shock waves through the financial system which, in turn, harmed the real economy. Supervisors and other relevant authorities had limited options available to prevent problems affecting individual institutions from spreading, which undermined financial stability. As a consequence, public-sector intervention to restore financial stability during the global financial crisis was necessary in several of the advanced economies. The financial and economic costs of these interventions and the associated increase in supervisors' moral hazard resulted in the realisation that additional measures need to be put in place to reduce the likelihood and severity of problems that emanate from the failure of global systemically important financial institutions (G-SIFIs) or global systemically important banks (G-SIBs).[15]

In this regard, on 4 November 2011, the Basel Committee issued a document entitled "Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement".[16] This document sets out the measures developed by the Basel Committee on the assessment methodology for global systemic importance; the magnitude of additional loss absorbency that G-SIBs should have; and the arrangements according to which they will be phased in. The rationale for adopting additional policy measures for G-SIFIs or G-SIBs is based on the negative, cross-border, exogenous implications caused by G-SIBs, which current regulatory policies do not fully address. As a result of possible cross-border repercussions, a problem in any of the G-SIBs could potentially have an impact on the financial institutions in many countries and potentially affect the global economy. The failure of a G-SIFI or G-SIB is therefore not only a problem for national authorities and consequently requires a global minimum agreement.

The measures adopted by the Basel Committee address the objective of requiring additional loss absorbency for G-SIBs, thereby reducing the probability of failure. The additional requirements for G-SIBs also complement the measures adopted by the FSB not only to establish robust national resolution and recovery regimes, but also to improve cross-border harmonisation and co-ordination.

assessment methodology for G-SIBs

The assessment methodology for G-SIBs is primarily based on a multiple indicator-based measurement approach. In this regard, the Basel Committee is of the following view:

> The selected indicators are chosen to reflect the different aspects of what generates negative externalities and makes a bank critical for the stability of the financial system. The advantage of the multiple indicator-based measurement approach is that it encompasses

13 Basel Committee, press release issued in terms of the "Results of the Comprehensive Quantitative Impact Study" (Basel: Basel Committee, 16 December 2010). The press release is available at http://www.bis.org/press/p101216.htm.

14 Basel Committee, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel: Basel Committee, revised version, June 2011), 7.

15 Basel Committee, "Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement" (Basel: Basel Committee, November 2011), 1.

16 Available at http://www.bis.org/publ/bcbs207.htm.

> many dimensions of systemic importance, is relatively simple, and is more robust than the current model-based measurement approaches and methodologies that only rely on a small set of indicators or market variables.
>
> No measurement approach will perfectly measure systemic importance across all global banks. These banks vary widely in their structures and activities, and therefore in the nature and degree of risks they pose to the international financial system. Hence, the quantitative indicator-based approach can be supplemented with qualitative information that is incorporated through a framework for supervisory judgement.[17]

Supervisors are currently considering the extent to which the Basel III framework and assessment methodology for G-SIBs may be equally relevant in identifying domestic systemically important financial institutions or banks.

1.2.2.5 Revision of the Core Principles for Effective Banking Supervision

The Core Principles issued by the Basel Committee are the de facto minimum standard for sound prudential regulation and supervision of banks and banking systems. Originally issued in 1997 and updated in 2006, the Core Principles are used by G-20 countries as a benchmark for assessing the quality of their supervisory systems and for identifying future work to achieve a baseline level of sound supervisory practices. The Core Principles are also used by both the IMF and the World Bank, specifically in the context of the Financial Sector Assessment Program (FSAP), in order to assess the effectiveness of countries' banking supervisory systems and practices.

On 20 December 2011 the Basel Committee issued for public comment the revised Core Principles.[18] The consultative paper updates the Basel Committee's 2006 Core Principles and the associated "Core Principles Methodology", and merges the two documents into one. The 25 Core Principles have been expanded to 29 Core Principles and re-ordered to highlight the difference between what supervisors do themselves and what they expect banks to do. Revised Core Principles 1 to 13 address supervisory powers, responsibilities and functions. They also focus on effective risk-based supervision, the need for early intervention and timely supervisory actions. Accordingly, revised Core Principles 14 to 29 cover supervisory expectations of banks, emphasising the importance of good corporate governance, appropriate risk management and compliance with supervisory standards.

the 25 Core Principles have been expanded to 29

Among other things, the revision of the Core Principles builds on the lessons learnt from the global financial crisis. The Core Principles have been enhanced to strengthen supervisory practices and risk management. In addition, the revised Core Principles respond to several key trends and developments that emerged during the last few years' market turmoil, namely:

the revised Core Principles respond to several key trends and developments

- the need for greater intensity and resources to deal effectively with systemically important banks;
- the importance of applying a system-wide perspective to the microprudential supervision of banks to assist them in identifying, analysing and taking pre-emptive action to address systemic risk; and
- the increasing focus on effective crisis management, recovery and resolution measures in reducing both the probability and impact of a bank failure.[19]

The latest revision ensures that the Core Principles will remain relevant for many years to come through changing environments. As mentioned earlier, the total number of Core Principles has increased from 25 to 29. In addition, a total of 36 new essential and additional criteria have been introduced, while another 33 additional criteria have been upgraded to essential criteria. This means that there are now 229 essential criteria that represent the minimum

17 Basel Committee, "Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement" (Basel: Basel Committee, November 2011), 3.
18 Available at http://www.bis.org/publ/bcbs213.htm.
19 Basel Committee, "Core Principles for Effective Banking Supervision" (Basel: Basel Committee, 20 December 2011), 2.

baseline requirements for all countries using the Basel III framework. In view of the fact that the Core Principles are universally applicable, the implementation thereof by all countries will be a significant step towards improving financial stability domestically and internationally. The revised Core Principles also provide a good basis for further development of effective supervisory systems.[20]

1.2.2.6 Ongoing development of regulatory reforms

The Basel Committee continues its work on a range of initiatives to promote the resilience and stability of financial markets, banks and banking groups. As a member of the Basel Committee, the Department endorses the initiatives, strategies and new or amended requirements or standards to address comprehensively the fundamental weaknesses revealed by the global financial crisis. The Department is also actively involved in developing regulatory reforms that promote the safety and soundness of the banking system and that continue to support long-term economic growth.

1.3 The implementation of a twin peaks model of financial regulation in South Africa

the architectural move towards a twin peaks model of financial regulation was announced in February 2011

In February 2011 the Minister of Finance announced the architectural move towards a twin peaks model of financial regulation for South Africa. This coincided with the release of a policy document entitled "A Safer Financial Sector to Serve South Africa Better".[21] The policy document notes that due to the country's sound macroeconomic fundamentals and robust financial regulatory framework, the domestic financial sector weathered the global financial crisis relatively well.[22] However, the publication cautions South African authorities against becoming complacent. As such, it has been decided that South Africa should move towards a twin peaks model of financial regulation, where prudential regulation will form one peak under the South African Reserve Bank (the Bank) and market conduct regulation will form the other peak under the Financial Services Board. The move towards a twin peaks model is aimed at attaining the following objectives:

- enhancing systemic stability;
- improving market conduct regulation;
- making a meaningful contribution to sound micro- and macroprudential regulation; and
- strengthening the operational independence, governance and accountability of regulators.

Following the publication of the above-mentioned policy document, the Minister of Finance and the Governor of the Bank established a joint committee between the National Treasury, the Bank and the Financial Services Board. This committee, known as the Financial Regulatory Reform Steering Committee (FRRSC), is responsible for overseeing the implementation of the regulatory reforms, and is supported by six technical expert groups. A road-map document for implementation is in the process of being prepared which will provide a concise outline for the implementation of the key proposals under the twin peaks approach to financial supervision. The road-map will also describe the envisaged steps and timelines for the establishment of the twin peaks architecture and the necessary organisational, co-ordination and accountability arrangements.

1.4 Strengthening South Africa's crisis resolution framework

During 2011, the Bank and the National Treasury initiated a comprehensive review of South Africa's capacity to resolve a financial crisis. The review was conducted under the auspices of the World Bank/Financial Sector Reform and Strengthening (FIRST) Initiative[23] programme.

20 In view of the fact that the revised Core Principles have not been formally issued, subsequent references to the Core Principles will, unless explicitly stated otherwise, refer to the Core Principles published in 2006.
21 Available at http://www.treasury.gov.za/public%20comments/default.aspx.
22 This view is shared by the IMF's Executive Board as indicated in section 1.7.
23 FIRST Initiative's Crisis Preparedness Program was launched in September 2008 to support client countries in their efforts to improve their legal, policy and institutional arrangements, and their general capacity to deal with financial crises.

Aspects such as the effectiveness of South Africa's existing crisis resolution powers and mandates; co-ordination among regulators and legislative frameworks, institutional frameworks and funding arrangements; and the drawing on lessons learnt from the global financial crisis were assessed. A number of areas in South Africa's crisis resolution framework that could be further improved were identified. Subsequently, the FSB also released its "Key Attributes of Effective Resolution Regimes for Financial Institutions",[24] which is setting a new international standard with which South Africa has to comply. Work is currently under way to enhance further the South African crisis resolution framework and to strengthen the resolution regime as an integral part of the twin peaks approach to financial regulation.

1.5 Compliance with the Financial Stability Board Principles for Sound Compensation Practices

2011 flavour-of-the-year topic: compliance with principles for sound compensation practices and the future disclosure thereof

In its annual reports of 2007 to 2010, the Department reported on actions taken to review and assess banks' compensation practices and principles. Further to the work done in previous years, the Department formulated its flavour-of-the-year topic to be discussed with banks' boards of directors during 2011 as "compliance with the Financial Stability Board principles for sound compensation practices and the future disclosure thereof".[25] This flavour-of-the-year topic was directly influenced by a document published by the Basel Committee in September 2009, entitled "FSB Principles for Sound Compensation Practices: Implementation Standards".[26]

In terms of the format of the discussions with each bank, the chairperson of each respective bank's remuneration committee was required to make a presentation on the following aspects:

- A discussion of the bank's response to each of the individual items contained in the FSB questionnaire on compensation practices and the level of compliance with each individual practice.
- A gap analysis and planned actions with timelines to rectify any non-compliance with the above-mentioned principles.
- Pro-forma Pillar 3 remuneration disclosures based on the requirements of the consultative document entitled "Pillar 3 Disclosure Requirements for Remuneration",[27] which was issued by the Basel Committee in December 2010.

In addition to the above, the Department also requested certain of the larger banks to participate in the FSB's follow-up peer review on compliance practices. The review assessed the progress made both by national authorities and significant financial institutions in implementing the FSB's principles for sound compensation practices and the accompanying implementation standards.

compensation practices of the large banks appear to be consistent with all elements of the FSB's principles and standards

The results of the Department's supervisory programme during 2011 and the feedback received pertaining to the implementation of the FSB's principles for sound compensation practices are consistent with the results of the FSB's document entitled "Second Thematic Peer Review of Compensation"[28] published in October 2011. The large banks in South Africa have made good progress towards implementing the said principles, and their compensation practices appear to be largely consistent with all elements of the FSB's principles and standards. This progress can be attributed to the proactive approach taken by the banks to ensure compliance with the aforementioned FSB principles and standards and the early supervisory attention afforded to these institutions by supervisory bodies.

24 Available at http://www.financialstabilityboard.org/list/fsb_publications/tid_72/index.htm.
25 The Banks Act circular issued in this regard is available at http://www.resbank.co.za/Publications/Circulars/Pages/BanksActCirculars.aspx.
26 Available at http://www.financialstabilityboard.org/list/fsb_publications/tid_123/index.htm.
27 Available at http://www.bis.org/publ/bcbs191.htm.
28 Available at http://www.financialstabilityboard.org/list/fsb_publications/tid_141/index.htm.

The progress made by smaller banks in South Africa has been more varied as they are at different stages of compliance owing to different levels of sophistication regarding remuneration structures and practices. This matter will receive further supervisory attention in 2012.

1.6 The International Monetary Fund Report on the Observance of Standards and Codes

update on the progress made in addressing key findings of the IMF's Report

The IMF conducted a detailed assessment of the Department's compliance with the 25 Core Principles in March 2010[29] and issued two reports in this regard on 8 December 2010. A detailed discussion of the findings contained in the two reports was covered in the Department's 2010 *Annual Report*. An update on the progress made in addressing some of the key findings of the IMF's Report on the Observance of Standards and Codes (ROSC)[30] is provided below.

- Essential criterion 3 of Core Principle 1.4 – legal powers: The IMF stated that in order to ensure that the Registrar's ability to act decisively when banks encounter serious difficulties will not be hampered, the Minister of Finance's role in supervisory remedial actions and the required consent of either the bank's chief executive officer (CEO) or chairperson of the board of directors for the appointment of a curator need to be reconsidered. In order to address this concern, section 69 of the draft Banks Act Amendment Bill, 2010, which is discussed in greater detail in chapter 3 of this Report, has been amended to stipulate that the Governor of the Bank will unilaterally notify the CEO or chairperson of the board of directors in writing regarding the appointment of a curator.

- Core Principle 5 – major acquisitions: The IMF found that the Banks Act and the Regulations do not specify the criteria that the Registrar uses for approving or disapproving banks' proposed investments in subsidiaries and joint ventures. In this regard section 52(1)(c) of the proposed draft Banks Act Amendment Bill, 2010, has been amended to allow the Registrar to issue a directive specifying the circumstances under which a bank will be permitted to notify him/her of the acquisition of an interest through a registered office or principal place of business outside the Republic of South Africa without having to obtain his/her prior written approval.

- Essential criterion 7 of Core Principle 6 – capital adequacy: The IMF highlighted that there is no explicit power for the Registrar to revoke the use of the advanced approaches for either credit or market risk. This recommendation has been addressed through the amendment of regulation 23(3) of the Regulations, which now provides for the Registrar to direct banks to apply a specific method with respect to the advanced approaches for credit risk. A similar provision has been included in regulation 28(4) relating to the advanced approaches for market risk.

- In terms of Core Principle 9 – problem assets, provisions and reserves, the ROSC explained that:

  > … the Department relies, as part of its supervisory approach, on the International Financial Reporting Standards (IFRSs) provisions as audited by the external auditor and the outcomes of the external auditors report under regulation 46 (4). It is recommended that more specific qualitative guidance on the Department's requirements be provided to the external auditors and/or the banks to ensure that all the essential criteria of this core principle are addressed. This applies in particular to areas such as the periodical assessment of the value of risk mitigants, the periodic review of problem assets, the adequacy of organisational resources for identification, the oversight and collection of problem assets, and the timely and appropriate information to the Board of the condition of the asset portfolio.[31]

29 Refer to the Basel Committee's paper entitled "Core Principles Methodology" issued in October 2006. The paper is available at http://www.bis.org/publ/bcbs130.htm.
30 Available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=24482.0.
31 Ibid.

Amendments were accordingly made to regulation 23(22) of the Regulations to address this recommendation.

- Core Principle 11 – exposures to related parties: The IMF stated that the Department does not obtain comprehensive information on a regular basis in terms of banks' aggregate and individual exposures to related parties. The recommendation further stated the following:

  > … the Department does not yet require that transactions with related parties and the write-off of related party exposures exceeding specified amounts or otherwise posing special risk are subject to prior approval by the bank's Board... In addition, there is no specific requirement for banks to have policies and processes to identify individual exposures to related parties.[32]

  The above finding was addressed by amending the form Banks Act (BA) 210 to capture more granular information on related-party exposures. In addition, regulation 24(9) was included in the Regulations to ensure that banks have processes, procedures, systems and board-approved policies in place to address transactions with related parties and the write-off of related-party exposures that exceed 1 per cent of the bank's qualifying primary share capital and reserve funds. The addition of regulation 24(9) furthermore requires banks to monitor and report individual and aggregate exposure(s) to related parties.

- Core Principle 12 – country and transfer risk: The Department's adherence to this principle was rated as 'materially non-compliant', with the specific recommendation that a regulation specifically dealing with country and transfer risk should be promulgated. It was also stated that the granularity of regional exposures on the form BA 210 should be increased to enable the Department to monitor country and transfer risk on an ongoing basis. Form BA 940, which contains a detailed country analysis, was subsequently included in the amended Regulations, while regulation 39(5)(g) was included to ensure that banks have sufficiently robust risk management processes, practices, procedures and policies in place to address country and transfer risk.

- Core Principle 23 – supervisors' corrective and remedial powers (specifically essential criteria 3 and 4): The IMF rated the Department as being materially non-compliant in respect of this principle. The following was highlighted:

  > … severe limitations on the Registrar's authority to cancel or suspend a bank's licence or to restrict a bank's activities (Banks Act sections 23–26), in particular the delay of at least 30 days between the announcement of such measures to a bank and their actual application. … the same comment applies to the Registrar's inability to appoint a curator without the consent of the CEO or the chairperson of the board of the bank concerned.[33]

  Section 24 of the draft Banks Act Amendment Bill, 2010, has been amended to provide the Registrar with the option to provide "written notice to the chairperson or CEO of the institution concerned" in order to "suspend the registration of a bank under section 23 with immediate effect", subject to certain provisions (also refer to Core Principle 1.4 discussed on page 8 of this Report).

  The amended Regulations were implemented with effect from 1 January 2012. Further details in this regard are provided in chapter 3 of this Report.

1.7 The International Monetary Fund Staff Report for the 2011 Article IV Consultation

The IMF's annual bilateral discussions in terms of Article IV of the IMF Articles of Agreement with South African officials were held during May and June 2011. The Staff Report for the 2011 Article IV Consultation (the Staff Report) was completed on 7 July 2011 and subsequently published on the IMF's website.[34] A Public Information Notice (PIN) (No. 11/115) summarising the views of the

32 Ibid.
33 Ibid.
34 Available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=25183.0.

IMF's Executive Board as expressed during its discussion of the Staff Report, which concluded the 2011 Article IV Consultation, is also available on the IMF's website.[35] The PIN states that the IMF's Executive Board noted that the South African banking system remained sound, with banks being sufficiently liquid and well capitalised. It was highlighted that South African banks seemed to have weathered the stresses associated with the global financial crisis and the domestic recession well. The Staff Report also commented that continued vigilance would be important in light of the moderate impaired advances on banks' balance sheets; banks' dependence on domestic short-term wholesale deposits; high household indebtedness; and the renewed tensions in the international financial markets. It was agreed in the Staff Report that the envisaged shift towards a twin peaks regulatory and supervisory framework over the next few years would further improve the consolidated supervision of financial groups and improve the status of market conduct regulation and supervision.

South Africa closely followed international best practices and standards on financial regulation

The Staff Report mentioned that the moderate external financial conditions and the uncertainty about the strength of external demand warranted continued vigilance in the financial sector. It was furthermore noted that South Africa closely followed international best practices and standards on financial regulation, supervision and market conduct as prescribed by international standard-setting bodies. The Staff Report did, however, point out that the ongoing significant changes in these international standards and best practices had created some regulatory uncertainty and would take some time to incorporate fully.

In addition to the above-mentioned general observations, further details of the key banking-sector risks identified in the Staff Report and the Department's approach to mitigating the identified risks appropriately (indicated in italics) are provided below:

- The financial system concentration and interconnectedness require continued vigilance. Areas of vulnerability identified include (a) the impaired advances on banks' balance sheets, which while slowly declining as a share of loans, remain largely unchanged in nominal terms; (b) banks' traditional reliance on short-term funding from a relatively few large corporations; and (c) some financial entities' direct and indirect exposure abroad.

  The Department continues to analyse the trends of impaired advances on a regular basis. It also actively monitors banking groups' exposures to foreign counterparties on a continual basis.

- There is a need for continued rigorous supervision of cross-border risks because of moderate external financial conditions. The Staff Report further noted that South Africa's position in the cycle had not so far exposed the banking system to the risks associated with periods of moderate external financial conditions. However, with the external financial conditions set to remain moderate for the next few years, it is important for regulators to continue refining the tools in place to prevent excessive credit growth and risk taking.

  The Department continues to monitor the growth in credit exposure and engages with the banking sector as part of its ongoing operational supervisory approach.

- The Department implemented many FSAP and ROSC recommendations; it started preparing for the eventual introduction of the Basel III capital and liquidity requirements; and it expanded the perimeter of regulation, including initiatives in the insurance and credit-rating sectors. The Bank also convened an interagency financial stability oversight committee, which could in future adjust prudential rules to contain cyclical systemic risk.

  During 2011, the Department continued to review actions taken to address recommendations made in previous reports from international authorities, including those contained in the FSAP, ROSC and Article IV staff reports. On 15 December 2011, the Minister of Finance issued the amended Regulations, which address the Basel Committee measures, published on

35 Available at http://www.imf.org/external/np/sec/pn/2011/pn11115.htm.

13 July 2009, to strengthen the 1996 rules governing banks' trading book capital and to enhance the three pillars of the Basel II framework. As previously mentioned, these amended Regulations were implemented with effect from 1 January 2012.

- The IMF strongly supported the National Treasury's intention to move towards a twin peaks regulatory and supervisory framework over the next few years.[36] The Staff Report explained that because the initiative strived to concentrate prudential authority under one peak and market conduct authority under the other, it boded well for further improving the consolidated supervision of financial groups. According to the IMF, a twin peaks model will also rightfully elevate the status of market conduct regulation and supervision given the high concentration and interconnectedness of the financial industry. It was, however, highlighted that prudent management of the transition would be required to minimise regulatory uncertainty while keeping the focus on surveillance and risk management.

  The Department continues to make progress towards the implementation of the twin peaks financial regulatory model.

- The Staff Report cautioned the Department against further liberalising controls on capital outflows from resident non-bank financial institutions. It was noted that banks had granted mortgage loans to customers with funds from corporates and non-bank financial institutions, whose ability to invest abroad had been gradually increased with the liberalisation of controls. Although the Bank recognised the risk in principle, it noted that the limits had not been binding because of a clear home bias. The Staff Report indicated that the ongoing implementation of the Basel III liquidity requirements, which included a thorough review of incentives embedded in the legal and regulatory framework, taxation, and market practices, would mitigate the potential risks. Further steps in the gradual liberalisation of controls would need to factor in the capacity of the financial system to manage cross-border risks.

  While the Department has noted the concern of the IMF, it has not yet identified significant adverse effects of the liberalisation of controls on capital flows on the banking sector. However, the Department continues to analyse significant trends in the sector as part of its normal operations.

1.8 The International Monetary Fund financial soundness indicators

In June 2001, the IMF's Executive Board endorsed a list of 12 core and 28 encouraged financial soundness indicators (FSIs), which are applicable to deposit-takers, other financial and non-financial corporations, households and real-estate markets. Currently, over 60 countries report FSIs on a regular basis to the IMF. The purpose of the FSIs is to support macroprudential analysis; enhance financial stability analysis in member countries; and aid the compiling of comparable financial stability indicators across countries. The FSIs were also compiled in response to recommendations made by the Group of Seven countries in April 2001, and aim to assist member countries in developing sound financial sectors to protect themselves against financial vulnerabilities. The FSIs also address the second recommendation of the report entitled "The Financial Crisis and Information Gaps"[37] endorsed by the G-20 in November 2009, namely, that of monitoring risk in the financial sector. The FSIs are used to strengthen the IMF's surveillance as part of the FSAPs and the Article IV consultations.

over 60 countries report FSIs on a regular basis to the IMF

The Department has been participating in the IMF's FSI initiatives since 2005. During 2011 the Department started reporting the FSIs on a monthly basis to the IMF.[38]

36 Refer to section 1.3 for more information in this regard.
37 Available at http://www.imf.org/external/np/g20/pdf/102909.pdf.
38 The data reported by the Department to the IMF is available at http://elibrary-data.imf.org/Report.aspx?Report=4160276&Country=199.

1.9 Participation in international surveys

In addition to responding to numerous queries from the public relating to various aspects of the banking sector, the Department was invited to participate in a number of surveys conducted by international entities during 2011. This section provides a high-level overview of the Department's participation in two of the key surveys.

1.9.1 World Bank survey on bank regulation and supervision

This survey was initiated in 1999 with three follow-up surveys conducted in 2003, 2007 and 2011 respectively. The objective of the survey was to collect information on how banks are regulated and supervised around the world, including requirements and regulatory powers regarding bank entry, ownership, capital, activities, auditing, governance, liquidity, provisioning, disclosure, deposit insurance, disciplining powers including bank exit, and consumer protection. The 2011 survey was comprehensive, with over 1 000 lines of data collected relating to the period from 2008 to 2010. The results of the 2011 survey will be made available on the World Bank's website and will enable countries to benchmark their practices against each other. The results of previous World Bank surveys can be viewed on its website.[39]

1.9.2 Global standard-setting bodies and financial inclusion

During the November 2011 Seoul Summit, the G-20 approved its Financial Inclusion Action Plan which not only recognises the commitments of standard-setting bodies to support financial inclusion, but also encourages such bodies to explore further complementarities between financial inclusion and their own mandates. The G-20 launched the Global Partnership for Financial Inclusion (GPFI) to support standard-setting bodies and to implement the G-20's Financial Inclusion Action Plan. The GPFI was officially launched on 10 December 2010 and includes both G-20 and non-G-20 countries, as well as other stakeholders who are committed to strengthening co-ordination and collaboration on financial inclusion. The GPFI tasked its implementing partner, the Alliance for Financial Inclusion (AFI), to conduct five country-specific case studies (which included South Africa) to explore the application of the standard-setting bodies' standards and guidance at country level. The Department participated in the survey in its capacity as a member of the Basel Committee.

As a result of the surveys conducted, two reports and a white paper entitled "Global Standard-setting Bodies and Financial Inclusion for the Poor – Towards Proportionate Standards and Guidance" were prepared.[40] Some of the conclusions reached from the country-specific case studies indicate that standard-setting bodies have achieved various accomplishments to date and are taking further actions to create a more enabling environment for financial inclusion. The country-specific case study on South Africa is available from The Centre for Financial Regulation and Inclusion,[41] a non-profit organisation based in Cape Town which was contracted by the AFI.

39 Available at http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH /EXTPROGRAMS/EXTFINRES/0,,contentMDK:20292126~menuPK:546154~pagePK:64168182~piPK:64168060~theSitePK:478060,00.html.
40 Available at http://documents.worldbank.org/curated/en/2011/01/15301682/global-standard-setting-bodies-financial-inclusion-poor-toward-proportionate-standards-guidance.
41 The case study is available at http://www.cenfri.org/k2/item/99-standards-setting-bodies-ssbs-and-financial-inclusion.

1.10 Compliance with anti-money laundering and the combating of the financing of terrorism standards

1.10.1 Introduction

The Department strives to maintain an effective compliance framework and operational capacity to oversee compliance by banks with AML and CFT standards. In order to achieve the Department's objective to maintain an effective compliance framework and operational capacity to oversee compliance by banks with AML and CFT standards, it co-operates with the Financial Intelligence Centre (FIC) by enforcing all FIC guidance notes, circulars and other announcements to all banks. In addition, the Department also meets periodically with the FIC to discuss matters of mutual interest or concern with regard to banks' compliance with AML and CFT standards. Key developments pertaining to AML and CFT standards and interactions between the Department and the FIC during 2011 are discussed in more detail in the following sections.

the Department meets periodically with the FIC to discuss matters of mutual interest

1.10.2 Expansion of supervisory duties in terms of the Financial Intelligence Centre Act, 2001

The scope of the Department's supervisory duties has been expanded in terms of the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001 – the FICA), to include more proactive assessments of whether banks are complying with its provisions. For this purpose, two new review teams, comprising a total of ten staff members, have been established in the Department. These teams will, on a continual basis, perform on-site inspections pertaining to banks' adherence to AML and CFT requirements. The on-site inspections will cover all registered banks and assess and enforce compliance with the FICA, including any order, determination or directive made in terms of the FICA. The two review teams' on-site inspection plan for 2012 includes some of the large banks, some smaller domestic banks and one foreign branch. Furthermore, the two review teams will hold bimonthly AML and CFT meetings with the five large banks to discuss AML and CFT compliance-related issues. Representatives from the FIC will also be invited to these meetings. In addition, section 43A of the FICA also empowers the Department to issue directives to banks relating to AML and CFT compliance. The two review teams, in conjunction with other relevant teams within the Department, will recommend sanctions to be imposed by the Registrar on those banks failing to comply with the provisions of the FICA.

two new review teams established in the Department

1.10.3 Mechanisms to improve compliance with the Financial Intelligence Centre Act, 2001

In February 2011 the Minister of Finance requested the FIC to consider various mechanisms to improve compliance with the FICA. Among other issues identified, the Minister of Finance indicated that the inefficient application of the FICA by accountable institutions was regarded as a stumbling block for those seeking easy and affordable access to finance, and that it undermined the proper application of AML and CFT controls. It was also highlighted that banking institutions tended to identify their clients on either a service or product basis, rather than holding a single view of the client, which made it difficult for clients to switch from one bank to another.

In an effort to improve compliance with AML and CFT standards and enhance the integrity of data sources being used, it was decided that a new integrated process should be designed. In this regard the FIC requested the Department to embark on a joint strategic campaign for credit risk and FICA compliance purposes in order to direct the banks towards adopting and applying a client-view approach across their business systems and processes.

1.10.4 Banks' inability to block credit card transactions below the floor limit

The Department, the National Payment System Department (NPS) of the Bank and the FIC met in August 2011 to discuss concerns with regard to the practice of certain banks issuing credit cards without proper identification and verification of clients. Another concern expressed is the fact that banks are unable to freeze credit card transactions that are below the set floor limits owing to industry constraints. The FIC, the Department and the NPS have engaged with the banking sector in an effort to determine ways to resolve these issues.

1.10.5 Cash threshold reporting

the Department arranged individual CTR working sessions with the big five banks

During the period under review the Department participated in FIC-arranged individual cash threshold reporting (CTR) working sessions with executive and senior delegates of the big five banks in South Africa. The purpose of these sessions was to discuss technical issues related to the resubmission of failed CTR batches experienced by the banks when filing reports to the FIC and to determine ways in which to resolve them. In terms of section 28 of the FICA, banks as accountable institutions are required to submit reports on transactions that are above a R24 999,99 threshold in batches to the FIC. In instances where such reports do not comply with the FIC's prescribed requirements regarding mandatory information, the reports are rejected. Thereafter, banks are required to correct their reports in batches and resubmit to the FIC together with a form entitled 'Annexure A', confirming that they have failed to meet the prescribed requirements. However, the banking sector raised various concerns regarding the wording used in the form. Accordingly, following discussions between the Department, the FIC and relevant members from the banking industry, the FIC agreed to review and amend the form. Banks subsequently started completing Annexure A as prescribed.

1.10.6 Public Compliance Communication No. 03A: Identification and verification matters relating to account opening procedures for asylum seekers and refugees in terms of the Financial Intelligence Centre Act, 2001

Information contained in PCC No. 03A (PCC 03A) provides an interim measure that is intended to assist accountable institutions in instances where an official identification document is not available, and stipulates the circumstances under which reliance can be placed on the section 22 and section 24 permits issued in terms of the Refugees Act, 1998 (Act No. 130 of 1998 – the Refugees Act) as alternative forms of identification.

In terms of PCC 03A, accountable institutions should first verify the information with the Department of Home Affairs (DHA) before accepting the said section 22 and section 24 permits as proof of identification. For this purpose the DHA has established a call centre to assist institutions with the verification process. However, banks informed both the Department and the FIC that the DHA's call centre was not operational and as such the banks were unable to perform the required verification. Consequently banks were unable to open any refugee accounts due to the fact that any other alternative solution would be in contravention of PCC 03A. The Department is in discussions with the FIC in order to find an appropriate solution to this problem.

1.10.7 Compliance matters related to cash threshold reporting submissions

Issues related to banks' compliance with CTR requirements included the following:

- banks failed to secure outstanding know-your-customer information;
- certain client accounts were closed subsequent to CTR reporting dates;
- CTR records were submitted after reporting cut-off dates; and
- resubmission of CTR batches without proper completion of all relevant documentation.

1.10.8 Amendments to legislation

The relevant FIC requirements and recommendations related to customer due diligence, correspondent banking and shell banks have been incorporated into the banking regulatory framework. Refer to regulation 36(17) of the amended Regulations in this regard.

1.10.9 Financial Intelligence Centre enforcement forum

The FIC, as part of its duty to monitor and provide assistance to supervisory bodies in terms of section 4(c) of the FICA, hosted the first quarterly FICA Enforcement Forum meeting on 6 December 2011. Key issues discussed at the meeting included the following:

- development of a sanctioning model for the various offences prescribed in section 45 of the FICA;
- the enforcement framework of each supervisory body;
- the sharing of inspection reports conducted in terms of the FICA by supervisory bodies;
- planning in respect of future inspections; and
- the role of the FIC in terms of inspections conducted by supervisory bodies.

1.11 Skills development

1.11.1 Introduction

The Department spent R948 447,00 on the training of its staff members during the year under review. The main purpose of the training interventions was to develop the skills, knowledge base and competence of staff members. Furthermore, the comprehensive internal and external training interventions were provided to staff members at all levels and were aimed at improving banking-industry knowledge and interpersonal, business, and information technology skills. Staff members are continually encouraged to pursue further studies for professional growth and development, and the Department provides a support scheme consisting of financial support and study leave for relevant, approved courses. In addition, the Department reimburses membership fees for approved professional associations and supports professional education programmes provided by these associations.

comprehensive internal and external training interventions were provided to staff members

1.11.2 Key training interventions

Tables 1.1 and 1.2 list the training interventions attended during the year under review. A brief description of certain key training interventions is also provided in the following sections.

Table 1.1 Key local training interventions

Training intervention	Date
Induction programmes (for new staff)	Various courses during 2011
Advanced induction programmes (for new staff)	4–7 April 2011 28–30 June 2011
South African Institute of Chartered Accountants update seminars	Various seminars during 2011
Gartner symposium	23–25 September 2011
Oracle users group conference	14–15 November 2011
Risk and Return South Africa 2011 conference	3–4 March 2011
Internal Capital Adequacy Assessment Process seminar	14–15 March 2011
Securitisation workshop	24 March 2011
Stress-testing and reverse-testing workshop	2–4 March 2011
Visual Basic workshop	11–13 May 2011
Managing and measuring operational risk	28 June – 1 July 2011
African outlook economic conference	12 July 2011
Liquidity and interest-rate risk seminar	7–9 November 2011

Table 1.1 Key local training interventions (continued)

Training intervention	Date
Stress-testing and beating risk seminar	28–29 November 2011
SA capital markets summit	10–11 November 2011
Bank risk management and Basel III	5–8 August 2011
Managing and analysing risk for banks	22–23 August 2011
Certificate in money-laundering compliance	23–25 May 2011 18–21 August 2011
Analysis workshops	24–25 February 2011 4–5 May 2011 30–31 August 2011
Compliance monitoring workshop	23–24 June 2011
Presentation skills	Various courses during 2011
Telephone and reception skills Completed staff work Emotional intelligence Situational leadership Programme for developing leadership and team skills course Time management	10–11 August 2011 22–23 February 2011 3 March 2011 8 March 2011 19–22 September 2011 12 July 2011
Performance management	Various courses during 2011
Business writing skills	Various courses during 2011
Bank supervision and stability course Financial markets course Introduction to central banking Introduction to derivatives National payments system Risk management Foreign exchange policies Public finance	12–13 April 2011 10–13 May 2011 16 May 2011 24–27 May 2011 1–2 June 2011 21–23 June 2011 26 July 2011 16–18 August 2011
Financial, retirement and estate planning	20 April 2011
Voice clinic	21 June 2011

Table 1.2 Key international training interventions

Financial stability seminar, Deutsche Bundesbank (Frankfurt am Main, Germany)	21–25 February 2011
Financial crisis – the role of deposit insurance seminar (Basel, Switzerland)	8–9 June, 2011
Financial soundness indicators workshop (Zambia)	10–14 July 2011
International seminar on financial regulation and supervision (Madrid, Spain)	17–23 July 2011
New challenges in financial regulation and supervision seminar (Cambridge, UK)	20–23 September 2011
World Council of Credit Unions, Savings and Credit Cooperatives congress (Accra, Ghana)	2–5 October 2011
Federal Reserve Bank of New York, bank supervision course (New York, US)	24–27 October 2011
FSI seminar on selected financial stability issues (Basel, Switzerland)	25–27 October 2011
Financial sector regulation for growth, equity and stability in a post-crisis world conference (Mumbai, India)	15–16 November 2011

1.11.3 Local training interventions

1.11.3.1 Risk and Return South Africa 2011 conference

During March 2011 a representative of the Department attended the Risk and Return South Africa 2011 conference in Cape Town, which was hosted by Risk magazine. A broad range of topics was covered, including the following:

- the industry outlook;
- assessing the impact of capital and liquidity reform;
- a round-table discussion by some South African banking heads of liquidity and treasury;

- decomposing market risk in equity markets;
- risk-managing volatility;
- analysing the impact of regulatory changes within the derivatives market;
- standardising central clearing and whether it can be implemented in South Africa;
- the convergence of risk management and portfolio construction;
- private equity in agriculture;
- a round-table discussion by chief risk officers of banks on risk management in the 'new normal' era;
- emerging markets versus developed markets: understanding the true risk; and
- a keynote address on rethinking risk management: from lessons learnt to taking action.

The attendees and speakers were from a wide spectrum of the financial services industry, including banks. Attendance at conferences such as this one provides the Department with valuable insights into the issues affecting the banking industry.

1.11.3.2 Certificate programme in money-laundering compliance and detection

In December 2011 four representatives of the Department successfully completed a certificate programme in AML compliance and detection presented by the Unit for Forensic Accounting at the University of Pretoria. The programme consisted of three block sessions of three days each; the completion of various assignments; and a written examination at the end of the year-long programme. Topics covered included, among others, domestic and foreign AML guidelines, laws and regulations, money-laundering schemes, case studies, responsibilities of accountable institutions, the financial intelligence authority, law enforcement and regulatory authorities, and an overview of AML-related activities.

1.11.3.3 Course on bank risk management and Basel III

In August 2011 a representative of the Department attended a course on bank risk management and Basel III, which was presented by Euromoney Training in Johannesburg. The course provided participants with an industry view in respect of the following key topics:

- developing an enterprise-wide risk management environment;
- raising the quality and transparency of the capital base;
- new approaches for assessing credit risk;
- market risk categories;
- funding liquidity risk;
- operational risk;
- stress testing; and
- other major risk types.

1.11.3.4 Course on managing and analysing risk for banks and corporates

During August 2011 a two-day training course was presented by professors Richard Cohen and James Bernstein in Johannesburg. The course covered, among other topics, the following:

- capital risk;
- economic capital;
- regulatory capital;
- accounting capital and IFRSs;
- risk-weighted assets;
- risk appetite;
- the Basel framework;
- credit risk;
- operational risk;
- market risk;
- trading risk;

- investment risk;
- asset and liability management including the asset and liability committee;
- value at risk; and
- analytical models and model validation.

The programme provided attendees with insight into analysing the key risks in a bank, risk analytics and risk drivers. It also provided an overview of risk management, focusing on the key risks and the implications of regulatory requirements.

1.11.3.5 Liquidity and interest-rate risk seminar

The Department hosted a three-day seminar during November 2011 on liquidity and interest-rate risk, presented by Mr Leonard Matz, an internationally recognised author, consultant and trainer on liquidity and interest-rate risk. Among other things, the course covered the following topics:

- measuring interest-rate risk;
- measuring liquidity risk;
- stress and scenario testing;
- interest-rate risk assumption sensitivity testing;
- risk governance;
- liquidity funds transfer pricing; and
- Basel III enhancements.

The knowledge gained at the seminar will further enhance the Department's ability to effectively assess and monitor ongoing compliance by banks with regard to the Basel III requirements.

1.11.3.6 The 9th Annual South African Capital Markets Summit

During November 2011 two representatives of the Department were afforded the opportunity to attend a summit on South African capital markets. The summit was hosted by the Information Management Network and endorsed by the South African Securitisation Forum.

A wide range of topics was covered, including the outlook for corporate and municipal funding strategies, bank lending, high-yield bonds, and secured and unsecured debt issuance volumes. The summit also examined recent developments in frontier markets (such as developing markets on the African continent) and recent legislative changes affecting capital markets. The consequences of the global financial crisis and its effect on the issuance of securities and market activity in sub-Saharan Africa were also discussed. The keynote speakers comprised a global economist, a political trends analyst and a private equity investor specialising in emerging Africa.

1.11.4 International training interventions

1.11.4.1 Financial stability seminar

The seminar was organised and hosted by the Centre for Technical Central Bank Co-operation of the Deutsche Bundesbank (the Bundesbank) in Frankfurt, Germany. The Bundesbank's 2010 *Financial Stability Review* essentially served as a guide book for the seminar. Topics such as the analysis of financial stability indicators, stress testing, rating models, and risk resulting from macroeconomic developments and financial markets were discussed in depth with the participants. Approximately 27 countries were represented at the seminar. Key aspects of financial stability analysis and surveillance were highlighted, with the aim of strengthening participants' theoretical and practical knowledge of the central bank's role in safeguarding the stability of the financial system. The seminar was primarily designed to provide both new and experienced employees the opportunity to broaden, update and exchange their knowledge of various aspects of financial stability analysis. Lectures were given by external specialists and experts from the Deutsche Bundesbank, augmented by participants' contributions from various central banking backgrounds.

1.11.4.2 Financial crisis: The role of deposit insurance seminar

The research seminar was held in Basel, Switzerland and was arranged jointly by the Bank for International Settlements (BIS) and the International Association of Deposit Insurers. The seminar not only focused on the effectiveness of deposit insurance schemes in preventing and resolving financial crises, but also assessed recent changes to deposit insurance schemes in a number of jurisdictions specifically within the context of wider resolution policy reforms in response to the global financial crisis.

1.11.4.3 International seminar on financial regulation and supervision

A representative of the Department participated in a seminar on financial regulation and supervision, which was hosted by the Bank of Spain in Madrid in July 2011. The seminar was attended by representatives of more than 25 central banks and covered the following key topics:

- regulatory developments and challenges;
- developing macroprudential instruments and tools, and macro-stress testing;
- risk-based supervision;
- home-host supervisory issues and supervisory colleges;
- on-site and off-site inspections;
- central banking: current trends and challenges ahead; and
- the new international financial architecture.

1.11.4.4 New challenges in financial regulation and supervision

In September 2011 a representative from the Department attended a seminar arranged by the Central Banking Publications Limited at Cambridge University, United Kingdom. The focus of the discussions was on new financial regulatory challenges following the global financial crisis. The following issues were highlighted by a number of presenters:

- Basel III implementation issues;
- the shadow banking system;
- the regulation of over-the-counter (OTC) derivatives;
- the development and design of macroprudential policies; and
- the regulation of systemically important financial institutions (SIFIs).

1.11.4.5 Specialised course in bank supervision

A representative of the Department attended a specialised course in bank supervision in September 2011, which was hosted by the Federal Reserve Bank of New York. A broad range of topics on bank supervision was covered, including the following:

- risk-focused supervision;
- guidance for an effective AML programme;
- internal controls;
- internal and external audit;
- effective techniques for stress testing and scenario analysis;
- supervision of Pillar 1 and Pillar 2 (supervisory review process) risks;
- corporate governance;
- the implementation of Basel III and recovery and resolution planning by the United States; and
- supervision of SIFIs.

The presenters were examiners and specialists from the Federal Reserve Bank of New York. The course was attended by participants from approximately 40 different countries. Such interventions provide invaluable input into the benchmarking of the bank supervision practices applied by the Department.

1.11.4.6 Financial Stability Institute seminar on selected financial stability issues

The Financial Stability Institute's seminar, held in Basel, Switzerland, targeted central bank staff members who are involved with issues relating to the assessment of the implementation of various economic and financial standards that are internationally recognised as important for sound, stable and well-functioning financial systems. The seminar covered aspects such as recent developments regarding sound standards for financial regulation and supervision for the financial sector, and work undertaken by international standard-setting bodies such as the Basel Committee, the International Association of Insurance Supervisors and the FSB. Other topics included challenges with macro-stress testing, countercyclical capital requirements, macroprudential supervisory frameworks and financial stability assessments.

1.12 Participation in regulatory and supervisory forums

1.12.1 Domestic forums

1.12.1.1 Financial Stability Oversight Council

the scope and composition of the FSOC are still under discussion

One of the key proposals contained in the National Treasury's policy document referred to in section 1.3 of this Report, namely "A Safer Financial Sector to Serve South Africa Better", includes the establishment of a Financial Stability Oversight Council (FSOC). The FSOC is jointly chaired by the Minister of Finance and the Governor of the Bank. The scope and composition of the FSOC are still under discussion as part of the broader regulatory reform project, but it is envisaged that it will assess macroprudential risks; influence other regulatory agencies to act in the interest of the financial system; and co-ordinate financial stability actions. The role of the FSOC is an evolving one, and it therefore requires a flexible approach to its function and composition until such time that more clarity and greater consensus in this regard have been reached.

1.12.1.2 Group of Twenty Task Team

a G-20 task team was established to assist in preparing South Africa's input at G-20 meetings

Recent changes in the global financial regulatory framework and the design and implementation of other complementary measures to support financial stability have been driven through the G-20 forum and its supporting structures. As a G-20 member, South Africa in principle supports the efforts made to address weaknesses and imbalances in the global financial regulatory framework and is committed to implementing reforms in the non-bank financial sector as new standards are developed by the various international standard-setting bodies. In this regard the Department is represented on a G-20 task team that was established to assist in preparing South Africa's input at G-20 meetings.

With regard to South Africa's input at G-20 meetings and supporting structures, the Bank and the Department have been continually voicing their concern that inadequate attention has been given to the appropriateness and necessity of some elements of the regulatory reforms in emerging-market economies (EMEs). The Department is of the view that while international regulatory standards should be based on universally-agreed and applied principles, the specific implementation of these principles should be allowed some flexibility and country-specific discretion. There are several instances where particular areas of reform have significant financial implications for EMEs, without necessarily reducing systemic risk or addressing key areas of financial risk in their jurisdictions. These matters will remain a key focus area for the Department during 2012.

1.12.1.3 Financial Sector Contingency Forum

The Department is responsible for co-ordinating the activities of the Financial Sector Contingency Forum (FSCF) and its subcommittees. The FSCF is an industry-wide forum with the primary objective of facilitating cross-sectoral co-operation in identifying threats to the stability of the South African financial sector. The FSCF also creates a co-ordinated network of contingency planning contacts across the financial services industry, and can act with authorities during a crisis to deal with disruptions that affect more than one firm or organisation. The FSCF facilitates co-operation between key financial sector institutions and regulators in times of crisis in the interest of swift and effective resolution. The FSCF is chaired by the Deputy Governor of the Bank responsible for bank supervision and financial stability.

the FSCF facilitates co-operation between key financial-sector institutions and regulators in times of crisis

Members of the FSCF include regulators (the Bank, the Financial Services Board and the Department); self-regulatory organisations such as the JSE Securities Exchange and Share Transactions Totally Electronic; the Payments Association of South Africa; Bankserv; the National Treasury; and the Banking Association of South Africa (BASA). The FSCF meets biannually, but the chairperson has the discretion to call ad hoc meetings or convene the FSCF in a crisis. The FSCF has two subcommittees, namely the Operational Risk Subcommittee (ORS) and the Financial Risk Subcommittee (FRS). These two subcommittees are discussed in greater detail below.

1.12.1.4 Operational Risk Subcommittee

The ORS is well represented with members comprising various departments within the Bank, the five major banks in South Africa and representatives from other regulatory authorities. The objectives of the ORS are firstly to identify and monitor operational risks in the financial sector that could potentially have a systemic impact, and secondly to develop, test and maintain suitable crisis management and contingency plans to mitigate these risks. The functions of the ORS are as follows:

- Develop and maintain a financial sector operational risk matrix.
- Identify and monitor business continuity management and risk-management practices within member organisations that could potentially have systemic implications.
- Develop response strategies for identified operational threats that could potentially have a systemic impact.
- Assess the resilience and operational integrity of the communication infrastructure.
- Assess the resilience and operational integrity of the financial sector settlement and clearing system.
- Assess and evaluate the effectiveness of plans and structures through appropriate testing exercises.

1.12.1.5 Financial Risk Subcommittee

The FRS has a very limited number of members due to the sensitive nature of banking-sector data. FRS members mainly comprise representatives from the Bank and the National Treasury. While this subcommittee may involve participants from other regulatory authorities as deemed necessary, such participants would not be full-time members of the FRS.

The objectives of the FRS include developing, documenting and testing contingency plans for responding to financial crisis situations. Such plans may take on various forms, for example, a one-bank liquidity shortage; systemic liquidity problems stemming from a dysfunctional interbank market; a foreign-exchange liquidity shortage; or the failure of a SIFI.

the objectives of the FRS include developing, documenting and testing contingency plans

1.12.1.6 Insolvency and Creditor Rights Steering Committee

The Insolvency and Creditor Rights Steering Committee met for the first time during May 2011 to review a draft report entitled “Report on the Observance of Standards and Codes: Insolvency and Creditor Rights” (the Report), which had been issued by a World Bank project team following their visit to South Africa in March and April 2011. The World Bank project team set out to review the legal and regulatory frameworks for creditor-debtor rights and corporate insolvency systems in South Africa.

Established by the National Treasury, the steering committee's mandate is to advise the World Bank project team on insolvency and creditor rights (ICR) in South Africa and to provide constructive input to the Report to ensure it accurately and sensitively reflects the legal and practical aspects of the ICR programme for South Africa. The steering committee comprises a representative sample of key regulators and public-sector representatives, including the Department.

The conclusions obtained in the Report are based largely on interviews held with various stakeholders; a review of applicable legislation;[42] data and information obtained on the subject of ICR; the investment climate in South Africa; and the contributions of the steering committee. In addition, a number of commercial banks provided responses to a questionnaire soliciting the data, information and experience of the banks on credit risk management issues, corporate recovery practices and levels and treatment of distressed assets. The World Bank project team's final report is pending finalisation.

1.12.1.7 Directorate of Market Abuse

The Department participates in the activities of the Directorate of Market Abuse (DMA), a subcommittee of the Financial Services Board with the statutory mandate to investigate cases of, and enforce the prohibitions against, market abuse as stipulated in the Securities Services Act, 2004 (Act No. 36 of 2004 – the SSA).

Market abuse consists of insider trading (prohibited in terms of section 73 of the SSA), market manipulation (prohibited in terms of section 75 of the SSA), and false reporting (prohibited in terms of section 76 of the SSA).

Members of the DMA are nominated in accordance with their availability and specialised knowledge in the fields of commercial law, accounting or financial markets. They meet approximately four times a year to decide on possible cases of market abuse. DMA members are appointed for a period of three years, after which they may stand for re-election or relinquish their nomination.

1.12.1.8 Capital Task Group

a Basel III capital task group was established under BASA

A Basel III capital task group was established under BASA, with all seven of the South African banks that participated in the Basel Committee's Quantitative Impact Study (QIS) being members of the task group. The Department has also been invited to participate in the meetings. The main objective of the task group is to deliberate key areas pertaining to the implementation of the new definition of capital requirements under the Basel III framework and to provide suggested recommendations on matters that require guidance or clarity to the Department's Policy Committee for consideration. These meetings, which are facilitated by BASA, have been held regularly since November 2011 and will continue to be held during 2012.

1.12.1.9 Structural Funding and Liquidity Risk Task Team

Under the direction of the Minister of Finance, a financial cross-sectoral task team was established in 2010 and commissioned to consider issues relating to the lack of retail savings; the disintermediation of banks due to the increase in money-market funds; and the disparate regulatory treatment of banks and money-market funds. The NSFR detailed in the liquidity framework imposed by the Basel Committee is a core metric for effecting the national funding structure on the liquidity risk of banks in South Africa. In addition, the task team evaluated the impact of endogenous funding structures on the Basel III LCR.[43]

42 Among the numerous statutes that have been analysed for the assessment are the Insolvency Act, 1936 (Act No. 24 of 1936), the Deeds Registries Act, 1937 (Act No. 47 of 1937), the Magistrates' Court Act, 1944 (Act No. 32 of 1944), the Companies Act, 1973 (Act No. 61 of 1973 – the Companies Act), the Close Corporations Act, 1984 (Act No. 69 of 1984), the Security by Means of Movable Property Act, 1993 (Act No. 57 of 1993), the Cross-Border Insolvency Act, 2000 (Act No. 42 of 2000), the National Credit Act, 2005 (Act No. 34 of 2005), and the new Companies Act.

43 Refer to section 1.2.2.2 for a more detailed discussion of the LCR and the NSFR.

The Department has senior representation on both the task team's steering and technical committees. Other members of the technical committee include representatives from the National Treasury, the Financial Services Board, BASA, the Association for Savings and Investment SA, and invited domestic banks and asset management firms.

The work of the technical committee has been assigned to several workstreams, whose ambit of investigation includes the structural funding profile of the South African financial sector; the distribution of savings between different products; regulatory asymmetries; the business models of financial institutions as they pertain to structural funding and liquidity risk management; and the management of liquidity risk in banks as affected by the LCR.

1.12.1.10 Liquidity Coverage Ratio Task Group

In support of the objectives of the structural funding and liquidity risk task team, BASA established a task group to consider factors affecting domestic compliance with the Basel III LCR. The Department was assigned observer status. The task group investigated the sensitivity of the LCR to changes in its variables using representative data obtained from the banks that participated in the task group. Some of this information was assimilated into position papers. Although the work of the task group has been concluded, certain position papers were addressed to the Department for consideration against domestic application of elements of the Basel III liquidity framework where regulators are entitled to exercise national discretion.

1.12.1.11 Banking Project Group

The Department is represented on the South African Institute of Chartered Accountants (SAICA) Banking Project Group (BPG). The BPG aims to provide a specialist forum to assist SAICA to:

- participate proactively in standard setting that will affect the banking industry;
- provide proactive input to the Bank in order to influence legislation relating to banking; and
- identify and appropriately communicate issues of importance to auditors, preparers and users of financial statements of banks, and other industry role-players that are members of SAICA in order to enhance their professional competence.

The BPG's activities cover issues relating to auditing, accounting and regulation that impact the banking industry.

1.12.1.12 Over-the-counter Derivatives Steering Committee

The OTC Derivatives Steering Committee was established in 2010. Its primary function is to oversee the development of the proposed regulation of the OTC derivatives market. The Department is an active participant on the OTC Derivatives Steering Committee, providing insight into and a perspective on the OTC activities of banks and the controls imposed upon them through the Regulations. The development of proposed regulations specifically for OTC derivatives is aligned to the reforms called for at the G-20's Pittsburgh Summit held in 2009.

The regulatory reforms aim to improve transparency in the derivatives markets, mitigate systemic risk and protect participants against market abuse. More specifically, the G-20 agreed that:

> All standardised OTC derivatives should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.[44]

The OTC Derivatives Steering Committee has commissioned a consultation paper on the proposed regulation of the South African OTC derivatives market.

44 World Federation of Exchanges, *Focus*, (London, World Federation of Exchanges, February 2012), 4.

1.12.1.13 Postbank Corporatisation Committee

The Postbank Corporatisation Committee is a subcommittee of the National Treasury and was established in 2005. It comprises representatives from the Department of Communications, the South African Post Office, Postbank, the FIC, the NPS of the Bank and the Department. The mandate of the Postbank Corporatisation Committee is to develop and implement the corporatisation strategy of Postbank, which includes overseeing the following outputs:

- The introduction of necessary amendments to the Postal Services Act, 1998 (Act No. 124 of 1998) to give effect to the intended corporatisation. This came to pass with the repealing of sections 51(1), (3) and (4), 52, 53, 55 and 58 by the Postbank Act.
- The establishment of a corporate structure. This became effective with the passing of the Postbank Act in 2010.
- Overseeing the process of licensing Postbank in terms of the Banks Act.

The Postbank Corporatisation Committee meets on an ad hoc basis, ranging in frequency from fortnightly to monthly, to discuss the progress made with the licensing process. An update specifically with regard to Postbank is provided in section 3.7 of this Report.

1.12.2 International forums

1.12.2.1 Basel Committee on Banking Supervision Policy Development Group: Trading Book Group

The Department is represented on the Trading Book Group (TBG), a subgroup of the Policy Development Group (PDG) of the Basel Committee. In terms of the PDG's mandate it identifies and reviews supervisory issues and oversees the development of various policies. These activities are executed through several of the PDG's subgroups.

the TBG is concerned with addressing issues emanating from the implementation of the Basel II.5 framework and is focusing on a fundamental review of the market risk capital framework

The TBG deals primarily with market risk. The TBG is currently concerned with addressing issues emanating from the recent implementation of the Basel II.5 framework, which significantly altered the capital charges for market risk. The TBG is also focusing on a fundamental review of the market risk capital framework. Part of the review is concentrated around the debates regarding the relevance and definition of the distinction between the trading book and the banking book; how trading activities are defined; and how risks in trading books (that is, market risk charges) should be covered by appropriate levels of regulatory capital.

Discrepancies between the standardised and internal model approaches to reporting market risk are also being dealt with by the TBG. Among other disparities, concern was voiced in some jurisdictions that exposures to sovereign bonds inappropriately carry no capital under the standardised approach (STA), while under the internal models approach (IMA) volatility in the value of sovereign bonds gives rise to a capital charge. The methods for calculating capital under both the STA and IMA are currently receiving attention to reduce the effects of inappropriate diversification recognition and double counting. Market liquidity as a limitation to banks' ability to trade is also being assessed in the TBG's review.

1.12.2.2 Standards Implementation Group Operational Risk

The Standards Implementation Group Operational Risk (SIGOR) is a permanent working group of the Standards Implementation Group, which in turn is a subcommittee of the Basel Committee, and it focuses on operational risk implementation issues. The Department is an active member of SIGOR.

The principal focus of SIGOR is the practical challenges associated with the successful development, implementation and maintenance of an operational risk framework that addresses the requirements and expectations of the Basel Committee's advanced measurement approach (AMA). SIGOR members share operational risk implementation issues that they have identified within their respective jurisdictions and actively participate in developing resolution plans.

Another important element of SIGOR's mandate is to facilitate the resolution of issues associated with the cross-border supervision of international banking groups, especially in relation to operational risk. The sharing of information and experiences among SIGOR members on the practical challenges associated with the implementation and maintenance of an operational risk framework under the AMA continued during the period under review.

1.12.2.3 Capital Monitoring Group

The Basel Committee established the Capital Monitoring Group (CMG) to monitor effectively the level and cyclicality of minimum required capital (MRC) produced under the Basel II framework. The CMG collects and analyses data from banks that have adopted one of the internal ratings-based (IRB) approaches to calculating their MRC in respect of credit risk and reports the results of its analysis to the Basel Committee every six months. The analysis covers areas such as MRC, capital ratios and buffers, risk-weighted assets, portfolio-level exposures, risk parameters and transitional floors. The CMG also shares experiences in monitoring capital requirements and the levels of capital on a national basis.

At present data from 105 banks across 15 countries are collected and analysed for inclusion in the CMG report submitted to the Basel Committee. The data are submitted by national supervisors via standard reporting templates based on information received from the respective banks in their jurisdictions. The Department has participated in the CMG since its inception in 2008, and collates the required data from the relevant BA returns for the large IRB banks in South Africa before confidentially submitting them to the CMG.

1.12.2.4 Basel Committee on Banking Supervision Quantitative Impact Study working group

The Basel Committee initially established the QIS working group to calibrate the new Basel III rules and to assess the impact thereof on participating banking groups and member countries. The QIS working group subsequently evolved to fulfil the function of monitoring the implementation of the Basel III framework by participating banking groups and member countries. The QIS exercise takes place biannually with end-June and end-December reporting dates.

the QIS exercise takes place biannually with end-June and end-December reporting dates

During the year under review, the QIS working group's role and responsibilities included the computation of quantitative impacts based on reported data and the development and implementation of the QIS. The scope of the QIS exercises included:

- changes to the definition of capital;
- enhancements to risk coverage (including the revisions to the market risk framework, counterparty credit risk measurement and the capital requirements for securitisations held in the banking book);
- the leverage ratio; and
- the standards developed by the Basel Committee's working group on liquidity.

From an international perspective the QIS exercise has been performed in respect of end-December 2010 and end-June 2011 data, with 216 banks from 27 Basel Committee member jurisdictions participating. The QIS working group met twice during 2011 and South Africa will continue to participate actively in the Basel Committee's QIS exercises during 2012.

1.12.2.5 Financial Action Task Force working group and plenary meetings

A departmental representative attended the FATF working group and plenary meetings held in October 2011 in Paris, France, at the offices of the Organisation for Economic Co-operation and Development (OECD). Three respective working groups on typologies, terrorist financing and money laundering, and evaluations and implementation discussed various matters on the first three days, followed by two days' plenary meetings during which recommendations and reports from the working groups were discussed.

The process of revising the FATF standards commenced approximately two years ago. Three outstanding issues relating to the revised standards were discussed, namely, (1) the revision of recommendation 33, which deals with the transparency of legal persons; (2) the amendment of recommendation 34, which deals with the transparency of legal arrangements, namely, trusts; and (3) beneficial ownership issues.

the revised FATF standards were adopted at the FATF plenary meeting held in February 2012

The revised FATF standards were sent out for private-sector consultation and were discussed at the Private Sector Consultation Forum (PSCF) meeting held in Milan, Italy, in December 2011. It was decided that the order of the recommendations would be changed, and that the nine CFT recommendations would be incorporated into the forty new revised recommendations. The FATF held a special plenary meeting in January 2012 where the remaining issues relating to the revised standards were discussed and appropriately refined. The revised FATF standards were adopted at the FATF plenary meeting held in February 2012. It was resolved that the revised standards would become the criteria against which future evaluations would be measured. Member countries will also be required to incorporate the revised standards into their legislation.

The FATF is currently exploring an assessment tool that will, in addition to measuring countries' technical compliance with AML and CFT measures, also assess the effectiveness of such measures. The assessment tool will be used during the fourth round of mutual evaluations and will eliminate any subjectivity during assessors' rating of the effectiveness of countries' AML and CFT measures. The assessment criteria for effectiveness will be agreed upon at the upcoming plenary meetings, and will form the basis for evaluating FATF members' jurisdictions in future.

1.13 Regional co-operation and interaction

1.13.1 Financial Stability Institute: High-level meeting for African banking supervisors

The Financial Stability Institute and the Department jointly hosted a high-level meeting in Cape Town, South Africa, in January 2011. The meeting focused on the emerging framework to strengthen banking regulation and financial stability for Africa. The attendees included, among others, the then Chairperson of the Basel Committee, Mr Nout Wellink, the Governor of the Bank, Ms Gill Marcus, and the Chairperson of the Financial Stability Institute, Mr Josef Tošovský. Key topics covered at the meeting included the following:

- A high-level overview of the Basel III framework and its focus on addressing fundamental shortcomings of the current supervisory framework.
- The global shifts happening in the financial sector in the aftermath of the global financial crisis.
- The importance of capital for sound banking systems, the role of capital and evolving capital regulation.
- The Basel III liquidity standards and their potential impact on banks' balance sheets and ability to extend credit.
- The new framework on banking supervision in the European context.
- The broader regulatory reforms, structural changes within the regulatory environment and the rationale behind the changes in the United Kingdom.
- An overview of trends in the development of the African financial sector, and the needs and challenges of bank supervision on the continent.
- An overview of the tools aimed at mitigating systemic risk built into the Basel III framework.
- The systemic symptoms of the global financial crisis, including the impact on global economic performance.
- The interconnectedness of economies and institutions in a global context.
- The supervision of systemically important banking institutions.
- Practical aspects on contingency planning and simulation exercises.

1.13.2 Regional workshop on financial soundness indicators

A representative of the Department attended a regional workshop on FSIs in July 2011 and an FSI reference group meeting in November 2011, both of which were hosted in Lusaka, Zambia. The regional workshop in July formed part of the Enhanced Data Dissemination Initiative for Africa Project and was attended mainly by participants from countries in sub-Saharan Africa. The workshop focused on, among other topics, the methodology employed for the compilation of FSIs; the completion of the FSI templates; and country-specific issues relating to the compilation and reporting of FSIs. Feedback from the majority of participants indicated that most countries that were already submitting FSIs did not experience challenges reporting the core set of 12 FSIs (as referred to in section 1.8 of this Report). The need for further refinement of the FSIs that had posed particular challenges as a result of the use of different definitions in the various jurisdictions was also discussed.

cross-country comparability remained a challenge

The objective of the FSI reference group meeting held in November 2011 was to advance the work already done on FSIs in view of the need to have a general framework for producing stability indicators in terms of the requirements of the Basel III framework. It was, however, highlighted that cross-country comparability remained a challenge as it was not easy to fully standardise the indicators. The meeting agreed to make the indicators more useful and relevant, and one of the challenges identified in this regard was the need to disseminate the FSIs. To date, seven FSIs have been included in the Special Data Dissemination Standards, with a proposal considered to increase this number to nine. It was furthermore proposed to include indicators relating to the real-estate market. The recommendations from the meeting will be submitted to the IMF's Executive Board for consideration.

1.13.3 Southern African Development Community Committee of Banking Supervision

The objectives of the Southern African Development Community (SADC) Committee of Banking Supervision are to establish a framework for co-operation between SADC central banks on banking regulatory and supervisory matters. In support of the above objectives the committee is undertaking the following key projects:

- The development of a model banking act. A working group comprising representatives from Zimbabwe, Malawi, Zambia and South Africa, the latter being represented by a member from the Department, has been formed to drive this project. The working group met in Lusaka, Zambia, in August 2011 to develop a draft work plan. It was proposed at the annual meeting held in Maseru, Lesotho, that Angola be added to the working group.
- The roll-out of a bank supervision application developed by the Information Technology Subcommittee of the SADC Committee. Ten of the eleven countries who subscribed for the project have implemented the bank supervision application.
- Ensuring full compliance with the Core Principles. It was agreed that members should perform a self-assessment of their level of compliance using the template South Africa had used when it completed its own self-assessment in 2006. It was reported at the annual meeting that the initial target date of June 2010 for the completion of the self-assessment by member countries had not been met. Member countries were again encouraged to complete the self-assessments.
- The implementation of Basel II by all member countries. It was agreed during a meeting held in Kinshasa, Democratic Republic of Congo, in April 2010 that all countries should have implemented at least the simplest version of Basel II in respect of each of the Pillar 1 risk areas, that is, credit, market and operational risk by 2014.
- The committee is engaged in arranging training interventions for member countries in areas identified by them with the objective of upgrading skill levels in banking supervision within the SADC region.

- Compliance with the International Accounting Standards and the IFRSs by all member countries. A target date of December 2012 was set for full compliance by all member countries.

1.14 Issues to receive particular attention during 2012

In addition to fulfilling its normal regulatory and supervisory tasks, the Department will also focus on the following issues during 2012:

- Participation in international regulatory and supervisory standard-setting forums at which the Department is represented, with a view to positively influencing the ongoing development of international regulatory and supervisory standards.
- Continued refinement of the supervisory framework in terms of Basel II.5 and ongoing adjustments to the framework required in terms of the Department's Basel III implementation process.
- Continual reviewing, amending and updating of the regulatory and legislative framework in accordance with the latest internationally agreed regulatory and supervisory practices and standards.
- Further development and refinement of the supervisory framework and processes to discharge the Department's responsibilities in terms of the FICA.
- Continued investigation of illegal deposit-taking schemes and participation in consumer education initiatives in this regard.
- Organisational restructuring in anticipation of the implementation of the twin peaks regulatory framework.
- Continued monitoring of credit extension trends and the impact thereof on the risk profile of the banking sector.
- Ongoing assessment of securitisation trends and regulatory challenges related thereto.
- Further investigation into shadow banking and the inter-linkages with the formal banking sector.

1.15 Expression of gratitude

I wish to express my appreciation to the Minister of Finance, Mr Pravin Gordhan, firstly for endorsing my appointment as Registrar and secondly for his input on requests in terms of statutory requirements. To the Governor of the Bank, Ms Gill Marcus, and Deputy Governor Lesetja Kganyago: thank you for the co-operation, guidance and support you have afforded me since my appointment as Registrar on 1 November 2011. To my predecessor, Mr Errol Kruger: I thank you for the good health in which you left the bank supervision function in general and the Department in particular.

My sincere appreciation goes to the staff members of the Department, for their continued efforts and willingness to meet the ever-changing challenges and demands that form part of the prevailing supervisory and regulatory landscape. Their sustained commitment to ensuring the achievement of the Department's mission of promoting the soundness of the banking system and contributing to financial stability is truly inspiring.

While the most pernicious threats of the worst global financial crisis since the Great Depression have successfully been averted, the global economic recovery remains fragile. The world economy is entering uncharted waters, and the regulatory framework will necessarily have to be attuned to meet the state of flux in which the global economy currently finds itself. It is in this regard that I wish to affirm my unwavering commitment to working closely with all the key players in the banking sector, both domestically and abroad, many of whom I have not met, in order to attain the departmental mission as articulated above.

René van Wyk
Registrar of Banks