

Chapter 1: Registrar of Banks' review

1.1 Introduction

Over the past year, the global economic outlook has become more uncertain, driven in part by strong financial market reactions to the unabated decline in international commodity prices, with the oil price in particular slipping to its lowest level since 2004. Tightening financial conditions and lower commodity prices are providing significant headwinds to growth going forward.

The South African economy also experienced serious challenges during 2015, including a possible change of the South African sovereign credit rating to sub-investment grade. Growth continued to be constrained by weaker global trade and commodity price declines. The commodity price declines pose downside risks to the economic growth outlook in South Africa and many parts of Africa due to a high reliance on mining for employment, export growth and government revenue. Various South African banks have operations across Africa and are therefore exposed (directly and indirectly) to the downturn in the commodity super cycle. More idiosyncratic factors such as electricity shortages and the effects of the prolonged severe drought on the agricultural sector were also prevalent.

Consumers remained constrained against the backdrop of slow employment growth, declining disposable income and rising inflation. This, combined with tighter affordability criteria following the implementation of amendments to the National Credit Regulations, resulted in subdued growth in retail credit exposure.

Credit extension to the corporate sector, by contrast, has been buoyant. However, several increases in the repurchase rate of the South African Reserve Bank (the Bank) during the past 24 months, together with the economic backdrop and sovereign risk issue described above, require renewed focus on the sector's management of credit risk.

The Bank Supervision Department (Department) continued to monitor the impact of market conditions on South African banks' respective risk exposures, including credit risk profiles and portfolios, liquidity risk and market risk through a number of initiatives.

Against this backdrop, the South African banking sector remained financially sound and profitable during 2015. The sector was, and continues to be supported by a regulatory and supervisory framework that creates an environment which promotes the safety and soundness of individual banks and the whole banking system, as well as supporting an environment conducive to sustainable investment. However, effective banking supervisory practices, which form a key component of such a framework, are not static. The global financial crisis that started in 2007 highlighted the importance of a comprehensive and coordinated response from regulators and policymakers to carefully reform the internationally agreed regulatory and supervisory frameworks and standards, to secure and promote the safety and soundness of the global banking system.

In this regard, members of the Basel Committee on Banking Supervision (Basel Committee), including South Africa, finalised and implemented comprehensive amendments to their respective regulatory and supervisory frameworks during the past number of years to not only promote the safety and soundness of individual banks registered to conduct the business of a bank in their respective jurisdictions, but also the safety and soundness of the wider group of entities to which that bank belongs.

As part of its post-crisis reform efforts, the Basel Committee established the Regulatory Consistency Assessment Programme (RCAP)¹ to assess members' implementation of the Basel standards. The year under review saw the completion of South Africa's RCAP which focused on the local implementation of the Basel framework's risk-based capital standards and liquidity coverage ratio (LCR) standards. Following the implementation of selected amendments to the Regulations relating to Banks (Regulations) described in more detail in section 3.3 of this report, the RCAP assessment team found the local implementation of the risk-based capital regulations

1. For background information on RCAP, refer to clause 1.13 of the 2014 *Bank Supervision Department Annual Report*.

2. The full report is available at <http://www.bis.org/bcbs/publ/d322.pdf>

3. The full report is available at <http://www.bis.org/bcbs/publ/d323.pdf>

4. For further information, refer to African Bank Sens announcements, available at <https://www.africanbank.co.za/about-us/investors>.

5. The new African Bank was launched on 4 April 2016.

6. The Twin Peaks system recognises the different skill sets required for prudential and market conduct regulation. Prudential regulation is designed to maintain safety, soundness and solvency of financial institutions or funds, while market conduct regulation requires the perspective of a customer, which is a different regulatory perspective and philosophy.

to be 'compliant' with the Basel standards as all 14 components were assessed as 'compliant'.² South Africa's prudential regulations were also assessed and reported as 'compliant' with the standards on LCR and the LCR disclosure standards.³

During 2015 the Department continued to exercise its enforcement powers in terms of the Banks Act 94 of 1990 (Banks Act) with regard to illegal deposit-taking, as well as its supervisory responsibilities in terms of the Financial Intelligence Centre Act 38 of 2001 (FIC Act). With regard to the latter, the Department conducted routine supervisory inspections of banks' control measures for anti-money laundering and combating the financing of terrorism (AML/CFT). The Bank consequently imposed administrative sanctions on selected banks, which included financial penalties and the requirement that certain remedial actions be taken. Administrative sanctions were not imposed because banks were found to have facilitated transactions involving money laundering or the financing of terrorism, but as a result of weaknesses in their control measures.

The curatorship of African Bank Limited (African Bank) continued throughout the year under review. Significant progress was made to establishing the new 'Good Bank'. The curator appointed designate membership to the Board of Directors (Board) and senior management for the proposed new entity. Furthermore, the curator received support, in principle, from both the senior unsecured debt holder committee and the Tier II debt holder committee for the restructuring proposal of the Good Bank.⁴ An application for a banking licence was received and approved.⁵

The remainder of this chapter includes the discussion of the Department's strategic focus areas (SFAs), key local banking-sector trends and regulatory developments, results of the South African RCAP, international regulatory developments (including the Department's participation in those forums) and areas requiring attention during 2016.

1.2 Bank Supervision Department's strategic focus areas

The SFAs guide the activities of the Department to focus resources where the need is most pertinent. Each year the Department reviews its SFAs taking into consideration the changing external environment, changes emanating from international regulatory developments and emerging and actual trends in the South African banking sector.

Substantial progress was made in achieving the objectives of the SFAs, which included:

- embedding the principles of a forward-looking approach into the supervisory framework;
- participating in the design and implementation of the Twin Peaks regulatory framework,⁶ as elaborated on in section 1.6.1;
- assessing risks arising from the continued expansion of South African banking groups into the African continent;
- influencing international regulatory standards in the interest of South Africa specifically and the African continent in general; and
- building and strengthening the Department's human resource capacity.

The Department's strategy in 2016/17 will be guided by the establishment of the Prudential Authority (PA) within the Bank and related provisions in the enacting legislation relating to the Twin Peaks system of financial regulation – the Financial Sector Regulation Bill (FSR Bill).

1.3 High-level overview of key banking-sector trends

1.3.1 Introduction

The number of entities that has been registered with the Department since 2006 is presented in Table 1.1. As at the end of December 2015, 32⁷ banking institutions were reporting data to the Department. A total of 40 international banks operated authorised representative offices in South Africa as at December 2015. As at the end of December 2015 African Bank remained under curatorship.

Detailed commentary regarding the entities registered or licensed with the Department at the end of 2015 is presented in appendices 2 to 5 and 7.

7. This number excludes mutual and cooperative banks, but includes one institution conducting banking business in terms of an exemption from the provisions of the Banks Act, namely Ithala SOC Limited.

Table 1.1 Banking entities registered in South Africa

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Banks*.....	19	19	19	18	17	17	17	17	17	17
of which: banks under curatorship.....	0	0	0	0	0	0	0	0	1	1
Banks in final liquidation	2	2	2	2	2	2	2	2	2	2
Mutual banks.....	2	2	2	2	2	2	3	3	3	3
Cooperative banks	0	0	0	0	0	2	2	2	2	2
Local branches of international banks	14	14	14	13	13	12	14	14	14	15
Representative offices.....	43	46	43	42	41	43	41	43	40	40
Controlling companies.....	16	16	16	16	16	16	16	16	16	16

* Includes active banks and banks exempted by the Registrar of Banks (with effect from 1 July 1996) in terms of the Supervision of Financial Institutions Rationalisation Act 32 of 1996 and section 1(cc) of the Banks Act 94 of 1990

1.3.2 Total asset structure of the South African banking sector

The total asset structure of the South African banking sector⁸ is presented in Figure 1.1. South Africa's banking sector is dominated by the five largest banks which collectively held 89,2 per cent (December 2014: 90,6 per cent) of the total banking assets as at 31 December 2015. Local branches of international banks contributed 7,3 per cent (December 2014: 5,8 per cent) as at 31 December 2015. The remaining banks accounted for 3,5 per cent (December 2014: 3,6 per cent) of total banking assets.

8. Based on the aggregation of data submitted during 2014 and 2015 from individual South African-registered banks, including local branches of international banks, but excluding offshore branches and subsidiaries of South African banks, mutual banks and cooperative banks.

Figure 1.1 Total asset structure of the South African banking sector

R millions

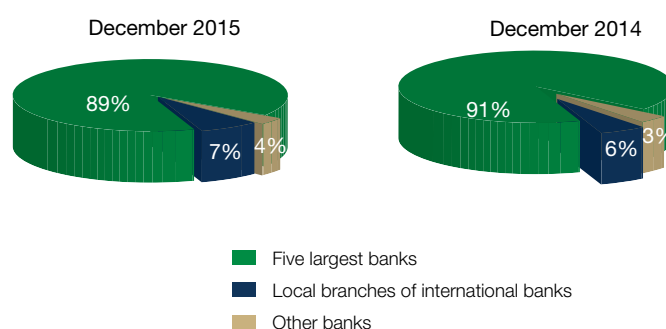


Table 1.2 Selected indicators for the South African banking sector

	Dec 2014	Mar 2015	Jun 2015	Sep 2015	Dec 2015
Balance sheet					
Total assets (R billions).....	4 176	4 369	4 434	4 617	4 831
Total assets: Year-on-year growth (per cent).....	8,71	10,28	10,17	12,03	15,69
Gross loans and advances (R billions).....	3 236	3 368	3 441	3 537	3 601
Gross loans and advances: Year-on-year growth (per cent) ...	9,06	9,19	8,93	10,25	11,29
Total equity (R billions)	318	322	332	335	342
Profitability					
Cost to income (smoothed) (per cent).....	54,71	54,45	55,00	56,25	55,39
Return on equity (smoothed) (per cent).....	13,86	15,39	15,86	16,05	17,09
Return on assets (smoothed) (per cent).....	1,02	1,12	1,15	1,15	1,21
Capital adequacy					
Common equity Tier 1 capital adequacy ratio (per cent).....	11,40	11,00	11,12	11,09	11,03
Tier 1 capital adequacy ratio (per cent).....	11,94	11,44	11,56	11,52	11,44
Capital adequacy ratio (per cent)	14,76	14,12	14,35	14,33	14,19
Credit risk					
Impaired advances (R billions).....	105	108	114	113	112
Impaired advances as a percentage of total advances (per cent)	3,24	3,21	3,31	3,21	3,12
Specific credit impairments as a percentage of impaired advances (per cent)	49,09	49,19	45,65	46,32	47,80
Specific credit impairments as a percentage of gross loans and advances (per cent)	1,59	1,58	1,51	1,49	1,49

Note:

This table presents an overview of the financial and risk information, compiled by means of the aggregation of data submitted during 2014 and 2015 from individual South African-registered banks (including local branches of international banks but excluding offshore branches and subsidiaries of South African banks, mutual banks and cooperative banks). Information represents aggregated banks-solo information. Smoothed refers to calculations based on a 12-month moving average. Information is subject to change without notice. Banking-sector data are available at <http://www.resbank.co.za/RegulationAndSupervision/BankSupervision/Banking%20sector%20data/Pages/default.aspx>.

Total banking-sector assets grew by 15,7 per cent year on year to R4 831 billion at the end of December 2015 (December 2014: R4 176 billion). The annual growth in banking-sector assets is mainly attributed to the annual growth of 11,3 per cent in gross loans and advances and 89,2 per cent in derivative financial instruments. Gross loans and advances accounted for 74,5 per cent of the banking-sector assets at the end of December 2015 (December 2014: 77,5 per cent) and amounted to R3 601 billion (December 2014: R3 236 billion). The increase in gross loans and advances was mainly due to increases in other loans to customers, which grew by R126 billion year on year (specifically in the categories of foreign currency loans, other loans and overnight loans) and term loans, which recorded an R85 billion year-on-year growth.

The banking-sector assets were mainly funded by deposits, current account and other creditors, which constituted 84,1 per cent of total banking-sector liabilities as at 31 December 2015 (December 2014: 88,2 per cent). Derivative financial instruments and term debt instruments accounted for 10,4 per cent and 3,6 per cent respectively of total liabilities at the end of December 2015. As at the end of December 2015 the banking-sector deposits comprised mainly of fixed and notice deposits (27,8 per cent), current accounts (19,6 per cent), call deposits (18,4 per cent) and other deposits and loan accounts (15,2 per cent). Deposits from corporate customers remained the largest component of total deposits for banks during 2015 and amounted to 40,7 per cent of total deposits at the end of December 2015 (December 2014: 43 per cent). Other major sources of banking-sector deposits during 2015 included deposits from retail customers (25,2 per cent), banks (14 per cent) and securities firms (9,5 per cent).



The 12-month moving average cost to income ratio deteriorated slightly during 2015, ending the year at 55,4 per cent (December 2014: 54,7 per cent). The 12-month moving average on return on equity (ROE) and return on assets (ROA) increased during 2015 and amounted to 17,1 per cent and 1,2 per cent respectively at the end of December 2015 (December 2014: 13,9 per cent and 1 per cent respectively). The increase in both the ROE and ROA ratios as at 31 December 2015 is mainly due to the increase in operating profit, which increased by 20,8 per cent year on year, compared to 7,4 per cent year-on-year growth recorded at the end of December 2014. The increase in operating profit was mainly due to increases in net-interest income and non-interest revenue, as well as a decrease in credit losses.

Total banking-sector equity increased by 7,4 per cent from R318 billion in December 2014 to R342 billion in December 2015. Total equity primarily comprised retained earnings and share capital throughout 2015, accounting for 51,6 per cent and 45,1 per cent respectively of total equity at the end of December 2015 (December 2014: 51,1 per cent and 40 per cent respectively).

Banks' operations in South Africa (bank solo) remained adequately capitalised. However, capital adequacy ratios (CARs) decreased slightly compared to December 2014. Total CAR decreased to 14,2 per cent at the end of December 2015 (December 2014: 14,8 per cent). Common equity Tier 1 CAR and Tier 1 CAR amounted to 11 per cent and 11,4 per cent respectively at the end of December 2015 (December 2014: 11,4 per cent and 11,9 per cent respectively). The decrease in the CARs is mainly due to the increase in credit risk-weighted exposures.

Impaired advances⁹ increased by 7 per cent to R112 billion at the end of December 2015 (December 2014: R105 billion), due to an increase in impaired corporate exposures (excluding specialised lending and small and medium-sized corporate exposures). The ratio of impaired advances to gross loans and advances, a key indicator of credit quality in the banking sector, remained largely unchanged at an average of 3,2 per cent during 2015 and amounted to 3,1 per cent at the end of December 2015 (December 2014: 3,2 per cent). Specific credit impairments increased by 4,2 per cent to R54 billion at the end of December 2015. Expressed as a percentage of impaired advances, specific credit impairments decreased from 49,1 per cent at the end of December 2014 to 47,8 per cent at the end of December 2015. Expressed as a percentage of gross loans and advances, specific credit impairments remained largely unchanged at an average of 1,5 per cent during 2015 and amounted to 1,5 per cent at the end of December 2015 (December 2014: 1,6 per cent).

9. Impaired advances are those advances in respect of which a bank has raised a specific impairment and include any advance or restructured credit exposure subject to amended terms, conditions or concessions that are not formalised in writing.

1.3.3 Group structures: approval of local and foreign expansions by South African banking groups

Table 1.3 presents the number of applications the Department has approved since 2006 in terms of section 52 of the Banks Act. The majority of the applications received in 2015 was submitted by the five largest banking groups (refer to Appendix 8 for more information in this regard).

Table 1.3 Group structures: number of approvals for local and foreign expansions granted in terms of section 52 of the Banks Act 94 of 1990

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Local	16	12	15	10	16	19	12	19	13	40
Foreign*	8	25	19	26	22	27	14	21	25	19
Total	24	37	34	36	38	46	26	40	38	59

* Excludes transactions undertaken by Investec plc

1.4 Enforcement

1.4.1 Introduction

Enforcement actions vary from implementing preventative and corrective actions to enforcing compliance. The Department performs ongoing reviews of banks' operations to assess whether

to continue with unaltered supervision of a particular bank, or to enact any of, or a combination of the following:

- focused supervisory scrutiny;
- specific directives;
- increased minimum capital requirements;
- inspections in terms of the Banks Act and other relevant legislation; and
- administrative sanctions such as penalties and fines.

The type of enforcement action required is informed by a particular bank's willingness and promptness in taking preventative or corrective actions and the seriousness and extent of any non-compliance or risks identified.

1.4.2 Curatorship of African Bank Limited

African Bank was placed under curatorship on 10 August 2014 and the discussions of the events leading to the curatorship are contained in the Department's 2014 *Annual Report*.

During 2015, Mr Tom Winterboer of PriceWaterhouseCoopers who was appointed by the Registrar of Banks (the Registrar) as the curator of African Bank continued his responsibility of managing the bank, while the bank continued to operate in a stable manner. Significant progress was made to establish the new 'Good Bank'. The curator appointed designate board membership and senior management for the proposed new entity. Furthermore, the curator received, in principle, support from both the senior unsecured debt holder committee and the Tier II debt holder committee for the restructuring proposal of the Good Bank. An application for a banking licence was received and approved.¹⁰

1.4.3 Administrative sanctions imposed for AML/CFT non-compliance

In terms of the FIC Act, the Bank, through the Department, is mandated to supervise and enforce banks' compliance with the FIC Act. The FIC Act also stipulates that a supervisory body may impose an administrative sanction on an accountable institution for its failure to comply with the provisions of the FIC Act.

In line with its supervisory mandate, the Department conducted a routine inspection at Deutsche Bank AG Johannesburg Branch (Deutsche Bank) during 2014, with the aim to assess whether appropriate measures and controls were in place to ensure compliance with the relevant provisions of the FIC Act. During the same period, Capitec Bank Limited (Capitec) notified the Bank of instances of non-compliance relating to the cash-threshold reporting requirements as set out in the FIC Act.

Based on the available facts and findings of the inspection, the Department imposed administrative sanctions in terms of the FIC Act with a combined value of R15 million on Deutsche Bank and Capitec during 2015. In addition, the banks were directed to take remedial action to address the identified deficiencies. Table 1.4 provides a breakdown of the administrative sanctions imposed.

Table 1.4 Penalties imposed on banks in 2015

Bank	Non-compliance	Administrative sanction
Deutsche Bank	• Identifying and verifying customer details (known as "Know-Your-Customer"); and	Financial penalty: R10 million
	• Controls and systems relating to the detection of property associated with terrorism and related activities.	Directive: To take remedial action to address identified deficiencies
Capitec	• Failure to report cash-threshold transactions above R24 999,99 to the Financial Intelligence Centre.	Financial penalty: R5 million
		Directive: To take remedial action to address identified deficiencies

10. The new African Bank was launched on 4 April 2016.

It should be noted that the decision to impose administrative sanctions was not based on any evidence that Deutsche Bank or Capitec facilitated transactions relating to money laundering and/or the financing of terrorism activities.

1.4.4 Illegal deposit-taking

The Banks Act mandates the Registrar to control certain activities of persons who are not registered as a bank or authorised to carry on the business of a bank.

During the year under review the Department received a number of enquiries and complaints, with supporting documentary evidence, pertaining to the business activities of certain person/s and/or entity/ies that were suspected of accepting deposits from the general public as a regular feature of their business without being registered as a bank.

In fulfilling its mandate, it should be noted that the Department's involvement is limited to potential contraventions of the Banks Act in the Republic of South Africa and does not extend to fraud or other related white-collar crimes. Such matters are referred to the relevant regulator. The Department is not a prosecuting authority, but can only report the alleged contravention to the South African Police Service and National Prosecuting Authority for criminal investigation and prosecution.

Generally, illegal schemes are only reported by investors when they fail to receive their promised returns. This typically occurs when the funds have already been depleted and the scheme is on the brink of collapse. As such, the prospects of recovering funds for repayment to investors are limited. However, it is encouraging to note that in the period under review, there has been a shift towards proactive notification and intervention, which has resulted in securing accounts prior to the dissipation of funds. In addition, the process of effecting repayment in one of the large schemes commenced, with the first dividend having being paid in November 2015.

The Department, however, remains concerned about the prevalence of illegal schemes in the country and the apparent willingness of individuals to participate in such ventures. Members of the general public are again cautioned to exercise vigilance and prudence in their investment choices.

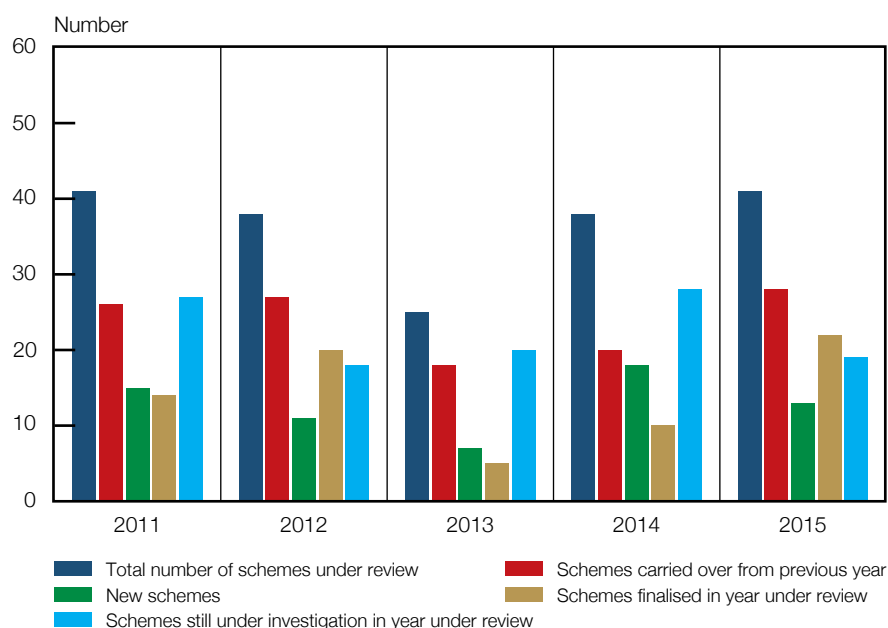
The Department has compiled a five-year review of schemes investigated from January 2011 to December 2015 (refer to Table 1.5 and Figure 1.2). During this period, the Department appointed temporary inspectors and in some cases repayment administrators for 64 cases relating to illegal deposit-taking schemes. A total of 71 schemes were finalised during the above-mentioned five years. In 2015 the Department investigated 41 schemes, consisting of 28 schemes which were carried over from previous years and 13 new schemes in 2015. On 31 December 2015, a total of 19 schemes were still active, after the finalisation of 22 schemes during the year under review.

Table 1.5 Inspections relating to illegal deposit-taking schemes

Year	Total number of schemes under review*	Schemes carried over from previous years	New schemes in year under review	Schemes finalised in year under review	Schemes still under investigation in year under review
2011.....	41	26	15	14	27
2012.....	38	27	11	20	18
2013.....	25	18	7	5	20
2014.....	38	20	18	10	28
2015.....	41	28	13	22	19

* Includes schemes carried over from previous years

Figure 1.2 Inspections relating to illegal deposit-taking schemes



1.5 Regulatory Consistency Assessment Programme South Africa

The Basel Committee places significant emphasis on the implementation of regulatory standards underpinning the Basel III framework and more so the consistent implementation of these standards by all member jurisdictions, within the internationally agreed timeframes. The RCAP was therefore established to assess members' implementation of the Basel standards (Basel II, Basel 2.5 and Basel III) as part of the Committee's post-crisis reform efforts.

As a member of the Basel Committee, South Africa was also subjected to such an RCAP assessment, which commenced during the latter part of 2014 and for which the final report was issued in June 2015. The RCAP for South Africa focused on both risk-based capital regulations and Basel III LCR standards. The assessments were performed by teams of experienced international banking supervisory peers. It provided valuable insight into the Department's policies and processes, confirmed areas of strength and identified areas that required further development or refinement.

To ultimately eliminate all material inconsistencies, the Department enhanced South Africa's regulatory framework by implementing amendments required by the assessment team, as explained in further detail in section 3.3 of this report.

Following the implementation of the aforesaid amendments, the RCAP assessment team found the local implementation of the risk-based capital regulations to be 'compliant' with the Basel standards as all 14 components were assessed as 'compliant'.¹¹ South Africa's prudential regulations were also assessed and reported as 'compliant' with the Basel III standards on LCR and the LCR disclosure standards.¹²

This was a significant achievement for the Department since South Africa was the first country to achieve an overall 'compliant' assessment in respect of risk-based capital regulations and the Basel III standards on LCR and the LCR disclosure standards at the time.

11. The full report is available at <http://www.bis.org/bcbs/publ/d322.pdf>

12. The full report is available at <http://www.bis.org/bcbs/publ/d323.pdf>

1.6 Regulatory developments affecting the domestic banking sector

1.6.1 Implementing the Twin Peaks¹³ system of financial regulatory architecture in South Africa

On the domestic front, South Africa is in the throes of one of the most significant financial regulatory architectural reforms since the 1980s. In 2015, the FSR Bill, which recommends the establishment of two main regulatory peaks – the PA in the Bank and the Financial Sector Conduct Authority (FSCA) to replace the current Financial Services Board (FSB) – was tabled in Parliament.

The key philosophical underpinning of the Twin Peaks framework is the so-called 'regulation by objective approach', which argues that given the different (although complementary) set of key objectives for regulation, that is, institutional soundness (or prudence/solvency) and conduct of business (or consumer protection), the institutional arrangements to deliver on these two sets of objectives should be separate and streamlined, built on a different set of skills and expertise.

A common set of principles will anchor and serve as the foundation of both the PA and the FSCA. These principles, which are elaborated on in the policy document *A safer financial sector to serve South Africa better* (published by National Treasury in 2011),¹⁴ emphasise that the regulatory and the supervisory frameworks of the Twin Peaks system will aim to be:

- appropriate, intensive and intrusive;
- outcomes-focused;
- risk-based; and
- aligned with applicable international standards.

The establishment of the PA will see the consolidation of prudential regulation and supervision of financial conglomerates, banks, insurers and financial market infrastructures (FMIs) in the Bank. The two-key approach, which will require licensing by both regulators where an entity is to be supervised by both, is critical to the operationalisation of the Twin Peaks model.

Preparations by the Bank for the operationalisation of the PA are ongoing and a communication strategy will be rolled out to apprise all relevant stakeholders on the meaning and impact of expected changes. It is envisaged that the PA will be established once the FSR Bill has been approved by Parliament and promulgated as an Act of Parliament.

1.6.2 Developing an effective resolution framework for key financial institutions

Through the introduction of the Financial Stability Board's *Key Attributes for Effective Resolution Regimes for Financial Institutions* (key attributes)¹⁵ global systemically important banks (G-SIBs) are now subject to more robust resolution requirements and additional regulatory minimum capital requirements.

These reforms seek to minimise the public costs of financial crises, in particular those emanating from the failure of financial institutions perceived as too big to fail. In order to progress in this area of work domestically, in 2015, the Bank jointly with National Treasury and FSB published a Resolution Framework Policy paper (Resolution paper) which clearly outlines the approach to the implementation of the key attributes and which will lead to the drafting of a Resolution Bill for banks and other systemically important financial institutions.

The Resolution paper also outlines the role of the Bank as the Resolution Authority. Importantly, the Resolution paper also introduces the possibility of a depositor guarantee scheme, in line with South Africa's commitment as a member of the Financial Stability Board to establish a robust framework for the resolution of systemically important financial institutions and market infrastructures, with adequate safety nets for financial customers. A public consultation process on the Resolution paper is currently underway.

13. The Twin Peaks system recognises the different skill sets required for prudential and market conduct regulation. Prudential regulation is designed to maintain safety, soundness and solvency of financial institutions or funds, while market conduct regulation requires the perspective of a customer, which is a different regulatory perspective and philosophy.

14. Available at <http://www.treasury.gov.za/documents/national%20budget/2011/A%20safer%20financial%20sector%20to%20serve%20South%20Africa%20better.pdf>

15. Available at http://www.financialstabilityboard.org/wp-content/uploads/r_111104cc.pdf?page_moved=1

1.7 Key international developments, recommendations and focus areas

South Africa is committed to the development of an effective global financial regulatory architecture. In this regard, the Bank is an active member and participates in relevant and strategic international forums including the Group of Twenty (G-20) and the Financial Stability Board. As such, influencing the global financial reform-agenda has been an integral part of the work of the Bank. Since the commencement of the global financial crisis in 2007 the international financial reform-agenda has mainly focused on the development of adequate responses to the causes and effects of the crisis.

Given this global financial reform-agenda, this work has significantly informed the focus of the Basel Committee, which the Department is a member of. The Department subscribes to the full, timely and consistent implementation of internationally agreed reforms. This is done in a way that acknowledges and takes into account domestic economic and financial system conditions.

The core elements of the G-20's comprehensive programme of reforms comprised the following:

- building a more resilient financial system;
- ending the 'too big to fail' conundrum;
- making derivative markets safer; and
- transforming shadow banking into more resilient market-based finance.

In the main, these reforms include requirements to ensure that banks build higher and better quality levels of capital which should result in a fundamental re-appraisal of banks' exposures to various types of on-balance-sheet and off-balance-sheet risks. Reforms also entailed the introduction of new liquidity requirements – the LCR and the net stable funding ratio (NSFR). These requirements promote banks' resilience to both short-term and longer-term liquidity stresses and also aim to reduce the over-reliance of the banking system on volatile short-term wholesale funding.

In addition, the Basel Committee issued a number of documents in 2015,¹⁶ which have a significant impact on the regulation and supervision of banks and banking groups. The relevant requirements will be incorporated into the regulatory framework, over the next few years, in accordance with the internationally agreed timelines. The following list highlights some of these documents:

- revised Pillar 3 disclosure requirements, issued on 28 January 2015;
- revisions to the implementation of margin requirements for non-centrally cleared derivatives issued jointly by the Basel Committee and the International Organization of Securities Commissions (IOSCO), on 18 March 2015;
- removal of selected national discretions and reply to a frequently asked question on funding valuation adjustment, issued on 21 April 2015;
- final NSFR disclosure requirements, issued on 22 June 2015;
- frequently asked questions on the Basel III leverage ratio framework, issued on 7 July 2015;
- revised principles on corporate governance for banks, issued on 8 July 2015;
- guidelines for identifying and dealing with weak banks, issued on 16 July 2015;
- final criteria for identifying 'simple, transparent and comparable' securitisations issued by the Basel Committee and IOSCO on 23 July 2015;
- Basel III: the standardised approach for measuring counterparty credit risk (CCR) exposures: Frequently asked questions, issued on 19 August 2015;
- report on the regulatory consistency of risk-weighted assets for CCR, issued on 1 October 2015;
- supporting information for the implementation of the countercyclical capital buffer, issued on 19 October 2015;
- information on G-SIBs, issued on 3 November 2015;

16. The key matters communicated by the Basel Committee in respect of these documents and requirements are summarised in Appendix 10.

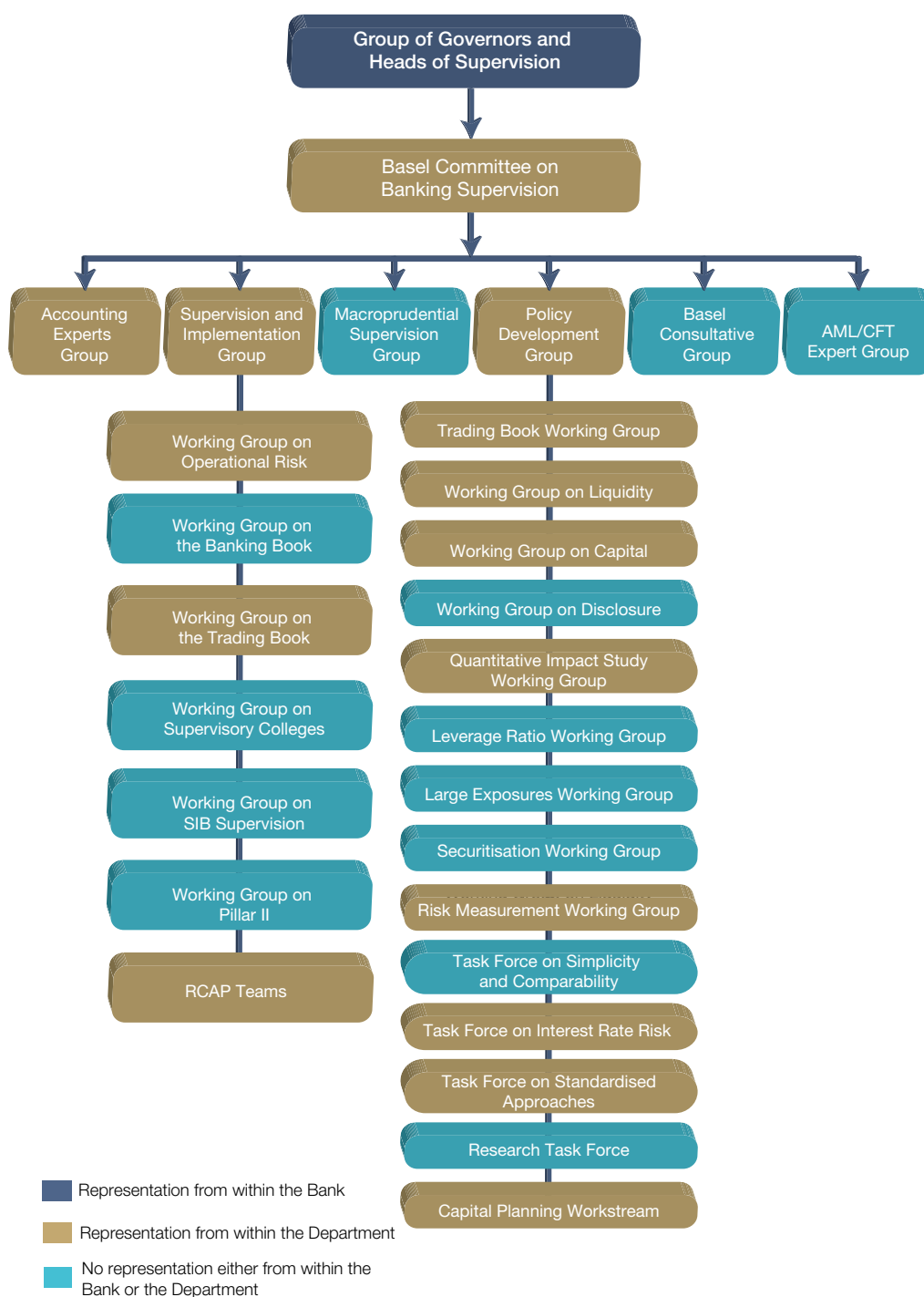


- reports related to Total Loss Absorbing Capacity (TLAC), issued on 9 November 2015; and
- guidance on credit risk and accounting for expected losses, issued on 18 December 2015.

1.8 Participation in international regulatory and supervisory forums

The Department participated in a number of international regulatory and supervisory forums. Participation in those forums that form part of the Basel Committee structures is described in sections 1.8.1 to 1.8.15. Participation in other forums is set out in sections 1.8.16 to 1.8.18.

Figure 1.3 Department's participation in the structures of the Basel Committee on Banking Supervision



1.8.1 Basel Committee on Banking Supervision

The Department represents South Africa on the Basel Committee and on several of its subcommittees. Representation is aimed at influencing the formulation of global regulatory standards so that the distinct financial and social environment South African institutions are exposed to be recognised in the rules which the Department expects South African banks to adhere to.

1.8.2 Accounting Experts Group

The Accounting Experts Group (AEG), which is a subcommittee of the Basel Committee and is chaired by the Registrar, takes an active role in the development of international accounting and auditing standards by standard-setting bodies such as the International Accounting Standards Board (IASB). The aim of the subcommittee is to ensure that these standards and practices promote sound risk management at banks, support market discipline through transparency and reinforce the safety and soundness of the banking system. The AEG also develops prudential reporting guidance where necessary.

The audit subgroup of the AEG promotes reliable financial information by exploring key audit issues from a banking supervision perspective. International auditing standard-setting developments come under its attention, as well as any other documents emanating from the International Auditing and Assurance Standards Board, the International Ethics Standards Board for Accountants and audit quality issues.

During 2015, the AEG continued its close monitoring of developments relating to accounting standards for forward-looking expected credit losses (ECL) by both the IASB and the Federal Accounting Standards Board. In December 2015, the Basel Committee issued the guidance on credit risk and accounting for expected losses. This document sets out guidelines on accounting for ECL regardless of the applicable accounting standards. As a member of the Basel Committee, the Bank adopted this guidance which strives to ensure a high-quality, robust and consistent implementation of ECL accounting frameworks by banks without unduly increasing cost and complexity.

1.8.3 Supervision and Implementation Group

The Supervision and Implementation Group (SIG) is the peer review committee of the Basel Committee. Its mandate is to help foster financial stability by supporting strong national and international supervision and regulation of banks. It has two primary objectives, firstly to foster the timely, consistent and effective implementation of the Basel Committee's standards and guidelines, and secondly, to advance improvements in practices in banking supervision, particularly across Basel Committee member countries.

The results of the level 2 RCAP studies commissioned by the Basel Committee are discussed at the SIG's meetings prior to publication.

The Basel Committee work programme identified four themes for 2015, namely:

- policy development;
- ensuring an adequate balance between simplicity and risk sensitivity across the regulatory framework;
- monitoring and assessing implementation of the Basel framework; and
- improving the effectiveness of supervision.

1.8.4 Working Group on Operational Risk

The Working Group on Operational Risk (WGOR) is a permanent working group that addresses operational risk policy and implementation issues. It reports to both the SIG and the Policy Development Group (PDG).

The WGOR develops policies and considers the practical challenges relating to the successful development, implementation and maintenance of operational risk.



Focus areas for 2015 were:

- developing a simple standardised measure of operational risk (Standardised Measurement Approach) to replace the existing simpler approaches;
- finalising and publishing a consultative document in relation to the aforementioned revision;
- drafting an amended version of the Principles for the Sound Management of Operational Risk to be considered for consultation in the near future; and
- considering the proposed withdrawal of internal modelling approaches for operational risk from the Basel framework.

South Africa was represented at all meetings and further participated in various sub-working groups.

1.8.5 Working group on the Trading Book

The Supervision and Implementation Group - Trading Book Subgroup (SIG-TB) is a work stream under the SIG established in 2012 to analyse reasons for differences in risk-weighted assets (RWA) in the trading book across different jurisdictions. This analysis is part of a wider RCAP initiated by the Basel Committee in 2012.

During the period under review, the SIG-TB extended its analysis to include CCR models. The exercise was the first to study variability of CCR models and included the remaining aspects of RWA variability of internal models for trading book assets. The work of the SIG-TB culminated in the *Regulatory Consistency Assessment Programme (RCAP) - Analysis of risk-weighted assets for counterparty credit risk*¹⁷ report which was published by the Basel Committee in October 2015. The report presents a number of policy recommendations for consideration by the Basel Committee to reduce excessive variability in outcomes across banks, further harmonise supervisory practices and reduce the complexity of the CCR framework. The report includes observed sound practices in the modelling of CCR that can assist banks and supervisors to implement and supervise these models. The report could be particularly useful for supervisors that oversee banks that apply the internal model method (IMM) and advanced credit valuation adjustment (CVA) models.

The SIG-TB was mandated to continue work on the possible divergences in practices across banks regarding the proxy spread methodologies used for the Basel III advanced CVA capital charge. In addition, the SIG-TB will be investigating the modelling choices employed by banks in an environment of low interest rates. This study builds on previous exercises conducted by the SIG-TB in prior years and the aim of the study includes:

- identification of drivers of counterparty exposure variability related to interest rate modelling within the IMM framework, focusing on the modelling choices made by banks in a low interest rates environment and potential risks when interest rates increase; and
- assessment of the integrity of banks' underlying pricing models, sensitivities for traded interest rate products, and the identification of the degree, nature and drivers of variation.

1.8.6 Regulatory Consistency Assessment Programme teams

As discussed in section 1.5 of this report, the Basel Committee adopted the RCAP to assess its members' implementation of the relevant internationally agreed standards. The RCAP is administered with the support of specialist contributors drawn from the Basel Committee's membership group.

Assessments are conducted at various levels, including risk-specific themes. During assessments, a team of specialists reviews information submitted by a specific jurisdiction's banking authority, clarifies statements made and requests supportive information or data to ascertain the materiality of deviations before conducting further review work on the premises of the relevant banking authority. Discussions with banks form an integral part of the jurisdictional

17. Available at <http://www.bis.org/bcbs/publ/d337.pdf>

assessment. Following the finalisation of the assessment team's report, a review team independently examines the findings before a review panel concludes the assessment, where after the draft reports are submitted to the Basel Committee for approval before the results are published.

Specialists in the Department have also been selected to lead or support the work of the assessment teams in other jurisdictions and are also members of review teams. Jurisdictions whose assessments the Department's staff contributed to include India, the United States, Mexico, Saudi Arabia, Russia, Indonesia and South Korea.

1.8.7 Policy Development Group

The PDG assesses proposed changes to banking regulations developed by its subgroups and other work streams of the Basel Committee. The group serves the Basel Committee by identifying issues, commissioning research, overseeing quantitative analysis and making recommendations on policy to the Basel Committee. It also reviews emerging supervisory issues aimed at promoting a sound banking system and high supervisory standards. The PDG has several executive subgroups and workgroups reporting to it on a wide range of risk and capital issues. The Department is represented on the PDG and many of the subgroups where the subject matters are relevant to South Africa.

1.8.8 Trading Book Group

The Trading Book Group (TBG) is a working group of the PDG, a subcommittee of the Basel Committee. It was established in 2005 to deal with market risk in its various forms, including the trading book. South Africa has been a member of the TBG since 2007.

The global financial crisis that started in 2007 exposed significant flaws in the regulatory capital approach to market risk and trading activities at the time. While some of the issues have been addressed in the revisions to the market risk capital framework that was released in July 2009, the Basel Committee agreed that a fundamental review of the framework was required, in particular of whether or not the distinction between the banking and trading books should be maintained, how trading activities are defined, and how risks in the trading books (and possibly market risk more generally) are captured by regulatory capital. It is in this regard that the TBG embarked on what came to be known as the fundamental review of the trading book (FRTB).

The FRTB has been concluded with the final market risk text published in January 2016.¹⁸ The revised market risk framework will come into effect on 1 January 2019. The FRTB focused on developing regulatory practices in the following areas in market risk management:

- A revised internal model-based approach (IMA): the new approach comprises a more rigorous model approval process, more consistent identification and capitalisation of material risk factors across banks, and introduces constraints on the capital-reducing effects of hedging and diversification.
- A revised standardised approach for market risk: an enhanced approach that is sufficiently risk sensitive to act as a credible fall-back and floor for the IMA, while still being appropriate for banks that do not require a sophisticated treatment for market risk.
- The shift from value at risk (VaR) to an expected shortfall (ES) measure of risk: this will help to ensure a more prudent capture of 'tail risk' and capital adequacy during periods of significant financial market distress.
- Incorporating the risk of market illiquidity: varying liquidity horizons are incorporated into the revised standardised approach for market risk and IMA to mitigate the risk of sudden and severe impairment of market liquidity across asset markets. This replaces the static 10-day horizon assumed for all traded instruments in the current framework.

18. Available at <http://www.bis.org/bcbs/publ/d352.pdf>



- A revised boundary between the trading book and banking book: a more objective boundary that reduces the potential for arbitrage between the two regulatory books, while still being aligned with banks' risk management practices. This includes a careful calibration of credit risk for non-securitisation and securitisation exposures in the trading book.

1.8.9 Working Group on Liquidity

The primary focus of the Working Group on Liquidity (WGL) is policy development. The WGL also deals with the practical challenges accompanying the successful development, implementation and maintenance of a liquidity risk framework that addresses the requirements and expectations of the Basel Committee's regulatory requirements relating to liquidity and funding.

The WGL developed, over several years, appropriate standards for measuring and mitigating liquidity risks in banks. Currently, the WGL deals with the two main standards relating to liquidity and funding, namely the LCR and NSFR.

With the finalisation of the LCR and NSFR standard, and the LCR becoming a prudential requirement from 1 January 2015, the focus of the WGL has shifted towards refining the broad understanding of the rules and their implementation by dealing with frequently asked questions on the two standards and dealing with post-implementation issues of the LCR.

1.8.10 Working Group on Capital

The Working Group on Capital (WGC) was established early in 2013 by merging two groups that dealt with issues related to capital: the Definition of Capital Subgroup and the Contingent Capital Working Group. The WGC is responsible for handling all policy issues associated with the definition of capital and capital-like instruments under Basel III.

During 2015 the WGC formulated, in conjunction with the Financial Stability Board, the minimum eligibility criteria for TLAC instruments. The Financial Stability Board published the *Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution: Total Loss-Absorbing Capacity (TLAC) Term Sheet*¹⁹ during November 2015.

The objective of the minimum TLAC requirements is to reduce the probability and the impact of the failure of global systemically important financial institutions (G-SIFIs). However, for regulators to ensure G-SIFIs are no longer 'too-big-to-fail' and would not expose public funds to a loss, such G-SIFIs should have sufficient loss-absorbing and recapitalisation capacity necessary to ensure that during or immediately after the resolution, the critical functions can be continued without public funds or financial stability being put at risk.

The WGC published a *Consultative document on TLAC Holdings* during November 2015.²⁰ This consultative document sets out proposals to reduce the risk of contagion and proposals on the treatment of investments in TLAC.

19. Available at <http://www.fsb.org/2015/11/total-loss-absorbing-capacity-tlac-principles-and-term-sheet/>

20. Available at <http://www.bis.org/bcbs/publ/d342.pdf>

1.8.11 Quantitative Impact Study Working Group

The biannual international Basel III implementation monitoring by the Basel Committee continued during 2015 in the form of quantitative impact studies (QIS).

As a result of the implementation of Basel III in member countries, the focus of the quantitative analyses produced by the PDG working groups (i.e. the Capital Monitoring Group (CMG) and the QIS working group) shifted towards monitoring of Basel III implementation. As a result, the QIS working group merged with the CMG. The combined group will, in particular, remain responsible for the design of the capital monitoring reporting templates and the analysis of bank-level parameters (e.g. capital and risk-weighted exposures).

21. Available at <http://www.bis.org/bcbs/publ/d334.pdf>

22. Available at <http://www.bis.org/bcbs/publ/d346.pdf>

23. Available at <http://www.bis.org/bcbs/publ/d334.pdf>

In addition to Basel III implementation monitoring, the focus of the 2015 QIS exercise was on collecting data for the assessment of policy initiatives. These included the impact of proposals on the fundamental review of the trading book, CVA risk, the operational risk measurement framework, large exposures, sovereign exposures and interest rate risk in the banking book. Future exercises will expand to also include the impact assessment of provisioning and step-in risk.

The Basel Committee published the *Basel III Monitoring Report*²¹ during September 2015 and the *Fundamental review of the trading book - interim impact analysis*²² and the *TLAC Quantitative Impact Study Report*²³ during November 2015. These documents detail the results of the QIS exercise as at 31 December 2014. The reports incorporated the data of the South African participating banking groups. Furthermore, it is the intent of the Basel Committee to continue publishing the results of the Basel III monitoring exercise.

Both the Department and the participating banks continued to benefit from participating in these studies and will continue to actively participate.

Following the merger of the CMG with the QIS working group, the Department continued with the submission of specific data obtained from the Supervisory Reporting System, to enhance the analysis and monitoring of capital and credit related data. The combined group will in particular remain responsible for the design of the capital monitoring reporting templates and the analysis of bank-level parameters, for example, capital requirements, eligible capital and capital ratios.

1.8.12 Risk Measurement Working Group

During 2015 the Department joined the Risk Measurement Working Group (RMG), a working group that reports directly to the PDG. The RMG deals with advanced risk measurement and management practices that are used for regulatory purposes. One of the RMG's main tasks is to develop possible modifications to the framework for the internal ratings-based (IRB) approach, to narrow the modelling choices available to banks, particularly in areas for which the use of models may not be suitable for calculating regulatory capital.

1.8.13 Task Force on Interest Rate Risk

Proceeding from work carried out under the FRTB by the TBG, the Basel Committee, under the PDG, created a Task Force on Interest Rate Risk (TFIR) to examine options for capturing interest rate risk and credit spread risk in the banking book within the capital framework. The aim was to consider an obligatory charge (so-called Pillar 1 charge) for interest rate risk associated with exposures in the banking book. Exposures in the trading book already carry a capital charge for interest rate risk in terms of the market risk rule set. Currently the framework does not require banks to hold capital for this risk in the banking book unless the supervisor, in terms of a Pillar 2 assessment, has determined it to be necessary.

During 2015 the TFIR released a consultation paper based on both a Pillar 1 and Pillar 2 option for these risk types. A QIS exercise was also conducted during 2015 on the potential capital impact of a Pillar 1 option on banks globally. Comments received on the consultation paper together with results of the QIS exercise will be taken into consideration in the development of the final rules for these risk types. It is expected that the final rules will be published during 2016.

1.8.14 Task Force on Standardised Approaches

In response to issues arising from the global financial crisis, the Basel Committee established, in 2013, the Task Force on Standardised Approaches (TFSA) with the primary mandate to propose revisions to the standardised approach for credit risk. Apart from ensuring that the standardised approach continues to provide a suitable regulatory capital framework for banks using this



approach, the revision also aims to reduce the mechanistic reliance placed by the approach on external credit ratings and introduce supplementary measures for risk classification. The revision will also seek to strengthen the link between the standardised approach and the IRB approach.

Towards the end of 2015 the TFSA issued two consultative papers for public comments. A QIS exercise, to assess the likely impact on risk-weighted assets, is planned for the first quarter of 2016. Finalisation of the rules is expected by December 2016.

1.8.15 Anti-money Laundering and Combating the Financing of Terrorism Expert Group

The Basel Committee's AML/CFT Expert Group assists both financial institutions and regulators to implement AML/CFT elements of the Core Principles for Effective Banking Supervision (Core Principles) in accordance with the Financial Action Task Force (FATF) standards by producing technical and practical guidance that is applicable to national and international banks and banking groups. The group also contributes to the standards set by the FATF relating to AML/CFT matters.

The Department participated in the revision of the *General guide to account opening and customer identification*, first issued in 2003. This revised guide takes into account significant enhancements to the FATF Recommendations and related guidance. It builds in particular on the February 2012 version of the FATF Recommendations as well as on two supplementary FATF publications relevant for this guide: *the Guidance for a risk-based approach for the banking sector and the Transparency and beneficial ownership*, both issued in October 2014.

1.8.16 Eastern and Southern Africa Anti-Money Laundering Group

The Department attended the 15th Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Council of Ministers meeting and the 30th Task Force of Senior Officials meeting which was held in Johannesburg, South Africa, from 23 to 27 August 2015.²⁴

During these meetings South Africa was appointed to take over the presidency of the ESAAMLG for the year 2015/2016. A representative of the Department was also appointed to be a Reviewer of ESAAMLG's Post Evaluation Implementation Process.

24. As at August 2015 the members of ESAAMLG were South Africa, Angola, Botswana, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

1.8.17 Financial Action Task Force meetings

The FATF is an inter-governmental body that has developed the international standard for combating money laundering and the financing of terrorism.

The Department was represented at all three FATF plenary meetings held in 2015, and also participated in working group discussions and policy development. Some matters of importance that are relevant for the banking sector, where the Department made contributions to the FATF include:

- guidance on the risk-based approach for effective supervision and enforcement by AML/CFT supervisors of the financial sector and law enforcement;
- emerging terrorism financing risks;
- a FATF report on terrorism financing control measures compiled for G-20 leaders;
- a series of public statements to correspondent banks urging caution against the phenomenon of de-risking on the basis of compliance with the FATF recommendations; and
- guidance for a risk-based approach to virtual currencies.

1.8.18 Community of African Bank Supervisors of the Association of African Central Banks

The Community of African Bank Supervisors (CABS) is a committee of the Bureau of the Association of African Central Banks (AACB) Governors. A work plan was established during 2014 by the CABS working committee resulting in the Bank being elected to lead a working group on cross-border banking supervision, which is one of the two working groups to be established.

The purpose of the cross-border banking supervision working group is to:

- effectively contribute to the formulation of sufficient methods to improve cross-border supervision on the African continent;
- improve the quality of data available to banking supervisors; and
- be the preferred platform where experiences are shared and ideas are discussed in order to promote the strengthening of effective supervision of cross-border banking operations.

The inaugural cross-border banking supervision working group meeting was held on 18 May 2015 and was attended by a number of AACB member countries. Further working groups will be held during the course of 2016.

1.9 Participation in international surveys

During the year under review, the Department participated in numerous international surveys, as indicated in sections 1.9.1 to 1.9.3 below.

1.9.1 African Development Bank survey on the financial sector in Africa

The Department participated in the second edition of the African Development Bank (AfDB) survey on the financial sector in Africa. The purpose of the survey was to obtain an overview of the financial infrastructure and regulatory framework of the financial sector. The first part of the questionnaire explored various aspects, including the regulatory framework, regulations on ownership, competition, restrictions or guidelines on lending, liquidity and diversification, and accounting and auditing standards. The second part of the questionnaire focused mainly on issues pertaining to financial structure, access to banking services, assets of financial institutions, deposits collected by financial institutions, lending activities of financial institutions and market share of the largest banks.

1.9.2 African Development Bank survey on understanding the trade finance landscape in Africa

The AfDB undertook a second survey on the trade finance landscape in Africa. The purpose of the survey was to build on the knowledge gained from the first survey and improve the design of the AfDB's Trade Finance Programme and align it with the needs of financial institutions in Africa.

1.9.3 Bank for International Settlements questionnaire on changing patterns of financial intermediation

The Bank for International Settlements conducted a survey on the changing patterns of financial intermediation and the associated implications for central banks. The purpose of the survey was to ascertain how the changes in financial intermediation have affected the transmission mechanism of monetary policy and its sensitivity to global monetary shocks in emerging-market economies. The questionnaire also sought to determine the potential influence that macro-prudential policy might have on the transmission mechanism of monetary policy.



1.10 Participation in domestic regulatory and supervisory forums

During the year under review the Department continued to serve on, and participate in numerous domestic committees, forums, task groups and working groups to consult with banking industry participants and bodies, external audit bodies, government departments and other financial regulatory authorities on relevant matters.

These bodies include National Treasury, the Banking Association of South Africa (BASA), the South African Institute for Chartered Accountants (SAICA), the Committee for Audit Standards, the FSB, the National Credit Regulator (NCR), the FIC and the Independent Regulatory Board for Auditors (IRBA).

Some of the forums and initiatives which the Department participated in during 2015 are highlighted below:

- The FIC together with National Treasury drafted amendments to the current FIC Act in order to transform the money laundering control regime in South Africa toward a more risk-based approach, in line with FATF standards. The Department provided comprehensive commentary to the FIC Amendment Bill and participated in a series of discussions with key stakeholders on the proposed provisions of the Bill and its impact on the banking industry;
- As discussed in section 1.6.2 of this report, the Bank, jointly with National Treasury and the FSB, published a Resolution paper;
- The International Financial Reporting Standards 9 (IFRS 9) Implementation Working Group was formed in June 2015, comprising representatives from the Department, the banks, audit firms and other regulatory or industry bodies such as IRBA and SAICA, as discussed in section 2.2.2 of this report; and
- The emergence of conduct risk led the FSB and the Bank to jointly produce the foreign exchange review report and a draft code of conduct for the South African over the counter (OTC) markets as outlined in section 2.4.4 of this report.

1.11 Regional cooperation and interaction

1.11.1 ESAAMLG: mutual evaluation of the Republic of Uganda

The ESAAMLG conducts peer reviews of each member on an ongoing basis to assess levels of implementation of the FATF Recommendations, providing in-depth description and analysis of each country's system for preventing criminal abuse of the financial system.

The Department was nominated to take part in the ESAAMLG 2nd round of AML/CFT mutual evaluation of the Republic of Uganda, which started in the beginning of 2015.

The Department shares its expertise with AML/CFT supervisors in countries where South African banks have operations, by providing technical assistance and training in a wide range of AML/CFT supervisory areas.

In 2015 the Department was also part of a mission to the Kingdom of Swaziland to provide technical assistance to the financial sector regulators.

1.12 Issues to receive particular attention during 2016

The Department intends to continually review, amend and update the regulatory and legislative framework in accordance with the latest internationally agreed regulatory and supervisory practices and standards.

Other areas that will receive particular attention during 2016 include the:

- ongoing implementation of the PA in terms of the Twin Peaks model of financial regulation;
- continued monitoring of the banking sector's capital adequacy and compliance with the Regulations thereto;
- continued focus on internal capital adequacy assessment processes (ICAAPs) and in particular economic capital modelling, stress testing and capital planning;
- assessment of the implementation readiness of both banks and external auditors of banks relating to the IASB's IFRS 9 on accounting for ECL;
- continued focus on banks' abilities to mitigate and respond to risks arising from information security, including cyber security;
- continued focus by the Department in conjunction with the industry in search of a viable clearing solution for OTC derivatives;
- ongoing periodic assessment of the impact on the banking sector of a possible change of the South African sovereign credit rating to sub-investment grade;
- monitoring of the banking industry's readiness to implement and comply with the NSFR as of 1 January 2018;
- introduction of a risk-based approach framework and an AML/CFT self-assessment questionnaire, which will have to be completed by all banks and mutual banks on an annual basis; and
- thematic reviews to assess the progress made by banks in improving the configuration of their sanctions-screening systems after the review that was conducted in 2014.

1.13 Expression of gratitude

I would like to express my appreciation to the Ministry of Finance, for the input on the Department's requests in terms of statutory requirements. To the Governor and Deputy Governors of the Bank: thank you for your ongoing cooperation, guidance and support during 2015.

My sincere appreciation also goes to the staff members of the Department for their continued efforts and willingness to repeatedly go beyond the call of duty to meet the challenges and demands of an ever-changing supervisory and regulatory landscape.



René van Wyk
Registrar of Banks

