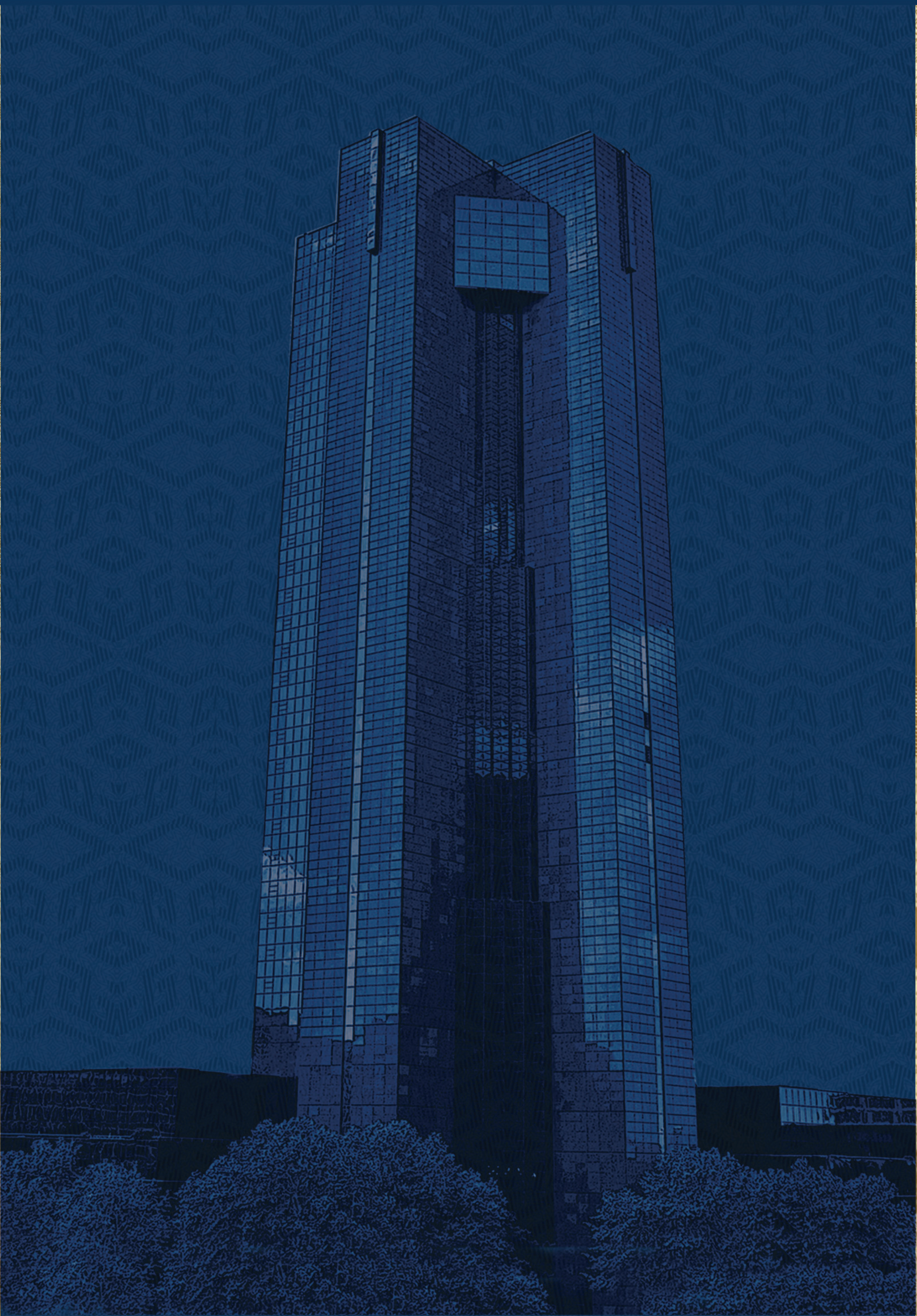
Bank Supervision Department

Annual Report 2016



South African Reserve Bank

Bank Supervision Department

Annual Report 2016

South African Reserve Bank

Vision

A sound, well-functioning and internationally competitive banking system.

Mission

To promote the soundness of the banking system and contribute to financial stability.

Business philosophy

Market principles inform all our activities and decisions, and we strive to act with professionalism, integrity, credibility and impartiality at all times. We liaise with each individual bank through a single point of entry – a relationship manager, assisted by a team with diverse competencies. We follow a risk-based supervisory approach and our objective is to add value. We place emphasis on empowering our staff to ensure that all interaction and service delivery is characterised by professionalism, and a high premium is placed on ethical behaviour at all levels of activity. A relationship of mutual trust between the Bank Supervision Department and all other key players is regarded as essential and is built up through regular open communication. In our endeavours to foster a stable banking sector, we contribute to creating the foundation for sustainable growth in the economy.

Purpose of the *Annual Report*

Legal basis for the *Annual Report*

The *Annual Report* is issued in terms of section 10 of the Banks Act 94 of 1990, which prescribes the following:

> 10. *Annual report* by Registrar
> (1) The Registrar shall annually submit to the Minister a report on his or her activities in terms of this Act during the year under review.
> (2) The Minister shall lay a copy of the report referred to in subsection (1) upon the Tables in Parliament within 14 days after receipt of such report, if Parliament is then in ordinary session, or, if Parliament is not then in ordinary session, within 14 days after the commencement of its next ensuing ordinary session.

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This issue of the *Bank Supervision Department Annual Report 2016* focuses mainly on the 12-month period ending 31 December 2016. However, selected developments up to the time of finalisation are also reported on. Data presented were updated on 14 February 2017. Latest data are available at: http://www.resbank.co.za.

Obtainable from:
Bank Supervision Department
South African Reserve Bank
P O Box 8432
Pretoria
0001

Tel. +27 12 313 3218

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1.1 Introduction

Banking plays a central role in the modern economy. Through the intermediation of credit, commercial banks facilitate economic growth by allowing firms and households to manage their investment and consumption needs over time. However, the transformative power of leverage also exposes banks and the broader economy to risks, as was evidenced by the most recent global financial crisis. The criticality of banking to the economic health and stability of a country justifies robust regulatory oversight of banks and their activities. With these factors in mind, the Bank Supervision Department (BSD) of the South African Reserve Bank (SARB) executes its regulatory objectives on behalf of the South African public.

The core vision of BSD is to enhance and to promote the safety and soundness of banks and the banking system. The department also influences the development of global regulatory frameworks for banking through the Basel Committee on Banking Supervision (BCBS) and calibrates domestic implementation through banking regulations.

Supervision, at its most basic level, relies on established prudential rules and standards. Effective supervision takes the view that an understanding of institutions, both individually and collectively, within their environment, aids foresight and facilitates pre-emptive actions to mitigate nascent risks. The legal framework of banking is comprehensive and is not limited to prudential standards. Banks' activities are constrained and facilitated by a range of general and specific laws that apply broadly to the business areas and transactional systems that banks participate in, such as lending and payments. Added to this, behavioural standards and a focus on good governance encourage institutional, management and individual responsibilities to be executed judiciously and ethically.

The Financial Sector Regulation Bill (FSR Bill), which at the time of writing is before Parliament, will introduce major amendments to the financial regulatory architecture in South Africa. In particular, the FSR Bill makes provision for the creation of a Prudential Authority (PA), located within the SARB, which will include staff from BSD as well as the Insurance Regulatory Department of the Financial Services Board (FSB). The formation of the PA will bring about a new era of consolidated prudential supervision, involving the oversight of banks, insurance companies and financial market infrastructures. This will allow regulators to take a broader view of the financial system and the common risks to which various firms are exposed.

As BSD prepares to broaden its scope, it will continue to manage changes in the supervisory landscape, including the phasing-in of global standards for capital and liquidity as well as the ongoing refinement of supervisory practices.

Over the past year, the operating environment for South African households and corporates has remained challenging. Despite this difficult backdrop, the domestic banking sector has achieved increased capital adequacy levels, improved liquidity coverage, and relatively low leverage. Banks' balance sheets have continued to show selective and muted growth in loans and advances as well as in deposit taking, while equity has grown conservatively. Over the coming year, BSD will remain vigilant to emerging risks and will continue to work with banks to ensure and to promote a safe and stable financial sector for all South Africans.

Finally, I would like to thank the former Registrar of Banks, Mr René van Wyk (who retired in 2016), for his contributions to sound banking supervision in South Africa. Under his leadership, BSD managed various challenges, including the curatorship of African Bank Limited, and the introduction of major regulatory changes, including the Basel III reforms.

1.2 Bank Supervision Department's strategic focus areas

BSD's activities are primarily focused on achieving its strategic objectives by applying its resources appropriately. Each year, the department reviews its strategic focus areas (SFAs), taking into consideration the stability and performance of banks within the context of a constantly changing external environment, the changes emanating from international regulatory developments, and the emerging trends in the South African banking sector.

Significant progress was made in achieving the objectives of the SFAs in the year under review, which included:

- ensuring the safety and soundness of banks through their compliance with prudential standards and explicit supervisory requirements;
- ensuring appropriate entry into and exit from the banking system through the issuance and retraction of licences as well as approvals to expand or contract operations;
- fighting the illegal use of deposit taking as a means of funding business;
- representing South African interests and concerns at regional and international committees on banking-related regulatory and operational matters; and
- preparing for the establishment of the PA under the Twin Peaks framework[1] through regulatory and organisational development.

BSD's strategy in 2017 will focus predominantly on ensuring the ongoing promotion of the safety and soundness of the banking sector in the context of the establishment of the PA with its associated organisational and procedural adjustments.

1. The Twin Peaks approach recognises the different skills required for prudential and market conduct regulation. Prudential regulation is designed to maintain the safety and soundness of financial institutions while market conduct regulation requires the perspective of a customer, which is a different regulatory perspective and philosophy.

1.3 High-level overview of key banking-sector trends

1.3.1 Introduction

The number of entities that has been registered with BSD since 2006 is presented in Table 1.1. As at the end of December 2016, 32 banking institutions were reporting data to BSD. 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 94 of 1990 (Banks Act), namely Ithala Limited. The number of foreign banks with authorised representative offices in South Africa decreased from 40 in December 2015 to 36 in December 2016. The new African Bank Limited commenced operations in April 2016, resulting in no banks being under curatorship at the end of December 2016.

Detailed commentary regarding the entities registered or licensed with BSD at the end of 2016 is presented in Appendices 2 to 5 and 7.

The aggregate statistics in this report relate exclusively to the sum of figures for banks and the local branches of foreign banks but they exclude statistics for mutual banks, cooperative banks, representative offices, controlling companies and banks under curatorship or in final liquidation.

Table 1.1 Banking entities registered in South Africa

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Banks[1]	19	19	19	18	17	17	17	17	17	17	17
Of which: banks under curatorship	0	0	0	0	0	0	0	0	1	1	0
Local branches of foreign banks	14	14	14	13	13	12	14	14	14	15	15
	33	33	33	31	30	29	31	31	31	32	32
Other											
Controlling companies	16	16	16	16	16	16	16	16	16	16	16
Banks in final liquidation	2	2	2	2	2	2	2	2	2	2	2
Mutual banks	2	2	2	2	2	2	3	3	3	3	3
Cooperative banks	0	0	0	0	0	2	2	2	2	2	2
Representative offices	43	46	43	42	41	43	41	43	40	40	36

[1] 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 sector[2] is presented in Figure 1.1.

South Africa's banking sector is dominated by five large banks, which collectively held 90.7% of the total banking-sector assets as at 31 December 2016 (31 December 2015: 89.2%). The local branches of foreign banks accounted for 5.8% of the total banking-sector assets at the end of December 2016 (December 2015: 7.3%) while the remaining banks operating in South Africa represented 3.5% at the end of both December 2015 and December 2016.

2. Based on the aggregation of data submitted during 2015 and 2016 from individual South African-registered banks, including local branches of foreign 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

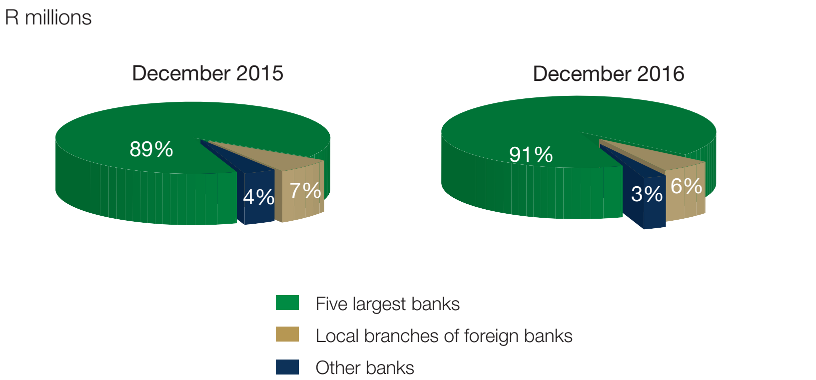


Table 1.2 Selected indicators for the South African banking sector

	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016
Balance sheet					
Total assets (R billions)	4 830	4 860	4 847	4 853	4 877
Total assets: year-on-year growth (%)	15.67	11.26	9.29	5.16	0.96
Gross loans and advances (R billions)	3 601	3 721	3 698	3 691	3 708
Gross loans and advances: year-on-year growth (%)	11.29	10.49	7.46	4.39	2.98
Total equity (R billions)	342	349	380	386	401
Profitability					
Cost-to-income (smoothed) (%)	55.39	55.39	54.93	54.62	55.07
Return on equity (smoothed) (%)	16.26	16.31	16.96	18.03	17.69
Return on assets (smoothed) (%)	1.15	1.14	1.2	1.31	1.32
Capital adequacy					
Common equity tier 1 capital adequacy ratio (%)	11.03	10.93	12.12	12.18	12.43
Tier 1 capital adequacy ratio (%)	11.44	11.29	12.54	12.6	12.86
Capital adequacy ratio (%)	14.2	13.88	15.31	15.48	15.93
Liquidity					
Liquidity coverage ratio (%)	84.51	87.71	96.41	104.17	107.83
Credit risk					
Impaired advances (R billions)	112	126	117	120	106
Impaired advances as a percentage of total advances (%)	3.12	3.38	3.17	3.25	2.86
Specific credit impairments as a percentage of impaired advances (%)	47.79	42.62	39.07	38.83	43.88
Specific credit impairments as a percentage of gross loans and advances (%)	1.49	1.44	1.24	1.26	1.25

Note: This table presents an overview of the financial and risk information, compiled by means of the aggregation of data submitted during 2015 and 2016 from individual South African-registered banks (including local branches of foreign banks but excluding offshore branches and subsidaries 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 is available at http://www.resbank.co.za.

Total banking-sector assets amounted to R4 877 billion at the end of December 2016 compared to R4 830 billion a year ago. The year-on-year growth rate in banking-sector assets declined in 2016, reaching a low level of 1.0% in December 2016 (December 2015: 15.7%). The overall lower growth in banking-sector assets was underpinned by a decline in the growth rate of gross loans and advances, investment and trading securities, and derivative financial instruments. The year-on-year growth rate in gross loans and advances declined to 3.0% at the end of December 2016 (December 2015: 11.3%). The sluggish growth in loans and advances during 2016 was attributable to, among other things, restrained credit extension by banks due to more stringent lending practices and the subdued macroeconomic environment.

Banking-sector assets were mainly funded by deposits, current accounts and other creditors, which constituted 87.6% of banking-sector liabilities at the end of December 2016 (December 2015: 84.2%). Derivatives and other trading liabilities as well as term debt instruments represented 6.2% and 4.1% respectively of total liabilities at the end of December 2016 (December 2015: 10.4% and 3.6% respectively). As at the end of December 2016, deposits comprised mainlyfixed and notice deposits (27.9%), current accounts (20.5%) and call deposits (18.5%). Deposits from corporate customers remained the largest component of the total deposits of banks in 2016 and accounted for 41.0% of total deposits in December 2016 (December 2015: 40.7%). The other major sources of deposits for banks in 2016 were retail customers, banks and securities firms at 26.6%, 11.4% and 9.3% respectively in December.

The 12-month moving average cost-to-income ratio eased off slightly to 55.1% at the end of December 2016 (December 2015: 55.4%). The 12-month moving average return on equity (ROE) and return on assets (ROA) increased in 2016, ending the year at 17.7% and 1.3% respectively (December 2015: 16.3% and 1.2% respectively). The increase in ROE and ROA was attributable to an increase in operating profit, which grew by 20.7% year on year at the end of December 2016 (December 2015: 16.4%) due to an increase in net interest income and non-interest revenue as well as a decrease in credit losses.

Banks (on a bank-solo basis) remained adequately capitalised in the year under review, their respective capital adequacy ratios (CARs) well above the minimum statutory requirements. Total, tier 1 and common equity tier 1 (CET 1) CARs increased to 15.9%, 12.9% and 12.4% respectively at the end of December 2016 (December 2015: 14.2%, 11.4% and 11.0% respectively). The increase in CARs was attributable to the growth in capital exceeding the growth in risk-weighted exposure.

The liquidity coverage ratio (LCR) remained above the minimum requirement of 70.0% in 2016, increasing to 107.8% in December 2016 (December 2015: 84.5%), mainly due to an increase in high-quality liquid assets.

Year-on-year impaired advances[3] decreased by 5.6% from R112 billion in December 2015 to R106 billion in December 2016. This decrease resulted in the ratio of impaired advances to gross loans and advances, a key indicator of credit quality in the banking sector, improving to 2.9% at the end of December 2016 (December 2015: 3.1%).

The ratio of specific credit impairments to impaired advances (known as the coverage ratio) decreased to 43.9% at the end of December 2016 (December 2015: 47.8%) due to the reduction in specific credit impairments in 2016. This decrease in the coverage ratio is an indication that the banking sector is expecting to lose less against impaired advances. Expressed as a percentage of gross loans and advances, specific credit impairments decreased slightly to 1.3% at the end of December 2016 (December 2015: 1.5%).

3. 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 Applications for the authorization to establish a bank

During the course of 2016, the Registrar of Banks granted three institutions authorization for the establishment of banks in terms of section 13 of the Banks Act. These institutions may, at any time during the 12 months from the date of the granting of the authorization, apply to the Registrar of Banks for the registration of the institution as a bank, provided that the aforementioned authorizations have not been revoked in terms of section 14 of the Banks Act and that certain specified conditions have been met.

The following institutions received authorization in terms of section 13 of the Banks Act in the year under review:

- TYME Capital (Pty) Limited
- Discovery Limited
- Postbank Limited

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

The number of applications approved by BSD in terms of section 52 of the Banks Act since 2006 is reflected in Table 1.3. The vast majority of the applications received in 2016 was submitted by the five largest banking groups.

Table 1.3 South African banking sector: 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	2016
Local	16	12	15	10	16	19	12	19	13	40	15
Foreign*	8	25	19	26	22	27	14	21	25	19	13
Total	24	37	34	36	38	46	26	40	38	59	28

* Excludes transactions undertaken by Investec plc

1.4 Enforcement

1.4.1 Introduction

During 2016, BSD continued to exercise its enforcement powers in terms of the Banks Act with regard to illegal deposit taking and to discharge its supervisory responsibilities in terms of the Financial Intelligence Centre Act 38 of 2001 (FIC Act). With regard to the latter, the department conducted both routine and non-routine supervisory inspections of banks' control measures for anti-money laundering and combating the financing of terrorism (AML/CFT). The SARB consequently imposed administrative sanctions on selected banks, which included financial penalties and the requirement that certain remedial actions be taken. Administrative sanctions were imposed not because banks had been found to have facilitated transactions involving money-laundering and/or the financing of terrorism, but because of weaknesses in their control measures.

1.4.2 Administrative sanctions imposed for AML/CFT non-compliance

In terms of the FIC Act, the SARB, through BSD, 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, BSD conducted inspections at a number of banks in 2016, with the aim of assessing whether appropriate measures and controls were in place to ensure compliance with the relevant provisions of the FIC Act.

Based on available facts and the findings of these inspections, BSD imposed administrative sanctions in terms of the FIC Act with a combined value of R46.5 million. 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 in the year under review.

Table 1.4 Penalities imposed on banks in 2016

Bank	Non-compliance	Administrative sanction
Absa Bank Limited	Certain weaknesses in the bank's controls and working methods pertaining to transaction monitoring	A financial penalty of R10 million A directive to take remedial action
GBS Mutual Bank	Not identifying and verifying customers' details (better known as Know Your Customer, or KYC, requirements) Not training employees to enable them to comply with the provisions of the FIC Act and the bank's internal rules Failing to implement adequate processes and working methods in relation to the sanctions screening of customers to ensure that the bank complies with its reporting duties	A financial penalty of R500 000 A directive to take remedial action A reprimand

Table 1.4 Penalities imposed on banks in 2016 (Continued)

Bank	Non-compliance	Administrative sanction
Habib Overseas Bank Limited	Inadequate controls and working methods pertaining to the reporting of suspicious and unusual transactions	A financial penalty of R1 million A directive to take remedial action
Investec Bank Limited	Failing to implement adequate processes and working methods in relation to the sanctions screening of related parties of customers to ensure that the bank complies with its reporting duties	A financial penalty of R20 million A directive to take remedial action
Société Générale Johannesburg Branch	Not identifying and verifying KYC requirements Not maintaining customer and transactional records as prescribed	A financial penalty of R2 million (suspended for two years) A directive to take remedial action
Standard Chartered Bank – Johannesburg Branch	Not identifying and verifying KYC requirements Failing to report certain cash transactions above R24 999.99 to the Financial Intelligence Centre	A financial penalty of R10 million A directive to take remedial action A reprimand
The South African Bank of Athens Limited	Not identifying and verifying KYC requirements Failing to implement adequate processes and working methods in relation to the sanctions screening of customers to ensure that the bank complies with its reporting duties	A financial penalty of R3 million A directive to take remedial action A reprimand

It should be noted that the decision to impose administrative sanctions was not based on any evidence that Absa Bank Limited, GBS Mutual Bank, Habib Overseas Bank Limited, Investec Bank Limited, Société Générale Johannesburg Branch, Standard Chartered Bank – Johannesburg Branch or The South African Bank of Athens Limited had facilitated transactions relating to money-laundering and/or the financing of terrorism.

1.4.3 Illegal deposit taking

The Banks Act empowers the Registrar of Banks to control certain activities of persons who conduct the business of a bank without being registered as such. The mandate 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.

BSD remained concerned about the prevalence of illegal deposit-taking schemes. On 6 September 2016, the SARB launched a three-year nationwide public awareness campaign in an effort to warn would-be participants against the risks of 'investing' in get-rich-quick schemes.

It has become apparent that, while some participants are duped into 'investing' in these schemes, a large proportion is participating knowingly, fully aware of the illegality. BSD cooperated closely with the National Prosecuting Authority and its Asset Forfeiture Unit on a number of matters during the year under review.

In its previous annual report, BSD had advised that it had initiated the repayment process in one of the larger schemes, confirming that the repayment to investors had commenced in November 2015. After the initial payments, it became apparent that some investors had failed to register their claims. The Registrar of Banks, through the appointed repayment administrators, embarked on a further public awareness and notification drive through radio and print media advertisements, bulk SMSs, calls to known investors from the dedicated call centre, and visits to identified areas that reflected a lower number of claimants compared to investors. Following this extensive exercise, the final repayments were effected on 19 December 2016.

BSD compiled a review of the illegal deposit-taking schemes investigated from January 2012 to December 2016 (refer to Table 1.5). During this period, the department appointed temporary inspectors and in some cases repayment administrators in respect of 57 cases. A total of 63 investigations into schemes were finalised during the above-mentioned five years. In 2016 alone, BSD investigated 27 schemes, comprising 19 schemes which were carried over from previous years and 8 new schemes. As at 31 December 2016, 21 schemes were still being investigated, following the finalisation of inspections into 6 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
2016	27	19	8	6	21

* Includes schemes carried over from previous years

1.4.4 African Bank Limited

As detailed in BSD's annual reports for 2014 and 2015, African Bank Limited was placed under curatorship on 10 August 2014.

Mr Tom Winterboer of PricewaterhouseCoopers (PwC), who was appointed by the Registrar of Banks as the curator of African Bank Limited, continued with his responsibility with regard to Residual Debt Services (RDS), which is the 'old' African Bank Limited. The 'new' African Bank Limited was launched on 4 April 2016 and continued to operate in a stable manner in the period under review.

Under curatorship, RDS continued to recover amounts due and fully repaid the loan previously extended by the SARB.

1.5 Regulatory developments affecting the domestic banking sector

1.5.1 Implementing the Twin Peaks system of financial regulatory architecture in South Africa[4]

In 2016, South Africa progressed with its legislative journey towards the implementation of the Twin Peaks model of financial regulation. The FSR Bill provides for the establishment and implementation of the two regulatory 'peaks' of the model. The PA, already mentioned above, will oversee the prudential regulation and supervision of financial market infrastructures and financial institutions offering financial products and services. It will operate under the administration of the SARB. The market conduct 'peak', known as the Financial Sector Conduct Authority (FSCA), will be responsible for the conduct regulation and supervision of financial institutions.

During 2016, the Standing Committee on Finance held hearings on the FSR Bill. The discussions at these hearings focused on, inter alia:

- collaboration between financial sector regulators;
- financial conglomerate regulation and supervision;
- consultation with affected stakeholders during regulation and supervision;
- the role of Parliament in the making of regulatory and supervisory instruments;
- significant owners; and
- fees and levies.

4. The Twin Peaks approach recognises the different skills required for prudential and market conduct regulation. Prudential regulation is designed to maintain the safety and soundness of financial institutions while market conduct regulation requires the perspective of a customer, which is a different regulatory perspective and philosophy.

Based on the discussions, the FSR Bill was further amended to:

- enhance collaboration between regulators;
- cater for financial inclusion and transformation;
- strengthen the consultation process with stakeholders;
- refine the parliamentary consultative process in the making of regulatory and supervisory instruments; and
- clarify the requirements for significant owners.

The levies aspect of the FSR Bill is further dealt with in the draft Financial Sector Levies Bills.[5]

On 30 November 2016, the Standing Committee on Finance adopted the FSR Bill. A week later, it was approved by the National Assembly and referred to the National Council of Provinces (NCOP) for consideration. Subsequently, the NCOP held public hearings towards the end of March 2017. It is expected that the NCOP processes will continue during May 2017.

5. Available at http://www.treasury.gov.za/twinpeaks/2016%2011%2023%20Levies%20Bill.pdf

1.6 Key international developments, recommendations and focus areas

South Africa is committed to the development of an effective and efficient global financial regulatory architecture. In this regard, the SARB is a member of, and actively participates in, relevant and strategic international forums, including the Group of Twenty (G20) and the Financial Stability Board. As such, influencing the global financial reform agenda has been an integral part of its work. Since the commencement of the global financial crisis in 2007, the international financial reform agenda has focused mainly on the development of adequate responses to the causes and effects of the crisis.

This new global financial reform agenda has significantly informed the focus of the BCBS, of which BSD is a member. 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 G20's comprehensive programme of reforms comprise the following:

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

In this regard, the BCBS issued a number of documents in 2016,[6] 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 internationally agreed timelines, with due consideration of domestic economic and financial system conditions.

6. The key matters communicated by the BCBS in respect of these documents and requirements are summarised in Appendix 9.

The following list highlights the regulatory and supervisory matters addressed in some of these documents:

- the minimum capital requirements for market risk (issued on 14 January 2016);
- frequently asked questions on the Basel III leverage ratio framework (issued on 6 April 2016);
- interest rate risk in the banking book (issued on 21 April 2016);
- the statement on capital arbitrage transactions (issued on 2 June 2016);
- revisions to the securitisation framework (issued on 11 July 2016);
- frequently asked questions on the Basel III net stable funding ratio (NSFR) (issued on 13 July 2016);
- frequently asked questions on the revised Pillar 3 disclosure requirements (issued on 12 August 2016);

- frequently asked questions on the supervisory framework for measuring and controlling large exposures (issued on 28 September 2016); and
- the total loss-absorbing capacity (TLAC) holdings standard (issued on 12 October 2016).

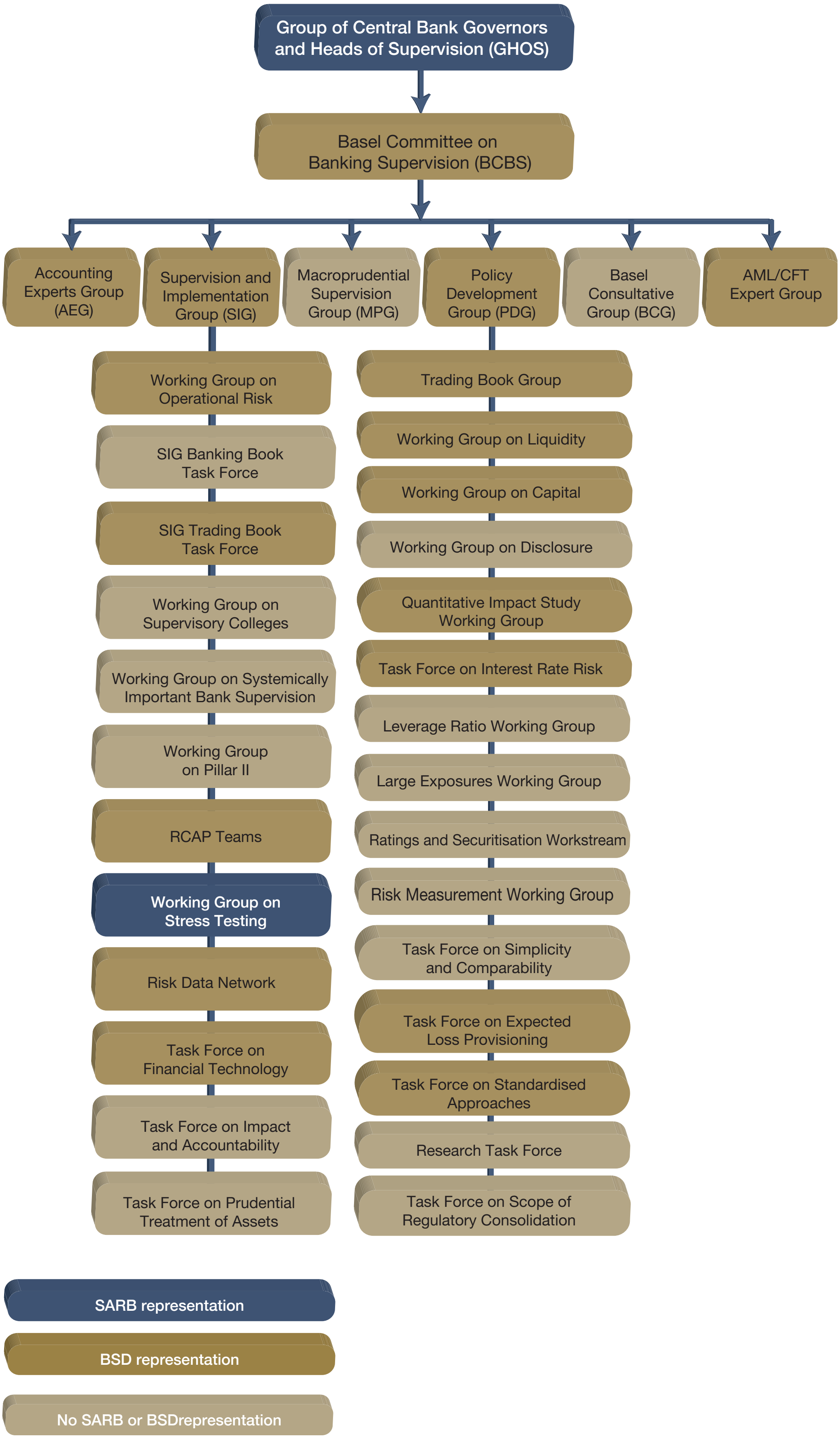
1.7 Participation in international regulatory and supervisory forums

BSD participated in a number of international regulatory and supervisory forums during the period under review. Participation in forums that form part of the BCBS structures is described in sections 1.7.1.1 to 1.7.15. Participation in other forums is set out in sections 1.7.2.1 to 1.7.2.4.

1.7.1 Basel Committee on Banking Supervision

BSD represents South Africa on the BCBS 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 that South African institutions are exposed to is recognised in the rules with which BSD expects South African banks to comply. Participation in forums that form part of the BCBS structures is described below.

Figure 1.2 Structure of the Basel Committee on Banking Supervision 2016



Sources include the Bank for International Settlements

1.7.1.1 Accounting Experts Group

The Accounting Experts Group (AEG) is a subcommittee of the BCBS. The AEG 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 Federal Accounting Standards Board (FASB) and the International Auditing and Assurance Standards Board (IAASB). 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 the provision of reliable financial information by exploring key audit issues from a banking supervision perspective. International auditing standard-setting developments and audit quality issues come under its attention, as well as any other documents emanating from the IAASB and the International Ethics Standards Board for Accountants.

During 2016, the AEG continued its close monitoring of developments relating to accounting standards for forward-looking expected credit losses (ECLs) by both the IASB and the FASB. Through its Task Force on Provisioning, which reports to both the AEG and the Policy Development Group (PDG), the BCBS is exploring both short- and long-term strategies for incorporating the ECL provisioning standards into the capital framework. It is also considering the introduction of transitional arrangements with regard to the adoption of ECL accounting for capital purposes.[7] The AEG has been monitoring these discussions closely and has been providing input where necessary.

In March 2016, the SARB issued Guidance Note 3 of 2016, requiring banks in South Africa to assess their current policies, processes and practices against the principles contained in the document titled *Guidance on credit risk and accounting for expected losses* that had been drafted by the AEG and issued by the BCBS in December 2015.[8] This document provides guidance on accounting for ECL provisions, regardless of the applicable accounting framework. It strives to ensure a high-quality, robust and consistent implementation of ECL provisions without unduly increasing cost and/or complexity.

Other areas that formed part of the AEG agenda during the past year were, inter alia:

- the revised accounting standard on leases (IFRS 16);
- the prudential treatment of assets; and
- the revision of International Standard on Auditing (ISA) 540 – Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures.

1.7.1.2 Supervision and Implementation Group

The Supervision and Implementation Group (SIG) is the peer review committee of the BCBS. Its mandate is to help foster financial stability by supporting the strong national and international regulation and supervision of banks. It has two primary objectives:

1. Foster the timely, consistent and effective implementation of BCBS standards and guidelines.
2. Advance the improvement in practices in banking supervision, particularly across BCBS member countries.

The BCBS work programme had identified four themes for 2015 and 2016, namely:

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

1.7.1.3 Working Group on Operational Risk

The Working Group on Operational Risk (WGOR) is a working group under the SIG and the PDG. Its mandate includes operational risk policy and implementation issues.

7. Discussion paper titled: *On the regulatory treatment of accounting provisions* (http://www.bis.org/bcbs/publ/d385.htm).

8. Consultative document: Regulatory treatment of accounting provisions – interim approach and transitional arrangements (http://www.bis.org/bcbs/publ/d386.htm).

Its primary focus area for 2016 was to finalise work on the newly proposed Standardised Measurement Approach (SMA) to replace the existing operational risk approaches. The SMA will determine a bank's operational risk capital requirements based on two components:

- a measure of the bank's income (commonly referred to as the 'Business Indicator' (BI)); and
- a measure of the bank's historical losses.

The removal of internal modelling approaches for operational risk from the Basel framework was also proposed and discussed.

1.7.1.4 Supervision and Implementation Group – Trading Book Task Force

The Supervision and Implementation Group – Trading Book Task Force (SIG-TB) is a work stream under the SIG established in 2012 to analyse the reasons for the differences in risk-weighted assets (RWAs) in the trading book across different jurisdictions. This analysis is part of the wider Regulatory Consistency Assessment Programme (RCAP) initiated by the BCBS in 2012.

During the period under review, the SIG-TB concluded work on the divergences in practices across banks regarding the proxy spread methodologies used for the Basel III advanced credit valuation adjustment (CVA) capital charge. The exercise incorporated a study on the implementation of the Basel III CVA framework across jurisdictions. Additionally, the exercise delved into the implications of the findings on the revised Basel CVA framework. Certain South African banks participated in this exercise and contributed to the work of the SIG-TB.

The work of the SIG-TB also included discussions on topics that monitored the developments made in banks' business models for trading activities.

1.7.1.5 Regulatory Consistency Assessment Programme Teams

The BCBS 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 BCBS's membership group.

Assessments are conducted at various levels, including according to risk-specific themes. During these assessments, a team of specialists reviews the information submitted by a specific jurisdiction's banking authority, seeks clarity on statements made (where required), and requests supportive data and/or information 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 assessment. Following the finalisation of the assessment team's report, a review team independently examines the findings before a review panel concludes the assessment. The draft reports are then submitted to the BCBS for approval before the results are published.

Specialists in BSD have been selected to lead or support the work of the assessment teams in other jurisdictions; they are also members of the review teams. BSD staff members contributed to the assessments of jurisdictions such as India, Indonesia, Mexico, Russia, Saudi Arabia, South Korea and the United States (US). Indonesia was the final BCBS member jurisdiction to undergo an assessment of its implementation of the Basel risk-based capital framework; the report on Indonesia was issued in December 2016.

1.7.1.6 Risk Data Network

The BCBS issued the Principles for Effective Risk Data Aggregation and Risk Reporting[9] (Principles) in January 2013. These Principles aim to strengthen banks' risk management practices by improving their risk data aggregation and risk reporting. The Principles were initially addressed to systemically important banks and apply not only at a group level, but also to all material business units and/or entities within the group. Global systemically important banks (G-SIBs) were given the deadline date of 1 January 2016; domestic systemically important

9. Available at http://www.bis.org/publ/bcbs239.pdf

banks (D-SIBs) in South Africa were directed to comply with the Principles by no later than 1 January 2017.

The initial work of the Working Group on SIB Supervision (WGSS) focused on the monitoring of the implementation progress and strategies. However, previous progress reports indicated that many banks remained non-compliant. Further monitoring was therefore required. Moreover, there was still an aspiration from regulators to continue to meet and exchange information to encourage compliance. The WGSS was consequently converted to a task force to focus on the monitoring of the implementation of the Principles with the establishment of the Risk Data Network (RDN) during the first quarter of 2016 under the auspices of the SIG.

BSD became a member of the RDN in September 2016. The necessity to become a member stemmed from the need to obtain knowledge and lessons learnt from other member countries, specifically jurisdictions that regulated G-SIBs who had had an earlier compliance deadline than the D-SIBs.

The general objective of the RDN is to develop and maintain a framework to ensure that banks and supervisors comply with the Principles.

1.7.1.7 Task Force on Financial Technology

In 2016 BSD joined the newly formed Task Force on Financial Technology (TFFT) which reports directly to the SIG. The objectives of the TFFT are to assess risks and supervisory challenges in relation to innovation and technological changes that affect banking. Furthermore, the task force was established to ensure progress in enhancements in the practices and principles for the management and supervision of associated risks arising from financial technology (FinTech).

Various activities were undertaken during the period under review to meet these objectives. In particular, ideas and information were exchanged between regulators.

1.7.1.8 Policy Development Group

The PDG assesses the proposed changes to banking regulations developed by its subgroups and other work streams of the BCBS. The group serves the BCBS by identifying issues, commissioning research, overseeing quantitative analysis, and making recommendations on policy to the BCBS. 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. BSD is represented on the PDG and on many of the subgroups where the subject matters are relevant to South Africa.

1.7.1.9 Trading Book Group

The Trading Book Group (TBG) is a subgroup of the PDG of the BCBS. The PDG identifies and reviews supervisory issues and oversees the development of BCBS policies, which are accordingly executed through its subgroups. The TBG is the subgroup that deals primarily with market risk.

The most recent global financial crisis exposed significant flaws in the regulatory capital approach to market risk and trading activities. While some of these issues have since been addressed in the revisions to the market risk capital framework that was released in July 2009, the BCBS agreed that a fundamental review of the framework was required, in particular whether the distinction between the banking and trading books should be maintained, how trading activities were defined, and how risks in the trading books (and possibly market risk more generally) were 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).

In 2016, the TBG published the final standard on the fundamental review of the trading book[10] which attracted much resistance on certain topics within the framework by the banking fraternity. The TBG undertook to address the unclear aspects emanating from the framework through the frequently asked questions process. Additionally, the TBG provided assistance to the quantitative impact studies that were conducted throughout the year.

10. Available at http://www.bis.org/bcbs/publ/d352.htm

1.7.1.10 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 regulatory requirements and expectations of the BCBS relating to liquidity and funding.

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

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

Furthermore, as part of its continued mandate, the WGL will be used as a forum to exchange information across jurisdictions in order to improve liquidity risk management and supervisory practices. As part of this process, the group will also consider whether an element of the Principles for Sound Liquidity Risk Management,[11] published by the BCBS in September 2008, should be updated and/or enhanced to reflect current best practice.

11. Available at http://www.bis.org/bcbs/publ/s144.htm

1.7.1.11 Working Group on Capital

The Working Group on Capital (WGC) was established in early 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 the policy issues associated with the definition of capital and capital-like instruments under Basel III.

A key initiative that the WGC finalised during 2016, approved by the BCBS, was the TLAC Holdings Standard.[12] This document sets out the regulatory capital treatment of banks' investments in TLAC and equivalent instruments.

12. Available at http://www.bis.org/bcbs/publ/d387.htm

1.7.1.12 Quantitative Impact Study Working Group

BCBS's biannual international Basel III implementation monitoring continued in the period under review in the form of quantitative impact studies (QISs).

In addition to Basel III implementation monitoring, the focus of the QIS exercises in 2016 was collecting data for the assessment of policy initiatives currently underway. These included the impact of proposals on the fundamental review of the trading book and initiatives to enhance comparability between banks, such as constraining the internally modelled approaches relating to the internal ratings-based (IRB) approach and removing the use of the modelled approach for operational risk. Furthermore, revisions were made to the standardised approach for credit risk, the counterparty credit risk framework, and the Basel III leverage ratio framework. Analyses were also done on the proposal to replace the Basel I-based floor with more risk-sensitive output-based floors.

The BCBS published the *Basel III monitoring report*[13] in September 2016. This report detailed the result of the QIS exercise as at 31 December 2015. It incorporated the data of the participating South African banking groups. Furthermore, it is the intent of the BCBS to continue publishing the results of the Basel III monitoring exercise.

13. Available at http://www.bis.org/bcbs/publ/d378.htm

Both BSD and the participating banks found value in being a part of these studies and will continue to actively participate in them.

Following the merger of the Capital Monitoring Group (CMG) with the QIS Working Group, BSD 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 QIS Working Group will, in particular, remain responsible for the design of the capital monitoring reporting templates (containing the agreed and fully implemented Basel framework) and for the analysis of bank-level parameters (e.g. capital requirements, eligible capital and capital ratios).

BSD will continue to participate in the QIS Working Group in 2017.

1.7.1.13 Task Force on Interest Rate Risk

Building on the work carried out under the FRTB by the TBG, the BCBS, under the PDG, created a Task Force on Interest Rate Risk (TFIR) to examine the options for capturing interest rate risk in the banking book (IRRBB) within the capital framework. The aim was to consider an obligatory charge (the 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.

In the year under review, the BCBS finalised and published the standards for IRRBB in the form of an enhanced Pillar 2 approach with mandatory public disclosure requirements. The TFIR also updated all the principles relating to the management and supervision of IRRBB. These standards will become effective from 1 January 2018.

1.7.1.14 Task Force on Standardised Approaches

In response to the issues arising from the global financial crisis, the BCBS established, in 2013, the Task Force on Standardised Approaches (TFSA) with the primary mandate to propose revisions to the standardised approach for credit risk. Besides 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.

Communication on the implementation of the revised approach is expected during 2017.

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

The BCBS's AML/CFT Expert Group assists both financial institutions and regulators in implementing the 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 AML/CFT Expert Group holds meetings twice a year; BSD participated in both meetings held in 2016 and contributed on an ongoing basis to the group's projects and initiatives.

1.7.2 Participation in other international forums

1.7.2.1 Eastern and Southern Africa Anti-Money Laundering Group

BSD attended the 16th Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Council of Ministers meeting inclusive of the 32nd Task Force of Senior Officials meeting which was held in Victoria Falls in Zimbabwe from 28 August to 2 September 2016.[14] This was followed by a public/private sector dialogue, also attended by BSD.

14. As at February 2016, the members of the ESAAMLG were Angola, Botswana, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

1.7.2.2 Financial Action Task Force

The FATF is an intergovernmental body that has developed the international standard for combating money-laundering and the financing of terrorism. BSD was represented at all three FATF plenary meetings held in 2016, and also participated in working group discussions and policy development.

1.7.2.3 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 Bank (AACB) Governors. CABS established a work plan during 2014 resulting in the SARB 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.
- 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.

In 2016, the CABS meeting was held in Cape Town in South Africa. The meeting took the form of a workshop facilitated by the Toronto Centre. The main purpose of the programme was to enhance participants' understanding of the practice of cross-border banking supervision and their leadership skills. The programme went beyond theoretical concepts and drilled down to the 'how to do it' and the challenges facing banking supervisors.

The SARB has been nominated to chair the CABS working group on cross-border banking, which will manage a project aimed at supporting AACB's efforts to improve the exchange of information on cross-border banks operating in sub-Saharan Africa.

1.7.2.4 Information Technology Supervisors Group

BSD was granted observer status on the Information Technology Supervisors Group (ITSG), a global group where information technology (IT) supervisory practices and experiences are shared in order to align global practices. South Africa will be eligible to apply for full membership after attending two conferences, the first of which was attended in September 2016.

The ITSG is an independent and cooperative international working group for prudential IT supervisors, which focuses on the operational supervisory aspects and 'lessons learnt' from on-site and off-site reviews and other supervisory engagements, with special attention to the supervisory practices, tools and assessment frameworks used. Other topics include the IT risks and incidents observed in practice, emerging technologies, and the operational IT supervisory priorities.

The ITSG supports and encourages effective international IT supervisory cooperation through the organisation of annual conferences and the provision of an ongoing IT supervisory communication platform. The ITSG is not affiliated to the BCBS or its subcommittees. In addition, some of the ITSG member countries are not represented at those committees.

The 2016 conference focused on the following key themes:

- FinTech and disruptive innovations;
- cybersecurity; and
- the supervision of third-party services and solution providers.

A heat map identifying the main transversal IT supervisory risks or evolutions was developed; its results will be used as focus areas for the 2017 conference.

1.8 Participation in international surveys

During the year under review, BSD participated in numerous international surveys, as follows:

- Financial Stability Board Regional Consultative Group (RCG) for sub-Saharan Africa – working groups on home host cooperation and information sharing
- Financial Stability Board Cross-border Crisis Management Group internal TLAC questionnaire
- G20 Green Finance Study Group survey on approaches to measuring green finance
- International Monetary Fund (IMF) Islamic Banking survey
- Organisation for Economic Co-operation and Development (OECD) survey on national adaptations of Basel III LCR and NSFR
- IMF Financial Access survey on gender-related data (pilot survey)
- Bank for International Settlements (BIS) Central Bank Governance Network survey on central bank management reporting
- Association of Financial Inclusion (AFI) communications regulator survey
- BCBS Task Force for Financial Technology FinTech survey
- Financial Stability Board thematic peer review on OECD's Principles of Corporate Governance
- African Development Bank survey on digital financial inclusion
- BCBS TFFT survey on products and services
- Committee of the Financial Stability Board/Global Financial System survey on FinTech credit intermediation
- BCBS SIG working group stress-testing survey on stress-testing practices
- BCBS SIG survey on supervisory challenges
- Financial Stability Board Correspondent Banking Coordination Group (CBCG) correspondent bank survey
- Financial Stability Board Compensation Monitoring Contact Group survey
- Financial Stability Board working group on governance frameworks survey on misconduct risk at firms
- Financial Stability Board questionnaire on the effects of derivative reforms
- World Bank Global Financial Inclusions and Consumer Protection survey
- AFI member survey on FinTech and regulatory technology

1.9 Participation in domestic regulatory and supervisory forums

In the year under review, BSD continued to serve on, and participate in, numerous domestic committees, forums, task groups and working groups to consult with financial industry participants and bodies, external audit bodies, government departments (e.g. National Treasury) and other financial regulatory authorities on relevant matters.

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

Some of the forums and initiatives which BSD participated in during 2016 are highlighted below:

- As discussed in section 1.5.1 of this report, the Standing Committee on Finance held hearings on the FSR Bill and the National Assembly approved the FSR Bill for deliberation by the Select Committee on Finance in the National Council of Provinces.
- The International Financial Reporting Standard 9 (IFRS 9) Implementation Working Group was formed in June 2015 and is ongoing, comprising representatives from BSD, banks, audit firms and other regulatory or industry bodies such as IRBA and SAICA, as discussed in section 2.2.2 of this report.

- The Risk Data Aggregation and Risk Reporting Working Group was formed under the auspices of BASA for the South African banking industry to work together with BSD in relation to the timelines and compliance with the Principles. After the inaugural meeting in late 2015, the group continued to meet in 2016, discussing matters of concern and clarifying concepts such as scope, legal entities, coverage and risk measurement.

1.10 Regional cooperation and interaction

1.10.1 Eastern and Southern Africa Anti-Money Laundering Group

The ESAAMLG conducts peer reviews of each member on an ongoing basis to assess the level 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.

BSD was nominated to take part in the second round of an AML/CFT mutual evaluation of Botswana, which started in June 2016.

BSD 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. BSD also hosted the Bank of Uganda for a one-week workshop wherein it shared AML/CFT supervisory methods and best practice.

1.10.2 Collaborative on-site meetings

BSD is committed to achieving the principles of consolidated supervision, as determined by the BCBS. Core Principle 12 of the Core Principles states that an essential element of banking supervision is that supervisors supervise the banking group on a consolidated basis and adequately monitor and, if appropriate, apply prudential norms to all aspects of the business conducted by the group worldwide.

Furthermore, BSD is committed to maintaining its relationship with foreign regulators for mutual assistance, cooperation and exchange of information in fulfilment of the respective central banks' supervisory responsibilities.

Pursuant to Core Principle 12, BSD conducted collaborative on-site visits to the subsidiaries of locally registered banks with banking interest in Botswana, Kenya, Mauritius and Namibia. The visits entailed meeting with the relevant banking supervisory authorities in each respective country for information-sharing purposes and also conducting a collaborative on-site meeting at the banking subsidiaries under their supervision, during which discussions were held with the respective executive management responsible for the banking entity in that country. The open and frank discussions during the meetings with the respective supervisory authorities as well as with the banking subsidiaries were informative and most useful in gaining a better understanding of the supervisory framework and processes applied as well as the assessments of the respective banking subsidiaries in those countries.

1.10.3 Interaction with other regulatory authorities in the Southern African Development Community (SADC) region

During 2016, representatives from The Bank of Namibia and the Central Bank of Swaziland were hosted by BSD where relevant officials, from BSD, presented and shared their learnings and experience mainly on the implementation of the Basel II and Basel III frameworks as well as the challenges experienced regarding to the implementation thereof.

BSD also hosted representatives from the Reserve Bank of Zimbabwe and presented supervisory methods and best practice with regards to recovery and resolution planning.

1.11 Issues to receive particular attention in 2017

BSD will continue to review, amend and update the regulatory and legislative framework in accordance with the latest relevant internationally agreed regulatory and supervisory standards and practices.

Other areas that will receive particular attention in 2017 include:

- the ongoing implementation of the PA in terms of the Twin Peaks model of financial regulation;
- the continued monitoring of the banking sector's capital adequacy and liquidity ratios as well as their compliance with relevant laws and regulations;
- the continued focus on the internal capital adequacy assessment processes (ICAAPs), in particular economic capital modelling, stress testing and capital planning;
- the continued assessment of the implementation readiness of both banks and the external auditors of banks relating to the IASB's IFRS 9 on accounting for expected credit losses;
- BSD's continued focus, in conjunction with the industry, in the search of a viable clearing solution for over-the-counter (OTC) derivatives;
- the 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 the banking industry's readiness to implement and comply with the NSFR as of 1 January 2018;
- the further embedding 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;
- thematic reviews to assess the progress made by banks in improving the configuration of their sanctions-screening systems after the review that had been conducted in 2014;
- the ongoing monitoring of banks' progress made in achieving full compliance with the Principles for effective risk data aggregation and risk reporting;
- a continued focus on IT, including FinTech and cybersecurity, with a view to issuing guidance surrounding cyber-resilience; and
- the adoption of the King IV Principles across the banking sector.

1.12 Expression of gratitude

I would like to express my appreciation to the staff members of BSD for their hard work and dedication over the course of 2016. Last year brought with it a high degree of complexity and numerous challenges, which the department dealt with in an exemplary fashion. To the leadership of the SARB, I offer my thanks for your support and cooperation throughout the year.

Finally, my gratitude goes to National Treasury and the FSB for their assistance and input on a variety of regulatory and statutory matters, in particular the FSR Bill.

Kuben Naidoo
Deputy Governor and Registrar of Banks

Chapter 2: Overview of supervisory activities

2.1 Introduction

As part of its risk-based supervisory approach, BSD monitors banks' compliance with the regulatory framework and specifically with prudential requirements. Understanding banks' risk profiles, their business models and the environment in which they operate is paramount to BSD's effective risk-based supervision. To this end, the department follows a structured, forward-looking supervisory review and evaluation process (SREP) that incorporates on- and off-site supervision as well as quantitative and qualitative supervisory tools.

The SREP is designed to:

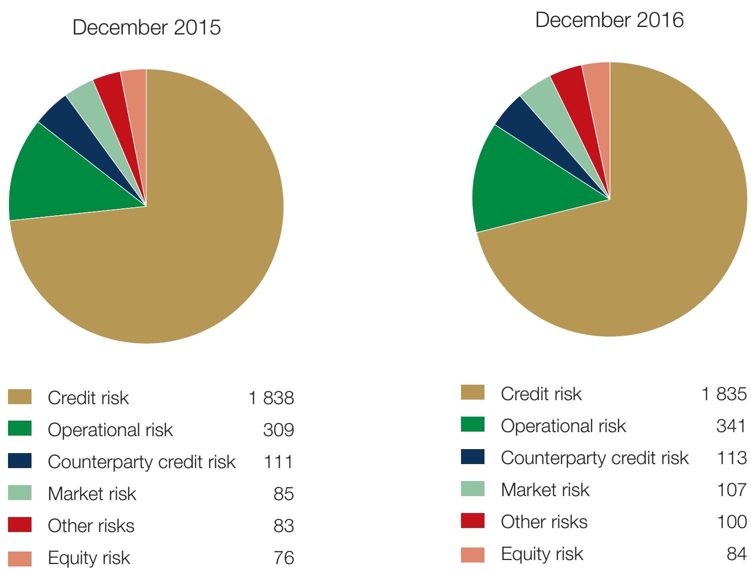
- identify the key risk factors and the build-up of risks which could impact on individual banks and the banking sector as a whole;
- assess the risk management policies, processes, practices and structures that are used to mitigate risks; and
- deploy resources accordingly to address the most critical risk areas and intervene early where required.

This chapter provides an overview of BSD's operations during the period under review at an industry level and according to aspects of bank supervision that are common across banks. These operations include work undertaken with respect to themes, risk-based reviews, consolidated supervision, and disclosure assessments.

Figure 2.1 gives an indication of the aggregated risk profile of the banking sector as at 31 December 2015 and 31 December 2016, reflecting Pillar 1 risks that are quantifiable in terms of the Regulations relating to Banks (Regulations) and for which the sector is required to hold regulatory capital. The banking sector is also exposed to other risks that are not quantified in terms of regulatory capital requirements, such as liquidity risk and interest rate risk in the banking book that are monitored specifically through the application of the SREP and assessed under Pillar 2 supervisory activities.

Figure 2.1 Composition of risk-weighted exposure

(R billions)



2.2 Thematic topics for 2016

2.2.1 Introduction

15. Available at http://www.resbank.co.za/Publications/Pages/BanksActGuidance.aspx

As part of its ongoing supervisory interventions, BSD identifies certain themes, or flavour-of-the-year topics, for an annual discussion with banks' boards of directors (boards). Guidance Note 2 of 2016[15] identified the following two topics for 2016:

- IFRS 9
- cybersecurity

Banks' boards were requested to make presentations and engage with BSD on each topic. A review of the department's interactions related to these topics is detailed in sections 2.2.2 and 2.2.3.

2.2.2 IFRS 9, *Financial Instruments*

IFRS 9, *Financial Instruments*, becomes effective for the financial periods beginning on or after 1 January 2018. This international standard will significantly affect the way in which banks determine impairments for problem loans and will therefore affect banks' profits and available capital. While the aim of IFRS 9 is to ensure that impairments are raised earlier than before, i.e. as soon as a significant increase in credit risk has been identified (and taking into account forward-looking macroeconomic information), the changes required to data, processes and systems are onerous and will call for much greater coordination of efforts between various functions in banks, e.g. risk and finance.

With the effective date for IFRS 9 fast approaching, and due to the potential impact on the banking sector, IFRS 9 was selected as a flavour-of-the-year topic for both the 2015 and the 2016 calendar years. The focus during 2016 was on understanding the progress that banks had made in preparing for the implementation of the standard, the challenges faced, the milestones reached, and the anticipated impact on impairments and capital. To ensure continued focus beyond implementation, BSD and industry also sought to understand the post-implementation procedures that banks would adopt to ensure that the impairment models remained appropriate and that governance processes were robust.

Most banks have made significant progress with the implementation of IFRS 9 since the initial discussions held in 2015, and all banks are expected to be ready for ECL provisioning by the effective date. Banks on the IRB approach for credit risk will be leveraging their regulatory models for IFRS 9 impairment purposes. Some banks have employed the assistance of external consulting firms for certain aspects of their projects. Smaller banks are also developing internal models, some also with the aid of consultants, although less sophisticated than those of the larger banks. The branches of foreign institutions will be relying to a large extent on the models developed by their parent entities.

An industry-wide shortage of the necessary skills and resources, particularly suitable quantitative modelling resources, has resulted in some banks finding it difficult to meet internal project milestones and targets. As a result, some banks have had to reduce the length of planned parallel runs prior to implementation date. However, most banks still expect to conduct a minimum of six months of parallel runs of the old and new systems. Banks with operations across the African continent are also experiencing challenges with regard to data availability for modelling purposes.

The IFRS 9 Implementation Working Group, established in 2015, continued to meet every month during the year under review. Its Policy, Modelling and Disclosure subgroups debated issues such as the application of a significant increase in credit risk, macroeconomic forward-looking information and pre-adoption disclosures. These subgroups include representatives from BSD, banks, auditors, SAICA and IRBA; they have been a useful industry initiative.

Banks have shared with BSD their initial estimated impact, which indicates an increase in the level of impairments and a consequential reduction in CARs. It should be noted that these are preliminary estimates. As banks are still in the process of finalising impairment models, especially with regard to the forward-looking component, the estimates may change significantly. The BCBS is also still finalising the treatment of ECLs for regulatory purposes and as such may influence the final impact on regulatory capital as it is proposed that any IFRS 9 impact on regulatory capital be phased in over a transition period.

The BCBS issued a guidance document titled *credit risk and accounting for expected losses* in December 2015. This document highlights the expectations of banking regulators with regard to ECL provisioning. In March 2016, BSD issued Guidance Note 3 of 2016, requesting banks to assess their current policies, process and practices against the principles contained in the BCBS document, taking into account the nature, size, complexity and risk profile of their activities. Compliance with the BCBS requirements will be a focus area for BSD going forward.

BSD would also like to draw attention to the Staff Audit Practice alert issued by IRBA in September 2016, titled *Audit implications of the expected credit loss model for the auditors of banks*, which provides guidance to the South African audit profession on the audit of ECL provisions. The guidance was issued in response to a concern raised by BSD that there was insufficient guidance in ISA 540 on the audit of forward-looking information and revisions to this standard would not be completed in time for the first audits of ECL provisions.

2.2.3 Cybersecurity

BSD had previously included, and will continue to include, information security, including cybersecurity, in its supervisory programme. This includes discussing banks' information security governance and measures during on-site visits as well as questionnaires covering information security. Concerns relating to cyber-threats had placed cybersecurity on the risk radar of regulatory agencies and banks globally. As such, cybersecurity was included as a theme for discussion with banks' boards during 2016.

BSD views cybercrime as referring to any criminal activity carried out by means of computers or the Internet. Focus areas that banks' boards were asked to present on in 2016 included:

- the awareness, knowledge and understanding of the board in order to provide oversight of cybersecurity;
- banks' approach to managing cybersecurity and how it is integrated into their respective enterprise risk management frameworks;
- an overview of banks' primary cybersecurity governance structures;
- addressing the shortage of cybersecurity skills;
- creating awareness with customers and employees;
- ensuring the availability of an adequate budget;
- banks' approach to sharing threat intelligence within the banking industry; and
- the boards' views on the interaction with the proposed government cyber-structures, such as the Cyber Hub.

Boards also presented on the frequency of cybersecurity discussions at board and/or board subcommittee level, meetings, recent initiatives to bolster cyber-defences along with future plans, the legal implications of cyber-risks, cyber-insurance, and cyber-risks introduced through outsourcing and third-party service provider arrangements.

Banks have made concerted efforts to improve their cybersecurity governance frameworks and strengthen their cyber-defences, with efforts increasing due to the high-profile cyber-incident which occurred within the industry during the year under review. Much work is, however, still in progress, and banks have to ensure that they do not delay in implementing initiatives that will strengthen their defences. Continued vigilance and improvement are required in cyberspace. Banks should also ensure that they have adequate cybersecurity skills and knowledge – starting at board level.

BSD will continue to focus on information, including on cybersecurity-related information, and will look to issue guidance on cyber-resilience in 2017. The department will also consider possible initiatives in terms of industry collaboration, such as sector computer security incident response teams as well as its role in information security testing. The importance that the SARB places on information security in the financial services industry as a whole was evidenced through it hosting its first cybersecurity conference in August 2016.

2.3 Credit risk

2.3.1 Introduction

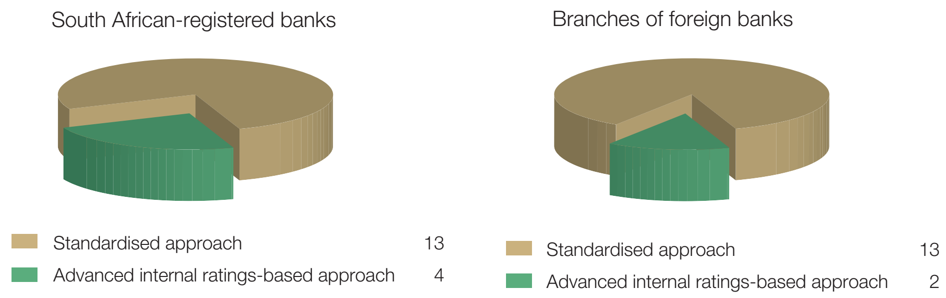
Household debt continued to rise, with increases in the prime rate in the first half of 2016 notably pushing the household debt service cost ratio to its highest level since the first quarter of 2010. During 2016, the banking sector experienced a declining trend in the growth of credit extension, with an annual growth rate of -1% at the end of the year (December 2015: 15%). BSD continued to monitor the impact of market conditions on South African banks' credit risk profiles and portfolios through a number of initiatives.

Under the regulatory framework currently employed in South Africa, banks can choose from the following three methodologies to calculate their minimum required regulatory capital relating to credit risk:

1. the standardised approach (STA), including the simplified STA;
2. the foundation internal ratings-based (FIRB) approach; and
3. the advanced internal ratings-based (AIRB) approach.

The number of banks registered in South Africa using each of the aforementioned approaches is depicted in Figure 2.2.

Figure 2.2 Credit risk methodologies applied by banks as at 31 December 2016



2.3.2 Regulatory developments

In December 2015 and March 2016 respectively, the BCBS released a second consultative document on the revisions to the STA for credit risk[16] and a consultative document setting out a proposed set of changes to the Basel framework's FIRB and AIRB approaches.[17] Progress has been made towards completing the BCBS's post-crisis regulatory reforms, however, the Group of Central Bank Governors and Heads of Supervision (GHOS) announced in a press release dated 3 January 2017 that more time was needed to finalise some of the work, including ensuring the framework's final calibration, before the GHOS could review the package of proposals. BSD continued to closely follow the regulatory developments and monitored the potential impact on the South African banking sector.

16. Available at http://www.bis.org/press/

17. Available at http://www.bis.org/press/

Locally, it came to BSD's attention that certain features of the current Securitisation Notice (Government Notice No. 2, published in *Government Gazette No. 30628*, dated 1 January 2008) needed to be re-examined. The securitisation market in South Africa is relatively small and has reduced even further since the global financial crisis. In order to place the securitisation market back on a firm and sustainable footing, and to allow for future growth in the market, BSD, together with National Treasury and members of the banking industry, started a process to determine which changes could be made to the Securitisation Notice to build a healthy and adequately regulated securitisation market. This would not only support the banking sector in diversifying its funding sources, but also fulfil a role in the broader economy by assisting non-bank issuers in raising more cost-effective funding.

2.3.3 Thematic on-site reviews

BSD's review team conducted several on-site reviews during the 2016 year, which focused primarily on the process applied by banks regarding the adequacy of specific credit impairments within the various loan portfolios.

The review team also conducted on-site reviews at local branches and subsidiaries of some foreign banks. The reviews encompassed the assessment of the following:

- the methodology applied by the bank in the process of determining the specific credit impairments on non-performing exposures;
- the consistency of the bank's methodology with the requirements of International Accounting Standard (IAS) 39;
- the methodology applied by the bank in the valuation of collateral and the bank's consistency in its application;
- the accuracy of the classification of exposures in the performing portfolio;
- the adequacy of the bank's governance processes relating to exposures in the non-performing portfolio; and
- the bank's policy pertaining to business rescue as well as restructured and rescheduled exposures.

In the last quarter of 2016, the review team conducted an on-site review at a financial institution which had also recently amended an aspect of its impairment methodology. The review team was requested to obtain an understanding of its overall impairments methodology and to ascertain the validity of the rationale underpinning the change in the impairments methodology.

An evaluation in the above reviews encompassed, in addition to those mentioned above, an assessment of the accuracy and completeness of pertinent credit risk information reported in the BA returns.

The most pertinent findings which arose from the aforementioned reviews follow:

- Shortcomings were identified in the policies that outline the impairment and provisioning methodologies as well as in the write-off processes. It was further noted that banks had not always complied with some of the requirements of these policies. In certain instances, the requirements of the new impairment methodology were not complied with.

- The requirements of Directive 7 of 2015, which deals with the restructuring of credit exposures, had not been outlined sufficiently in the relevant policies. Consequently, banks had not complied with the directive in terms of treating and classifying the restructured and rescheduled exposures and those under debt review and business rescue, also not reporting them in the relevant BA return.

- The rationale behind the timeframe for the realisation of collateral could not be provided and banks could not explain how the periods had been benchmarked against the average time taken during the legal process and/or the timeframe to liquidate collateral for accounts which were in default. Furthermore, the rationale underlying the determination of the write-off periods adopted could also not be provided. Instead, BSD was informed that the write-off periods had been historically determined.

- There was insufficient guidance on the application of IAS 39, the determination of loss given defaults (LGDs) as well as the term or tenure or discount rate used in the determination of specific impairments.
- There were relatively infrequent instances of loans which had been incorrectly classified in terms of regulation 24(5)(c) of the Regulations.
- There were instances of inappropriate accounting treatment of interest in suspense.
- Several system shortcomings and manual interventions were identified, which may have had an impact on the accuracy of information reported to BSD.

In general, the banks reviewed in 2016 committed to remediate the deficiencies identified during the on-site reviews.

2.3.4 Model changes

In the year under review, BSD received 15 notifications of non-material model changes and 43 submissions of material model changes to banks' IRB systems. The reasons for these rating system changes included the removal of implicit support and alignment of the 'default' definition to Directive 7 of 2015.[18] BSD continued to follow a robust review and approval process, as highlighted in its 2013 annual report.

18. Available at http://www.resbank.co.za/Publications/Pages/Bank-Actdirectives.aspx

2.3.5 Restructured credit exposures

As reported in the 2015 annual report,[19] Directive 7 of 2015 had been issued to provide clarity on how banks should identify restructured credit exposures and how they should treat them for the purpose of the definition of 'default', as defined in regulation 67 of the Regulations. Furthermore, the directive also addressed the reporting of restructured credit exposures and the rehabilitation of non-performing loans using restructuring. The aim of the directive was to promote the consistent prudential treatment of restructured credit exposures within the banking sector and to create a more level playing field for banks in this area.

19. Refer to section 2.3.7 in the 2015 annual report

BSD conducted a follow-up survey to assess the level of compliance with the directive and to identify common areas of difficulty with implementation. The majority of banks indicated that they were fully compliant with Directive 7 of 2015. Outstanding model and system changes were provided as reasons for partial compliance in some of the banks' retail portfolios.

BSD will continue to assess the implementation and impact of Directive 7 of 2015 on regulatory capital models, impaired advances, specific impairments and reporting until it is evident that all banks are complying with its requirements. Revisions to the directive may become necessary in future to bring it in line with the latest regulatory developments (e.g. the proposed definition of non-performing exposures and forbearance[20]) and accounting developments (e.g. IFRS 9).

20. Available at http://www.bis.org/bcbs/publ/d367.htm

2.4 Market risk

2.4.1 Introduction

South Africa managed to avoid a sovereign credit rating downgrade in the period under review, which proved to be a major theme throughout the year. Rating agency Standard & Poor's kept the country's credit rating unchanged at BBB- (which is one level above junk status) but downgraded South Africa's local debt by one notch to BBB, causing negativity which could result in the country's removal from global bond indices as well as a loss of appetite for the country's debt. These topical issues were factored into discussions with banks at their scheduled supervisory meetings.

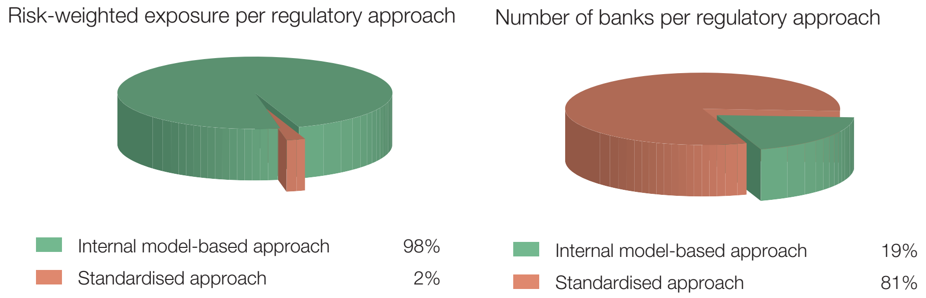
2.4.2 Methodologies to calculate the minimum required regulatory capital relating to market risk

Under the current regulatory framework employed in South Africa, banks can choose from the following two methodologies to calculate their minimum required regulatory capital relating to market risk:

1. the standardised approach (STA); and
2. the internal models-based approach (IMA).

The risk-weighted exposure for these two approaches, in addition to the proportion of banks per approach, is depicted in Figure 2.3

Figure 2.3 Market risk methodologies applied by banks as at 31 December 2016



2.4.3 Market risk reviews

BSD performed both compliance-based and risk-focused supervision of market risk during the period under review. The market risk reviews conducted in 2016 focused on banks using the IMA for regulatory purposes.

2.4.4 Key findings

Market liquidity remained at low levels during the period under review and the lack of liquidity is envisaged to continue going forward. This has resulted in banks cutting back on certain positions and applying a conservative approach to the amount of risk being brought onto book. The supply shortages of the US dollar in African jurisdictions have posed challenges for liquidity as banks began to experience increased difficulties in settling transactions swiftly.

Low and even negative interest rates in developed nations was another key topic during the year under review. Interest rates were positive in emerging markets as the global search for yield was a predominant driver for these markets. Emerging market economies had their biggest inflow into bonds since 2004 due to the negative interest rates in developed nations.

Commodity prices increased in 2016 after a long stretch of declines in 2015, with the oil price recovering from its five-year low.

The fundamental review of the trading book and the rewrite of market risk requirements was a big focal point throughout 2016, with banks gearing up for the new regulations. Banks focused mainly on system requirements throughout the year, but also on impact studies to assess the operational and capital needs of the upcoming regulations.

2.4.5 Counterparty credit risk thematic reviews

In terms of Core Principle 17 of the Core Principles published by the BCBS, supervisors must be satisfied that banks have a counterparty credit risk management process in place that takes into account their risk appetite, risk profile as well as market and macroeconomic conditions.

This includes appropriate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate this risk on a timely basis.

BSD conducted a thematic review of banks where counterparty credit risk occurred, derived from the requirements of the Core Principle 17 encompassing its complete scope as well as additional aspects related to the Basel III framework and pending regulatory reforms. A questionnaire was used to establish the fundamental drivers, controls and governance frameworks of counterparty credit risk management and to assess banks' incorporation of the Basel III rules into their business practices and risk management procedures. On-site discussions with bank representatives were extremely useful in ascertaining the level of implementation of their respective counterparty credit risk management frameworks. The main issues highlighted included the impact of the forthcoming regulatory reforms and the correct reporting of valuation adjustments.

2.4.6 Equity risk in the banking book

Exposures arising from equity risk in the banking book (ERIBB) are generally held for long-term investment purposes and receive a capital treatment that is independent of the market risk capital charge. For supervisory purposes, ERIBB is regulated with market risk. Thematic reviews are aimed at gaining in-depth insight into the business objectives of those areas in banks where this risk arises as well as the management of the risk over the life cycle of investments. It is increasingly evident that this risk type continues to diminish as banks strategically reduce their investment activity.

BSD conducted three ERIBB thematic reviews in 2016, which resulted in a number of banks being urged to strengthen their risk management practices in certain areas. Furthermore, banks' readiness for the implementation of the forthcoming regulatory rules titled *Capital requirements for banks' equity investments in funds*[21] was also assessed.

21. Available at http://www.bis.org/publ/bcbs266.htm

2.4.7 Securities thematic reviews

In 2016 BSD conducted two focused reviews on bank-associated entities that conducted stockbroking and other securities activities. The main objective of the reviews was to assess how the risks emanating from such entities may affect the risk profile of the associate bank. The reviews placed emphasis on the trading businesses, the systems utilised, the risk management processes as well as the regulatory issues with respect to market risk. Further assessments for selected banking groups will continue in 2017.

2.5 Operational risk

2.5.1 Introduction

Operational risk and IT risk have remained a key focus on the global stage. Market manipulation, misconduct, fraud as well as system and execution failures were plentiful in 2016. Cyber-risk claimed the touted title of being the top risk at many organisations, and various cyber-threats and attacks, the illegal distribution of data and other information as well as the denial of service disruptions occurred. The vastness and disparate nature of operational risk translates into the varied problematic aspects of this risk type. Inadequate and/or failed systems, people, processes and external events resulted, once again, in the recording of enormous losses internationally during the year under review. Domestically, the frequency and severity of loss events increased significantly, although the severity component was primarily driven by a handful of extraordinarily large events.

The macroeconomic outlook remained subdued; this is normally associated with an increase in operational risk losses, which is accompanied by the necessity to reduce all types of costs (including regulatory and compliance costs) and create economies of scale and value for money, which makes it vital for banks to consider new and/or alternate technologies.

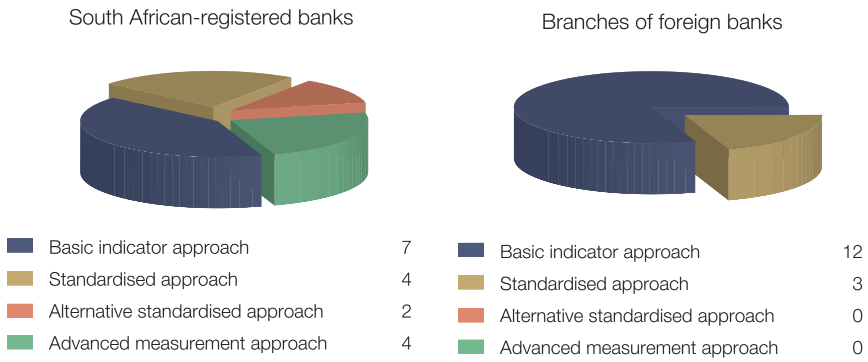
2.5.2 Methodologies to calculate the minimum required regulatory capital relating to operational risk

The current regulatory framework in South Africa allows banks to select from the following four methodologies to calculate their minimum required regulatory capital relating to operational risk:

1. the basic indicator approach (BIA);
2. the standardised approach (TSA);
3. the alternative standardised approach (ASA); and
4. the advanced measurement approach (AMA).

The number of banks using each of the aforementioned approaches is depicted in Figure 2.4.

Figure 2.4 Operational risk methodologies applied by banks as at 31 December 2016



2.5.3 Operational risk reviews

During the year under review, BSD sustained its focused operational risk reviews at selected banks. These reviews focused on a general operational risk update, operational risk appetite, the Rest of Africa footprint and control, outsourcing, top operational risks, and BCBS amendments. BCBS amendment discussions included the focus shift from measurement to management of operational risk and also aimed to gain an understanding from the first line and second line of defence on the impact of the changes, both strategically and operationally. The key findings were:

- Operational risk governance structures, human resources, frameworks and policies: Banks continued to maintain sound governance structures, with emphasis placed on the three lines of defence and the management aspect of operations. Banks experienced difficulty in attracting suitable candidates due to the scarcity of resources skilled in operational risk. This industry-wide challenge has fuelled banks to establish hubs or programmes that look into upskilling resources.

- The African footprint: Local banks were still experiencing challenges with control weaknesses in their Rest of Africa subsidiaries. They had, however, established interventions to mitigate concerns with the overall control environment. BSD will continue to monitor progress with regard to the Rest of Africa entities.

- BCBS amendments: BSD engaged with banks on the proposed changes to the operational risk approaches and their possible impact. Most banks indicated that they would continue utilising internal modelling for economic capital purposes subsequent to its removal from the Basel framework, regardless of the timing.

- Operational risk losses: The country experienced a difficult monetary policy environment in 2016, characterised by high inflation and weak growth. The unfavourable economic conditions materially influenced losses in the banking industry, and a significant increase in the frequency and severity of losses was observed year on year. The losses originated, in the main, from execution delivery and process management as well as external fraud event types.

- Audit reports related to operational risk management: Although noticeable improvements in the operational risk control environment were observed across the industry compared to previous years, there were still a number of factors affecting the risk landscape. Banks' internal auditors indicated that they would be focusing on areas of concern to ensure that business addressed the control breakdowns. BSD will maintain the monitoring thereof.

2.5.4 Outsourcing

An overview of the observations of the 2016 outsourcing submissions was presented to the industry. As a result thereof, a directive was published requiring banks to split their IT vendors and other vendors to ensure that no material vendor was excluded due to size. BSD continued to receive requests from banks with regard to outsourcing arrangements. Most of the applications were from branches of foreign banks in line with their goals of achieving economies of scales and/or wanting to create centralised centres of excellence where standardisation and optimisation was pursued.

2.5.5 Information technology risk

Towards the end of 2015, BSD had issued a self-assessment questionnaire to the industry looking at information security and IT infrastructure management. The feedback was received in early 2016; the outcome of its analysis was used to inform supervisory processes.

BSD continued to critically analyse submissions in terms of Directive 8 of 2015 on the reporting of material outsourced service providers and critical third-party service providers. The supervisory plan included continued on-site visits at banks where disaster recovery as well as information security and projects were some of the topics that continued to receive attention.

BSD was granted observer status on the ITSG, a global group where IT supervisory practices and experiences are shared in order to align global practices. The department was also represented on the BCBS's TFFT. These initiatives enabled BSD to learn from other regulators and implement those lessons locally as well as to share, on a global stage, what was working nationally. Moreover, the department continued to be involved in the SARB working group on virtual currencies and distributed ledger technology. In addition, it was involved in establishing a FinTech working group within the SARB and participated in intergovernmental FinTech initiatives. BSD was furthermore involved in the planning of the SARB cybersecurity conference.

The short- and medium-term IT supervisory programmes will include a focus on information security, FinTech, outsourcing and continuity. BSD will look to issue guidance on cyber-resilience and is considering providing guidance on incident reporting. In addition, the department will remain involved in both local and international initiatives to supervise and provide guidance on IT risk in the industry.

2.5.6 Information technology risk reviews

Various focused IT risk on-site meetings were conducted in the year under review. The topics covered included IT governance, IT risk management, key projects, business continuity and disaster recovery, and information security and cybercrime. The key findings from these reviews were as follows:

- The maturity of IT governance was a concern at some banks.
- The maturity at some operations outside South Africa required improvement.
- Banks have to ensure that they do not increase risk due to a lack of IT and/or information security skills.

- Ensuring service uptime and minimising the impact of IT glitches on customers required attention, including the management and testing of IT infrastructure, with business continuity and disaster recovery management being a concern in some of the operations outside South Africa.
- Strained project governance and ensuring that benefit delivery remained a priority continued to be focal points.
- Information security and cybersecurity had been increasing in importance. Banks have to ensure that the governance frameworks and management of these areas are at the desired maturity level. User and logical access management in particular continued to be a concern across the industry.

BSD will continue to monitor the control environment within banks to ensure that appropriate and sufficient action is taken to minimise control failures. The managing of third-party relationships – particularly from a strategic, operational and security perspective – is imperative; BSD will therefore continue to focus on outsourcing.

2.5.7 Risk data aggregation and risk reporting

Due to the onerous nature of the internationally agreed requirements related to risk data aggregation and risk reporting, none of the D-SIBs in South Africa were able to fully comply with the Principles by the directed date of 1 January 2017. Principle 2, relating to data architecture and IT infrastructure, seemed to pose the biggest challenge to banks, specifically in terms of execution and management. This was followed by Principle 7, relating to accuracy in terms of gaps identified.

Banks had made a concerted effort to implement the Principles, but it was evident that some might have initially underestimated the complexity and interconnectedness of the Principles. It did appear, however, as if the boards and senior management were adequately involved, recognising the importance of the Principles and viewing their implementation not only as a compliance exercise but rather as a necessity for their respective organisations and the banking sector as a whole.

BSD had quarterly interactions with most of the larger banks during the year under review and will continue these discussions in 2017, albeit less frequently. In addition, the department will engage with non-D-SIBs on a bilateral basis to monitor their progress in complying with the Principles.

BSD issued Directive 5 of 2016[22] directing banks' internal auditors or a combination of their internal and external auditors to periodically conduct granular verification and validation of the evidence related to compliance with the Principles.

22. Available at http://www.resbank.co.za/Publications/Pages/Bank-Actdirectives.aspx

Finally, in order to assist BSD in discharging its supervisory responsibilities, risk data aggregation and risk reporting was selected as one of the flavour-of-the-year topics for 2017 to be discussed with banks' boards.

2.5.8 Directives related to operational risk

The following directives were issued during the period under review:

- Directive 5 of 2016:[23] The purpose of this directive was to direct banks' internal auditors or a combination of their internal and external auditors to periodically conduct granular verification and validation of the evidence related to compliance with the Principles.
- Directive 8 of 2016:[24] The purpose of this directive was to direct all banks to submit specified information in respect of their outsourcing arrangements within indicated timelines.

23. Available at http://www.resbank.co.za/Publications/Pages/Bank-Act-directives.aspx

24. Available at http://www.resbank.co.za/Publications/Pages/Bank-Act-directives.aspx

2.6 Asset and liability management risk

2.6.1 Regulatory developments

BSD assessed the NSFR holistically to determine the feasibility of adopting the minimum standard in South Africa. The focus was on the suitability of the calibration of the NSFR for South Africa and the options available to incorporate the principles of the NSFR without causing undue harm to the banking sector or the economy.

The available and required stable funding factors specified in the standard are calibrated to reflect the presumed degree of stability of liabilities and the liquidity of assets. However, the NSFR framework has been calibrated on a global scale without due consideration for jurisdiction-specific circumstances and as such has proved to be inappropriate for South Africa in specific areas.

Consequently, the calibration of 0% for wholesale deposits with a residual maturity of less than six months per the Basel document *Basel III: the net stable funding ratio* issued in October 2014 was recalibrated to 35% to reflect that wholesale funding in South Africa was generally more stable than in some other parts of the world; this was proved by analyses of the behaviour of wholesale funding. This will substantially reduce the banking sector's shortfall in complying with the NSFR and increase the NSFR ratio. However, banks are still required to adjust their funding profiles to reach the NSFR compliance level of 100% and build up a buffer which BSD estimates may be anything between 5% and 10%. This will promote the ethos of the NSFR without causing undue harm to the economy.

The effective date for the NSFR is 1 January 2018, with the monitoring period underway.

Through its membership on the TFIR, BSD continued to participate in the development of international standards to measure IRRBB, with a final Basel document *Standards*: *interest rate risk in the banking book* released in April 2016. The department has been scheduled to adopt these standards for IRRBB in 2017.

Throughout 2016, BSD continued to engage with the South African banking sector through BASA to monitor and discuss international regulatory developments and their impact on liquidity risk and IRRBB.

2.6.2 Focused reviews

According to the Core Principles, a supervisor is required to determine whether banks have in place certain minimum standards in respect of liquidity risk and IRRBB. During the year under review, BSD conducted several reviews to evaluate banks' current practices. The department sent out a questionnaire covering banks' policies, procedures and internal controls relating to liquidity risk and IRRBB.

Following an off-site review of the responses received, BSD conducted on-site meetings to discuss the responses and probe any relevant additional information to ascertain the level and intensity of supervision.

2.6.3 Sovereign credit rating downgrade scenario

Having due consideration for the ever-present risk of South Africa receiving a sub-investment grade on its sovereign credit rating and its subsequent impact on the banking sector, BSD requested all banks to participate in a stress scenario to assess the potential impact of such a downgrade and to ensure banks are able to react to and mitigate the impact of such a scenario. The results were evaluated and incorporated into a detailed analysis of the banking sector.

2.6.4 Circulars issued in 2016

Circular 5 of 2016, titled *Matters of interpretation relating to the liquidity coverage ratio*, was issued in May 2016. The circular was issued in response to the growing number of interpretation issues raised after the implementation of the LCR as a regulatory minimum requirement on 1 January 2015.

2.6.5 Directives issued in 2016

Directive 4 of 2016, titled *Matters related to the net stable funding ratio*, was issued in August 2016. It informed banks about the calibration of the NSFR and the national discretion exercised in respect of specified items related to the NSFR. In addition, banks were provided with the monitoring template to enable BSD to monitor their readiness to comply with the NSFR requirements from 1 January 2018.

2.7 Capital management

2.7.1 Overview of internal capital adequacy assessment process reviews and key findings

BSD continued to conduct focused reviews on ICAAPs in 2016, in particular to follow up on prior ICAAP recommendations, risk appetite, credit risk economic capital estimations, capital management, stress testing, the validation of economic capital and stress-testing models as well as the continued focus on the use test.

On-site reviews conducted in the year under review highlighted the following aspects:

- Banks' regulatory capital planning was robust and underwent regular challenge by management. The forecast regulatory capital and leverage ratios indicated that South African banks remained well capitalised. However, a number of banks should place more focus on economic capital planning and its stress testing.
- The phasing-in of regulatory capital buffers, such as the capital conservation buffer and the D-SIB buffers, commenced in 2016. Furthermore, the consequences of dipping into these buffers during periods of stress should be made clear by banks, together with the scenarios where this should be tolerated.
- Some banks still needed to fully embed Guidance Note 4 of 2015 into their respective ICAAPs.

2.7.2 Data collection

In addition to the revised BA 700 form that was implemented with effect from July 2016, the following data requests were made:

- BSD continued to monitor and collect forecast regulatory and economic capital data from D-SIBs on a biannual basis in order to supplement the ICAAPs, as prescribed in Guidance Note 4 of 2015.
- BSD issued Directive 2 of 2016 in April 2016 to collect credit-related statutory BA returns from D-SIBs on a group-consolidated, biannual basis. The data will assist the department in participating more effectively in international data collection exercises.
- BSD issued Directive 7 of 2016 in November 2016 to collect information from D-SIBs on instruments that were issued for capital and funding purposes on a biannual basis.

2.7.3 Domestic systemically important banks

BSD continued to apply its D-SIB methodology to assess which banks could be regarded as systemically important and the extent to which they were systemically important. Such monitoring and assessment of banks and bank-controlling companies was based on the latest available data.

The department has kept D-SIBs informed of all the changes to the size of the imposed individual D-SIB capital buffer requirements since 2013. This communication has afforded banks and bank-controlling companies sufficient time to adequately plan for and manage the aforementioned capital buffer requirements.

The phase-in of the D-SIB loss absorbency capital requirement commenced on 1 January 2016, with the capital buffers forming part of the capital conservation range (i.e. the capital conservation buffer and the countercyclical capital buffer). During times of stress, CARs may fall below the aforementioned buffer requirements, however, restrictions on the level of distributions have applied with effect from 1 January 2016.

2.8 Pillar 3: disclosure

2.8.1 Overview of key activities

During the year under review, BSD reviewed banks' compliance with the Pillar 3 disclosure requirements, with a focus on matters relating to the preparation for compliance with the revised disclosure requirements at the end of the 2016 financial year. Banks' areas of concern regarding the revised Pillar 3 requirements were addressed in conjunction with BASA.

In terms of Directive 11 of 2015, titled *Matters related to revised Pillar 3 disclosure requirements*, banks are required to publish their first Pillar 3 reports in accordance with the revised requirements concurrently with their financial reports that relate to the 2016 financial year-end. BSD recognises the efforts displayed by those banks which have timeously complied with the revised Pillar 3 requirements, but has also noted the banks that still have to fully comply with these requirements. The department will continue to monitor banks' compliance with the revised Pillar 3 disclosure requirements as well as the retained requirements in the 2017 review year.

2.8.2 Regulatory developments

The implementation of the amended Regulations in July 2016 resulted in most of the Pillar 3 disclosure requirements, which had first been issued as part of the Basel II framework and the Basel 2.5 revisions and enhancements, being substituted by the revised Pillar 3 standards, and these disclosure requirements are implemented by Directive 11 of 2015, as mentioned in section 2.8.1 above.

In March 2016, the BCBS issued a consultative document titled *Pillar 3 disclosure – consolidated and enhanced framework*[25] for comments, which will result in further revisions and additions to the revised Pillar 3 disclosure requirements.

25. Available at https://www.bis.org/bcbs/publ/d356.htm

2.9 Consolidated supervision

2.9.1 Adhoc supervisory colleges

BSD is committed to conducting effective consolidated supervision, as proposed by the BCBS. Supervisory colleges are an integral component of the department's consolidated supervision framework. In addition to the collaborative supervisory on-site reviews conducted with many host regulators, as described in section 1.10.2, BSD continued to have supervisory colleges.

Supervisory colleges make it possible for supervisors to update one another on any material developments in risk profile, group structure, strategy and operations in home and host countries. They also enhance the development of a common understanding of risk in financial groups, promote a shared agenda for addressing risks and vulnerabilities, and provide a platform for communicating key supervisory messages among members.

2.9.2 Supervisory meetings with the Financial Services Board

BSD and FSB maintained regular interactions throughout the year. The financial conglomerates operating in the South African jurisdiction were discussed, ensuring that appropriate regulatory and supervisory processes were in place. These meetings served as a platform where valuable information was shared between the authorities, enhancing the effectiveness of conglomerate groups.

2.9.3 Supervisory colleges hosted by the Financial Services Board

BSD and FSB have always enjoyed a close working relationship by virtue of regular supervisory discussion meetings. This relationship was strengthened during the year under review through increased cooperation, information sharing and communication between the two supervisory bodies in anticipation of the imminent establishment of the PA.

In the 2016 financial year, FSB hosted supervisory colleges for all the South African insurance groups with a presence in Africa. Representatives from BSD were also invited due to the interconnectedness between banking groups and insurance groups.

The information obtained and interactions held at these supervisory college sessions proved extremely valuable in BSD's continued risk assessment and analysis of banking groups with insurance subsidiaries.

2.10 Anti-money laundering and combating the financing of terrorism

2.10.1 On-site inspections

BSD follows, on an annual basis, an AML/CFT risk-based approach to determine which banks to inspect during any particular year. In 2016, nine AML/CFT on-site inspections were conducted in terms of section 45B of the FIC Act. All the inspections undertaken in the year under review were conducted over a period of, on average, three weeks.

The most pertinent findings arising from the on-site inspections conducted during 2016 indicated that banks required an enhanced focus on and the strengthening of their controls in relation to compliance with the FIC Act in various areas, but in particular the following:

- the documentation and implementation of client identification and verification (CIV) and record-keeping procedures;
- the implementation of efficient working methods pertaining to the detection and investigation of suspicious and unusual transactions; and
- the implementation of effective controls relating to the identification and reporting of property associated with terrorist and related activities.

Besides testing banks' compliance with the FIC Act, BSD also assessed banks' adopted AML/CFT risk-based approaches, including their treatment of politically exposed persons in line with the FATF Recommendations.

In 2016, the department visited two cross-border banking subsidiaries of banks registered in South Africa in order to assess the operations' level of compliance with:

- the global AML/CFT standards of the FATF Recommendations;
- BCBS's guidance on the sound management of risks related to money-laundering and the financing of terrorism; and
- country-specific AML/CFT legislation.

Each visit was conducted in collaboration with the specific regulators of that country. The inspection findings revealed, among other things, that there continues to be a need for parent companies to enhance their efforts to assist, guide and perform adequate oversight of their cross-border operations' AML/CFT frameworks.

Table 2.1 reflects the details of the inspections conducted and also provides a comparison of the inspections conducted from 2012 to 2016.

Table 2.1 On-site inspections

Nature of inspection		2012*	2013	2014	2015	2016
Routine................	Large banks	2	3	0	1	0
	Small banks	6	2	8	6	8
	Cross-border (Africa)	0	0	1	2	2
Non-routine	Large banks	0	1	0	0	1
	Small banks	0	1	0	0	0
Total		8	7	9	9	11

* AML/CFT inspections commenced in April 2012.

2.10.2 Off-site supervision

Throughout 2016 BSD conducted various workshops and prudential meetings with select locally registered banks. Topics discussed at such meetings included:

- the treatment of business relationships and transactions that contravened targeted sanctions other than those listed on the United Nations Security Council Resolutions, e.g. sanctions of the Office of Foreign Assets Control (OFAC) and HM Treasury;
- banks' readiness to implement the FIC Act Amendment Bill with regard to policies, procedures, systems and controls;
- the management of records within a banking group when sharing client information with foreign branches and subsidiaries, local subsidiaries and financial intermediaries;
- observations related to the 'derisking' of correspondent banking relationships;
- distinctive and overlapping AML/CFT roles, responsibilities and oversight; and
- progress made by banks in remediating AML/CFT inspection findings.

2.11 Recovery planning

The Financial Stability Board issued a document titled *Key attributes of effective resolution regimes for financial institutions* in 2011. BSD requested all banks to commence with the development of recovery plans in 2012 and issued Directive 1 of 2015 on the minimum requirements for recovery plans as further guidance against which banks could benchmark their recovery plans.

Since 2013, representatives from BSD and the Resolution Planning Division (RPD) of SARB's Financial Stability Department have been jointly reviewing the recovery plans of the larger banking groups that have been identified as systemically significant to the South African banking sector (D-SIBs). These annual reviews take the form of workshops held with the D-SIBs.

The workshops focus on D-SIBs' compliance with the requirements of Directive 1 of 2015 and their progress in addressing the gaps identified by BSD and the RPD during the previous year's workshop. Overall, the recovery plans have improved over time and continuous refinement is expected to take place as the recovery planning process matures and is embedded in banks' risk management processes.

During 2016, the RPD initiated a project to compare the different D-SIBs' compliance with Directive 1 of 2015 to identify areas of focus for future workshops. This project's outcome will be incorporated in the annual recovery plan review process to ensure that there is consistency in the assessment of D-SIBs' recovery plans but also consistency between all banks in the development of the different elements of their recovery plans.

A process commenced in the year under review to start reviewing smaller banks' recovery plans as well. This will also be a joint project between BSD and the RPD.

Chapter 3: Developments relating to banking legislation

3.1 Introduction

BSD continued striving to ensure that the legal framework for the regulation and supervision of banks and banking groups in South Africa remained relevant and current. Ideally, the legal framework pertaining to banking regulation should reflect both local and international market developments and should comply with applicable international regulatory and supervisory standards and best practice. BSD therefore reviews banking legislation – including the Banks Act, the Regulations issued in terms thereof, and other pieces of related banking legislation – on an ongoing basis. If applicable, the department then makes recommendations to the Minister of Finance to effect the necessary amendments.

3.2 The Banks Act 94 of 1990

The FSR Bill necessitates consequential amendments to the Banks Act. These will be finalised once the FSR Bill is approved by Parliament and promulgated as an Act of Parliament. Please refer to subheading 1.5.1 for an update on the implementation of the Twin Peaks system of financial regulatory architecture in South Africa.

3.3 Update regarding the amendments to the Regulations relating to Banks

26. Available at http://www.resbank.co.za/Publications/Detail-Item-View/Pages/Publications)

In its 2015 annual report[26], BSD had reported that proposed amendments to the Regulations had been published for public comment during the latter part of 2015. These proposed amendments related to:

- the composition of capital disclosure requirements (rules text);
- LCR and liquidity risk monitoring tools;
- LCR disclosure standards;
- LCR and restricted-use committed liquidity facilities;
- monitoring tools for intraday liquidity management;
- the Basel III leverage ratio framework and disclosure requirements; and
- amendments to the various returns submitted to BSD and the Economic Research and Statistics Department of the SARB, including the amended BA 940 form.

27. Available at http://www.gov.za/documents/banks-act-regulations-amendment-20may-2016-0000)

BSD had subsequently worked through all the comments and finalised the proposed amendments to the Regulations for consideration and approval by the Minister of Finance. On 20 May 2016, the aforementioned amendments to the Regulations were published in *Government Gazette No. 40002* and implemented with effect from 1 July 2016.[27]

28. G20 Pittsburgh Summit declaration (http://www.g20.utoronto.ca/2009/2009communique0925.html#system)

Furthermore, as part of the internationally agreed post-crisis regulatory reform programme, the G20 had initiated a reform programme in 2009 to reduce the systemic risk associated with OTC derivative instruments.[28] This reform programme originally comprised four elements:

- All the standardised OTC derivative instruments should be traded on exchanges or electronic platforms, as and where appropriate.
- All the standardised OTC derivative instruments should be cleared through central counterparties.
- OTC derivative contracts should be reported to trade repositories.

- Non-centrally cleared OTC derivative contracts should be subject to higher capital requirements.

In 2011, the G20 agreed to add margin requirements on non-centrally cleared OTC derivative instruments to the reform programme.[29]

In this regard, South Africa has made substantial progress in the past few years in preparing for the implementation of the appropriate regulatory and legislative frameworks that are based on, among other things, the recommendations from the Financial Stability Board and other relevant international standard-setting bodies, including the BCBS, the Committee on Payments and Market Infrastructures (CPMI) and the International Organisation of Securities Commissions (IOSCO).[30]

As part of the aforementioned, relevant and required, ongoing amendments to the legislative and regulatory frameworks, BSD drafted a proposed directive and various proposed amendments to the Regulations during the latter part of 2016 in order to incorporate applicable international regulatory and supervisory standards and best practice. The proposed directive and the latest set of the proposed amendments to the Regulations relate to:

- the margin requirements for non-centrally cleared derivatives;
- the capital standard for bank exposures to central counterparties;
- the STA for measuring counterparty credit risk exposures; and
- the capital requirements for banks' equity investments in funds.

In November 2016, the department issued a directive in respect of the proposed implementation of the margin requirements for non-centrally cleared derivatives, inviting comments from all interested parties to be submitted by 2 December 2016.

In order to ensure that all relevant stakeholders remain updated in respect of all the comments submitted, discussions held and questions raised on the proposed directive and proposed amended Regulations, various BSD staff members attend and actively participate in all relevant working groups, task groups and/or forums established by such stakeholders, including those organised by BASA. The proposed directive and the latest set of proposed amended Regulations dealing with the matters specified above will be published for final review and consultation during the first part of 2017. They will then be finalised and submitted to the Minister of Finance for consideration and approval for implementation.

In order to identify more possible areas that could necessitate amendments and/or refinements to the Regulations, BSD continues to monitor, among other things, the developments relating to G20 discussions as well as the press releases, publications and directives issued by the BCBS and the Financial Stability Board.

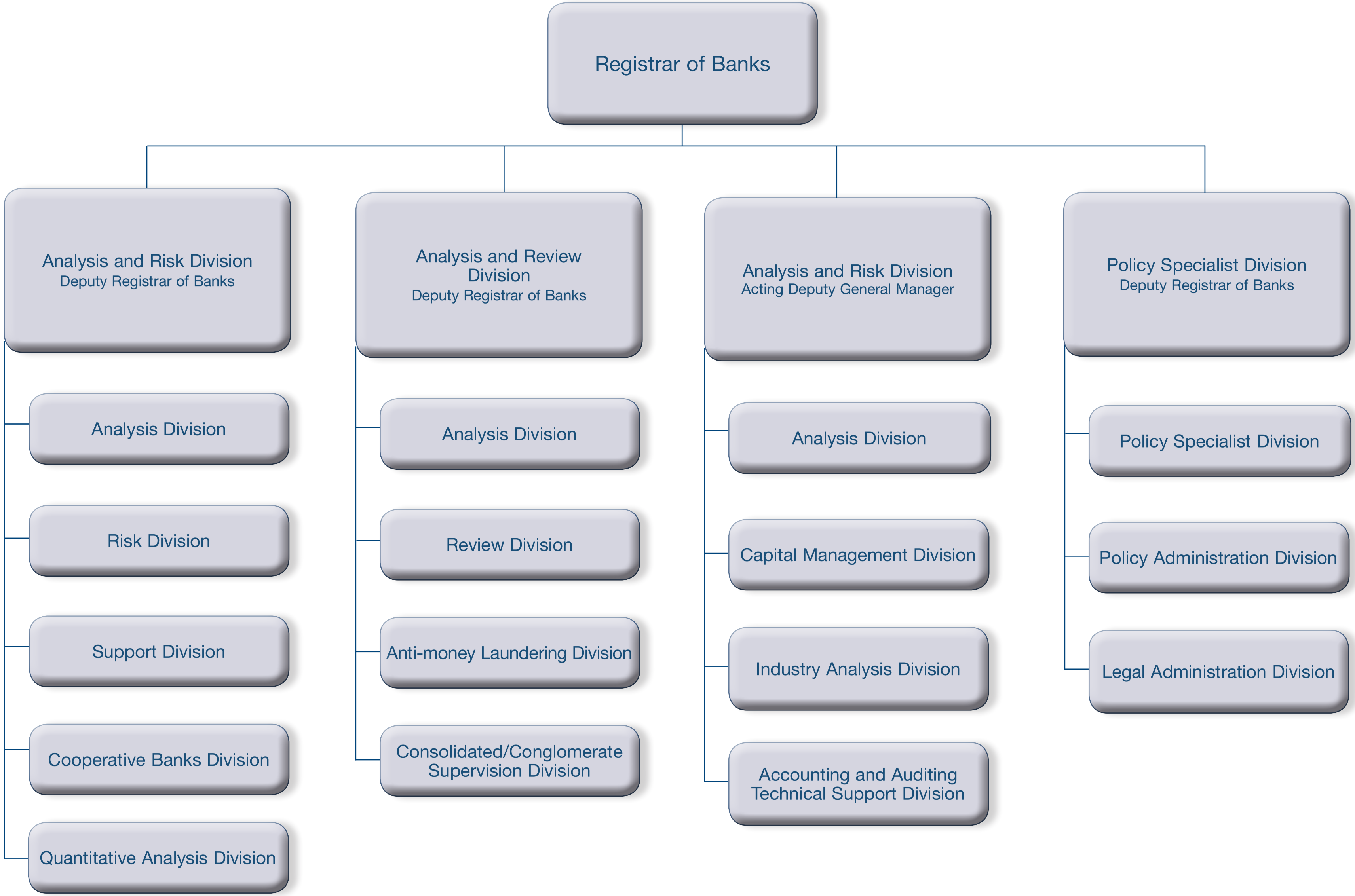
29. G20 Cannes Summit declaration (http://www.g20.utoronto.ca/2011/2011-cannes-declaration-111104-en.html)

30. Refer to the explanatory memorandum issued in 2016 by National Treasury for further information in this regard.

Appendices

Appendix 1

Organisational structure of the Bank Supervision Department



Appendix 2

Registered banks, local branches of foreign banks and mutual banks as at 31 December 2016

Registered banks

	Institution	Address	Total assets as at 31 December 2015 (R millions)	Total assets as at 31 December 2016 (R millions)	Annual growth %
1	Absa Bank Limited	P O Box 7735, Johannesburg, 2000	926 526	914 669	-1.28
2	African Bank Limited (2014/176899/06)	Private Bag X170, Midrand, 1685	0	36 460	100.00
3	Albaraka Bank Limited	P O Box 4395, Durban, 4000	5 026	5 386	7.15
4	Bidvest Bank Limited	P O Box 185, Johannesburg, 2000	6 017	7 009	16.48
5	Capitec Bank Limited	P O Box 12451, Die Boord, Stellenbosch, 7613	61 970	71 729	15.75
6	FirstRand Bank Limited	P O Box 650149, Benmore, 2010	979 920	1 016 761	3.76
7	Grindrod Bank Limited	P O Box 3211, Durban, 4000	11 262	15 190	34.89
8	Habib Overseas Bank Limited	P O Box 62369, Marshalltown, 2107	1 318	1 134	-13.99
9	HBZ Bank Limited	P O Box 1536, Wandsbeck, 3631	4 413	4 224	-4.29
10	Investec Bank Limited	P O Box 785700, Sandton, 2146	377 046	387 052	2.65
11	Mercantile Bank Limited	P O Box 782699, Sandton, 2146	9 632	11 830	22.82
12	Nedbank Limited	P O Box 1144, Johannesburg, 2000	813 287	869 362	6.89
13	Sasfin Bank Limited	P O Box 95104, Grant Park, 2051	5 583	6 806	21.90
14	The South African Bank of Athens Limited	P O Box 784921, Sandton, 2146	2 510	2 265	-9.75
15	The Standard Bank of South Africa Limited	P O Box 7725, Johannesburg, 2000	1 213 528	1 234 575	1.73
16	Ubank Limited	Private Bag X101, Sunninghill, 2157	4 691	4 627	-1.36

Appendix 2

Registered banks, local branches of foreign banks and mutual banks as at 31 December 2016 (continued)

Registered local branches of foreign banks

	Institution	Address	Total assets as at 31 December 2015 (R millions)	Total assets as at 31 December 2016 (R millions)	Annual growth %
1	Bank of Baroda	Premises No.14, 2nd floor, Sandton City Twin Towers (East Wing), Sandton, 2196	2 269	3 940	73.70
2	Bank of China Limited Johannesburg Branch (trading as Bank of China Johannesburg Branch)	P O Box 782616, Sandton, 2146	35 836	32 666	-8.85
3	Bank of India	P O Box 653589, Benmore, 2010	478	427	-10.76
4	Bank of Taiwan South Africa Branch	P O Box 1999, Parklands, 2121	1 592	2 008	26.14
5	BNP Paribas South Africa	PostNet Suite #457, Private Bag X1, Melrose Arch, 2075	14 499	11 204	-22.72
6	Canara Bank	11th floor, Sandton City Office Towers, 5th Street and Rivonia Road, Sandhurst Ext. 3, Sandton, 2196	400	328	-17.88
7	China Construction Bank Corporation – Johannesburg Branch	Private Bag X10007, Sandton, 2146	32 621	37 567	15.16
8	Citibank NA	P O Box 1800, Saxonwold, 2132	76 511	64 944	-15.12
9	Deutsche Bank AG	Private Bag X9933, Sandton, 2146	22 757	10 388	-54.35
10	HSBC Bank plc – Johannesburg Branch	Private Bag X785434, Sandton, 2146	49 806	45 106	-9.44
11	ICICI Bank Limited	Private Bag X785261, Sandton, 2146	250	269	7.75
12	JPMorgan Chase Bank, NA (Johannesburg Branch)	Private Bag X9936, Sandton, 2146	57 059	28 524	-50.01
13	Société Générale Johannesburg Branch	P O Box 6872, Johannesburg, 2000	11 726	7 874	-32.85
14	Standard Chartered Bank (Johannesburg Branch)	P O Box 782080, Sandton, 2146	34 420	32 281	-6.21
15	State Bank of India	P O Box 2538, Saxonwold, 2132	6 995	7 438	6.34

Appendix 2

Registered banks, local branches of foreign banks and mutual banks as at 31 December 2016 (continued)

Registered mutual banks

	Institution	Address	Total assets as at 31 December 2015 (R millions)	Total assets as at 31 December 2016 (R millions)	Annual growth %
1	Finbond Mutual Bank	P O Box 2127, Brooklyn Square, 0075	1 421	1 653	16.33
2	GBS Mutual Bank	P O Box 114, Grahamstown, 6140	1 136	1 226	7.86
3	VBS Mutual Bank	Metropolitan Office Park, 82 Wessels Road, Rivonia, 2191	717	1 543	115.08

Banks under curatorship

Institution		Curator	Date of order
1	None		

Banks in final liquidation

Institution		Liquidator	Date of order
1	Islamic Bank Limited	Mr A D Wilkens of Deloitte & Touche	13 January 1998
2	Regal Treasury Private Bank Limited	Mr T A P du Plessis of D&N Trust and Mr J Pema of Sekela Antrust (Pty) Limited	10 February 2004

Name changes

Previous name		New name	Date of change
1	None		

Appendix 3

Authorization to establish, registration and cancellation of registration of banks during the period 1 January 2016 to 31 December 2016

Authorization in terms of section 13 of the Banks Act 94 of 1990

Institution		Date of authorization
1	TYME Capital (Pty) Limited	7 June 2016
2	Postbank Limited	4 July 2016
3	Discovery Limited	24 October 2016

Cancellation of registration

Institution		Date of order
1	African Bank Limited (1975/002526/07)	4 April 2016

Appendix 4

Registered controlling companies as at 31 December 2016

Institution		Address
1	African Bank Holdings Limited	P O Box X170, Midrand, 1685
2	Barclays Africa Group Limited	P O Box 7735, Johannesburg, 2000
3	Bidvest Bank Holdings Limited	P O Box 185, Johannesburg, 2000
4	Capitec Bank Holdings Limited	P O Box 12451, Die Boord, Stellenbosch, 7613
5	FirstRand Limited	P O Box 650149, Benmore, 2010
6	Grindrod Financial Holdings Limited	P O Box 3211, Durban, 4000
7	Investec Limited	P O Box 785700, Sandton, 2146
8	Mercantile Bank Holdings Limited	P O Box 782699, Sandton, 2146
9	Nedbank Group Limited	P O Box 1144, Johannesburg, 2000
10	Sasfin Holdings Limited	P O Box 95104, Grant Park, 2051
11	Standard Bank Group Limited	P O Box 7725, Johannesburg, 2000
12	Ubank Group Limited	Private Bag X101, Sunninghill, 2157

The following institutions are deemed to be controlling companies in terms of section 42 of the Banks Act 94 of 1990:

1	Albaraka Banking Group (in respect of Albaraka Bank Limited)	P O Box 1882, Manama, Kingdom of Bahrain
2	Habib Bank AG Zurich (in respect of HBZ Bank Limited)	59 Weinbergstrasse, Postfach 8042, Zurich, Switzerland
3	National Bank of Greece (in respect of The South African Bank of Athens Limited)	86 Aiolou Street, Athens TT 121, Greece
4	Pitcairns Finance SA (in respect of Habib Overseas Bank Limited)	121 Avenue de la Faiencerie, L-1511 Luxemburg, RCS Luxemburg, B nr 33-106

Appendix 5

Foreign banks with approved local representative offices

	Institution	Address
1	AfrAsia Bank Limited	P O Box 55351, Northlands, 2116
2	African Banking Corporation Botswana Limited (trading as BancABC Botswana)	P O Box 970, Saxonwold, 2132
3	Banco BIC	30 Arena Close, H Santos Building, Bruma, 2198
4	Banco BPI, SA	P O Box 303, Bruma, 2026
5	Banco Santander Totta SA	P O Box 309, Bruma, 2026
6	Bank Leumi Le-Israel BM	Private Bag X41, Saxonwold, 2132
7	Bank of America, National Association	P O Box 651987, Benmore, 2010
8	Bank One Limited	P O Box 25386, Gateway, 4321
9	Banque SYZ Suisse SA	P O Box 653641, Benmore, 2010
10	Caixa Bank	Fredman Drive 13, 9th floor, Fredman Towers, Sandton, 2146
11	Commerzbank AG Johannesburg	P O Box 860, Parklands, 2121
12	Credit Suisse AG	Private Bag X9911, Sandton, 2146
13	Doha Bank	P O Box 785553, Sandton, 2146
14	Ecobank	Block F, 8th floor, 135 Rivonia Road, Sandown, 2196
15	Export-Import Bank of India	2nd floor, Sandton City, Twin Towers East Wing, Sandton, 2196
16	First Bank of Nigeria Limited	P O Box 784796, Sandton, 2146
17	Hellenic Bank Public Company Limited	P O Box 783392, Sandton, 2146
18	Industrial and Commercial Bank of China African Representative Office	P O Box 40, Cape Town, 8000
19	KfW Ipex-Bank GmbH	P O Box 2402, Saxonwold, 2132
20	Millenium BCP	P O Box 273, Bruma, 2026
21	Mizuho Bank Limited	P O Box 785553, Sandton, 2146
22	National Bank of Egypt	P O Box 55402, Northlands, 2116
23	Notenstein Private Bank Limited	100 New Church Street, Tamboerskloof, Cape Town, 8001
24	Novo Banco	P O Box 749, Bruma, 2026
25	Société Générale Representative Office for Southern Africa	P O Box 2805, Saxonwold, 2132
26	Sumitomo Mitsui Banking Corporation	Building Four, 1st floor, Commerce Square, 39 Rivonia Road, Sandhurst, 2196
27	Swedbank AB (Publ)	Private Bag X1, Dainfern, 2055
28	The Bank of New York Mellon	PostNet Suite 1061, Private Bag X9, Benmore, 2010
29	The Bank of Tokyo-Mitsubishi UFJ Limited	P O Box 78519, Sandton, 2146
30	The Mauritius Commercial Bank Limited	P O Box 3009, Parklands, 2121
31	The Representative Office for Southern and Eastern Africa of the Export-Import Bank of China	PostNet Suite 158, Private Bag X91–BE, Benmore, 2010
32	Unicredit Bank AG	P O Box 1483, Parklands, 2121

Appendix 5

Foreign banks with approved local representative offices (continued)

Institution		Address
33	Union Bank of Nigeria plc	P O Box 653125, Benmore, 2010
34	Vnesheconombank	P O Box 413742, Craighall, 2024
35	Wells Fargo Bank, National Association	P O Box 3091, Saxonwold, 2132
36	Zenith Bank plc	P O Box 782652, Sandton, 2146

Report on representative offices

1. Introduction

The Regulations relating to Representative Offices of Foreign Banking Institutions (RO Regulations), issued under Government Notice No. 1370, in *Government Gazette* No. 22939 dated 13 December 2001, seek to ensure continuous oversight by the Bank Supervision Department (the Department), of the activities of representative offices (ROs) of foreign banking institutions operating within the Republic of South Africa.

As at 31 December 2016, there were 36 ROs operating in South Africa, emanating from 20 jurisdictions.

2. Change in status of ROs during 2016

2.1 During the year under review, the following ROs were deregistered:

i. Banco Nacional De Desenvolvimento Econômica E Social

ii. Banif – Banco Internacional do Funchal, SA

iii. ICICI Bank Limited

iv. UBS AG

2.2 During the year under review, the following ROs were registered:

None

2.3 During the year under review, the following ROs’ names changed:

None

2.4 Events after 31 December 2016

None

3. Supervisory approach

In order to fulfill its responsibilities in terms of the RO Regulations, the Department follows the following supervisory approach:

- regular interaction with the chief representative officers of the respective ROs;
- on-site visits at the offices of the ROs;
- analysis of returns submitted by the ROs in terms of the RO Regulations and follow-up of any issues identified; and
- analysis of the internal control reports submitted by the ROs on an annual basis in terms of Banks Act Circular 3/2004.

Appendix 6

Circulars, directives, guidance notes, and proposed directives issued in 2016

Banks Act Circulars issued in 2016

C1/2016	Status of previously issued Circulars
C2/2016	Matters of interpretation relating to the liquidity coverage ratio
C3/2016	Proposed amended Regulations relating to Banks
C4/2016	Matters relating to the implementation of the capital conservation buffer
C5/2016	Matters of interpretation relating to the liquidity coverage ratio
C6/2016	Disclosure of capital-related matters
C7/2016	Matters relating to specified minority interests, i.e. non-controlling interests, in shares and/or instruments qualifying as capital

Banks Act Directives issued in 2016

D1/2016	Matters relating to the exposure limits imposed in the classification of deposits and credit exposures to small and medium enterprises (SMEs)
D2/2016	Domestic systemically important banks (D-SIBs) to submit group consolidated information on a six-monthly basis
D3/2016	Amended Regulations relating to Banks: parallel-run process
D4/2016	Matters relating to the net stable funding ratio
D5/2016	Compliance with the principles for Effective Risk Data Aggregation and Risk Reporting
D6/2016	Capital framework for South Africa based on the Basel III framework
D7/2016	Assessment of instruments issued by domestic systemically important banks and controlling companies (D-SIBs) for capital and funding purposes
D8/2016	Reporting requirements relating to material outsourced service providers and critical third-party service providers

Banks Act Guidance Notes issued in 2016

G1/2016	Status of previously issued Guidance Notes
G2/2016	Meetings to be held during the 2016 calendar year with the boards of directors of banks and controlling companies
G3/2016	Credit risk and accounting for expected credit losses
G4/2016	Instruments qualifying as high-quality liquid assets
G5/2016	Corporate Governance Principles for Banks
G6/2016	Provision of a committed liquidity facility by the South African Reserve Bank
G7/2016	Capital arbitrage transactions
G8/2016	Margin requirements for non-centrally cleared derivatives

Appendix 7

Exemptions and exclusions from the application of the Banks Act 94 of 1990

Section 1(1)(cc): Exemptions by the Registrar of Banks with approval of the Minister of Finance

Exemption Notice	*Government Gazette*	Expiry
Mining Houses	No. 16167 of 14 December 1994	Indefinite
Trade in Securities and Financial Instruments	No. 16167 of 14 December 1994	Indefinite
Commercial Paper	No. 16167 of 14 December 1994	Indefinite
Securitisation Schemes	No. 30628 of 1 December 2008	Indefinite
Common Bond	No. 37903 of 15 August 2014	Indefinite
International Finance Corporation (IFC)	No. 39411 of 13 November 2015	Indefinite

Section 1(1)(dd): Exemptions by the Minister of Finance

Exemption Notice	*Government Gazette*	Expiry
Participation Bond Schemes	No. 13003 of 31 January 1991	Indefinite
Unit Trust Schemes	No. 13003 of 31 January 1991	Indefinite
Ithala SOC Limited, a wholly owned subsidiary of Ithala Development Finance Corporation Ltd	No. 40402 of 4 November 2016	30 September 2017

Section 1(ff): Exemptions by the Registrar of Banks

Exemption Notice	*Government Gazette*	Expiry
Designation of stockbrokers to pool funds	No. 15976 of 14 September 1994	Indefinite

Section 1(gg): Exemptions by the Registrar of Banks

Exemption Notice	*Government Gazette*	Expiry
Designation of JSE Limited members as persons authorized to accept money as mandatories and to deposit such money into banking accounts maintained by them	No. 19283 of 22 September 1998	Indefinite

Section 2(vii): Exclusions by the Minister of Finance

Exemption Notice	*Government Gazette*	Expiry
Post Office Savings Bank	No. 13744 of 24 January 1992	Indefinite
Industrial Development Corporation of South Africa	No. 16167 of 14 December 1993	Indefinite

Section 78(1)(d)(iii): Exemptions by the Registrar of Banks

Exemption Notice	*Government Gazette*	Expiry
Category of assets of a bank that may be held in the name of a person other than the bank concerned	No. 17949 of 2 May 1997	Indefinite

Appendix 8

Memorandums of understanding between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2016

The purpose of a memorandum of understanding (MoU) is to provide a formal basis for a bilateral working relationship and cooperation between supervisors, including the sharing of information and investigative assistance.

It should be noted that any MoU entered into by the Department does not modify or supersede any laws or regulatory requirements in force in, or applying to, the Republic of South Africa. Accordingly, an MoU sets forth a statement of intent and does not create any enforceable rights.

MoUs concluded between the Department and foreign supervisors as at 31 December 2016

	Domicile of foreign regulator	Foreign banking supervisor	Effective from
1	Argentina	Superintendencia de Entidades Financieras y Cambiarias (Central Bank of Argentina)	18 August 2007
2	Australia	Australian Prudential Regulation Authority	4 July 2007
3	Botswana	Bank of Botswana	4 October 2016
4	Brazil	Banco Central Do Brasil	4 July 2012
5	China	China Banking Regulatory Commission	17 November 2010
6	Germany	Bundesanstalt für Finanzdienstleitungsaufsicht	13 August 2004
7	Ghana	Bank of Ghana	26 October 2011
8	Guernsey	Guernsey Financial Services Commission	10 July 2015
9	Hong Kong	Monetary Authority of Hong Kong	12 December 2006
10	India	Reserve Bank of India	21 October 2011
11	Ireland	Irish Financial Services Regulatory Authority	21 July 2003
12	Isle of Man	Financial Supervision Commission of the Isle of Man	13 August 2001
13	Jersey	Jersey Financial Services Commission	11 June 2010
14	Kenya	Central Bank of Kenya	1 July 2010
15	Lesotho	Central Bank of Lesotho	27 August 2010
16	Malawi	Reserve Bank of Malawi	20 August 2015
17	Mauritius	Bank of Mauritius	25 January 2005
18	Mozambique	Banco de Mozambique	22 September 2011
19	Namibia	Bank Supervision Department of the Bank of Namibia	24 August 2015
20	Netherlands	De Nederlandsche Bank	23 March 2010
21	Nigeria	Central Bank of Nigeria	20 March 2008
22	Republic of South Sudan	Bank of South Sudan	14 November 2011
23	Swaziland	Central Bank of Swaziland	18 June 2010
24	Taiwan	Financial Supervisory Commission of the Republic of China (Taiwan)	14 March 2012
25	Tanzania	Bank of Tanzania	15 June 2010
26	Uganda	Bank of Uganda	15 June 2010
27	United Arab Emirates	Dubai Financial Services Authority	8 August 2009
28	United Kingdom*	Financial Services Authority	21 July 2006

* A letter of intent has been signed between the Bank Supervision Department of the South African Reserve Bank and the Financial Services Authority and Bank of England rendering the terms of the current MoU applicable to the Prudential Regulation Authority and Financial Conduct Authority as may be relevant.

Appendix 8

Memorandums of understanding between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2016 (continued)

MoUs with the following foreign supervisors are in the process of negotiation:

	Domicile of foreign regulator	Foreign banking supervisor
1	Bahrain	Central Bank of Bahrain
2	Colombia	Superintendencia Financiera de Colombia
3	Congo	Central Bank of Congo
4	France	French Banking Commission
5	Greece	Banking Regulator
6	Japan	Financial Services Agency
7	Portugal	Banco de Portugal
8	Singapore	Monetary Authority of Singapore
9	Turkey	Banking Regulation and Supervisory Agency of Turkey
10	United Arab Emirates	Banking Supervision and Examination Department of the Central Bank of the United Arab Emirates
11	United States of America	Federal Reserve Bank of New York
12	Zambia	Bank of Zambia

Southern African Development Community – Protocol on Finance and Investment

The 15 heads of state or government of the Southern African Development Community (SADC) have signed a Protocol on Finance and Investment (PFI). The PFI, includes among other things, a section setting out the framework for cooperation and coordination in banking regulatory and supervisory matters. The 15 SADC countries are:

1 Angola
2 Botswana
3 Congo
4 Lesotho
5 Madagascar
6 Malawi
7 Mauritius
8 Mozambique
9 Namibia
10 Seychelles
11 South Africa
12 Swaziland
13 Tanzania
14 Zambia
15 Zimbabwe

Appendix 9

Summary of key matters communicated by the Basel Committee on Banking Supervision

In 2016, the BCBS issued various documents and further requirements that will, over the next few years, materially impact on the regulation and supervision of banks and banking groups, on matters such as:

- minimum capital requirements for market risk;
- frequently asked questions on the Basel III leverage ratio framework;
- interest rate risk in the banking book;
- statement on capital arbitrage transactions;
- revisions to the securitisation framework;
- frequently asked questions (FAQ) on Basel III – the net stable funding ratio;
- FAQ on the revised Pillar 3 disclosure requirements;
- FAQ on the supervisory framework for measuring and controlling large exposures; and
- The TLAC holdings standard.

Minimum capital requirements for market risk

The 2007-08 period of severe market stress exposed weaknesses in the framework for capitalising risks from trading activities.

The purpose of the revised market risk framework[1] issued by the BCBS on 14 January 2016 is to ensure that the standardised and internal model approaches to market risk deliver credible capital outcomes and promote a consistent implementation of the standards across jurisdictions.

Frequently asked questions on the Basel III leverage ratio framework

To promote a consistent global implementation of the Basel III leverage ratio framework and disclosure requirements issued by the BCBS in January 2014, the BCBS has agreed to periodically review FAQ and publish answers along with any technical elaboration of the standards text and interpretative guidance that may be necessary.

The FAQ document published by the BCBS on 6 April 2016[2] sets out the third set of FAQs that relate to the Basel III leverage ratio framework.

The questions and answers are grouped according to the following themes:

- on-balance sheet exposures;
- derivative exposures;
- specific treatment for written credit derivatives;
- securities financing transaction (SFT) exposures;
- cross-product netting agreements for derivative exposures and SFTs;
- treatment of long settlement transactions and failed trades;
- off-balance sheet items; and
- scope of consolidation and disclosure.

1 Available online at https://www.bis.org/bcbs/publ/d352.htm
2 Available online at https://www.bis.org/bcbs/publ/d364.htm

Interest rate risk in the banking book

On 21 April 2016 the BCBS issued standards for interest rate risk in the banking book[3] that revise its 2004 Principles for the Management and Supervision of Interest Rate Risk.

The revised standards reflect changes in market and supervisory practices since the abovementioned Principles were first published in 2004, which is particularly pertinent in light of the current exceptionally low interest rates in many jurisdictions.

Statement on capital arbitrage transactions

Since the publication of the Basel III framework in 2010, BCBS members have received numerous requests to review or approve transactions that seek to alter the form or substance of items subject to regulatory adjustments.

On 2 June 2016 the BCBS issued a statement on capital arbitrage transactions[4] that are designed to offset regulatory adjustments and employ a variety of strategies, confirming that these types of transactions can be complex, artificial and opaque, and may pose a number of risks to banks, including legal risk. Furthermore, these transactions can have the effect of overestimating eligible capital or reducing capital requirements without commensurately reducing the risk in the financial system, thus undermining the calibration of minimum regulatory capital requirements.

In this regard, on 8 August 2016, the Department issued Guidance Note 7 of 2016,[5] informing all interested persons that banks should not engage in transactions that aim to unduly offset regulatory adjustments and that any such transactions will be subject to careful scrutiny by the Department in the evaluation of risk transfer and the assessment of the capital adequacy of banks and controlling companies.

Revisions to the securitisation framework

On 11 July 2016 the BCBS published a revised framework for securitisation[6] that includes the regulatory capital treatment for 'simple, transparent and comparable' (STC) securitisations. The revised framework sets out additional criteria for differentiating the capital treatment of STC securitisations from that of other securitisation transactions. Compliance with the expanded set of STC criteria should provide additional confidence in the performance of the transactions and thereby warrants a modest reduction in minimum capital requirements for STC securitisations.

Frequently asked questions on Basel III – the net stable funding ratio

To promote a consistent global implementation of the Basel III net stable funding ratio (NSFR) framework, the BCBS published FAQs and answers along with a technical elaboration of the Basel III NSFR rules text and interpretative guidance on 13 July 2016.[7]

Frequently asked questions on the revised Pillar 3 disclosure requirements

To promote a consistent global implementation of the revised Pillar 3 disclosure requirements, the BCBS published FAQs and answers along with a technical elaboration of the standard and interpretative guidance on 12 August 2016.[8]

Frequently asked questions on the supervisory framework for measuring and controlling large exposures

To promote a consistent global implementation of the supervisory framework for measuring and controlling large exposures, the BCBS issued FAQs and answers on 28 September 2016.[9]

When the BCBS published the revised supervisory framework for measuring and controlling large exposures in April 2014, it noted that by 2016 it would review the appropriateness of setting a large exposure limit for exposures to

3 Available online at https://www.bis.org/bcbs/publ/d368.htm
4 Available online at https://www.bis.org/publ/bcbs_nl18.htm
5 Available online at G7/2016: Capital arbitrage transactions
6 Available online at https://www.bis.org/bcbs/publ/d374.htm
7 Available online at https://www.bis.org/bcbs/publ/d375.htm
8 Available online at https://www.bis.org/bcbs/publ/d376.htm
9 Available online at https://www.bis.org/bcbs/publ/d384.htm

qualifying central counterparties (QCCPs) related to clearing activities and the need for a specific treatment for interbank exposures. The BCBS has decided not to modify the framework, and as a result the framework:

- exempts from the large exposure limit exposures to QCCPs related to central clearing; and
- applies the large exposure limit to interbank exposures, i.e no exemption applies

The publication also includes clarifications on some paragraphs of the standard.

TLAC holdings standard

On 12 October 2016 the BCBS published an updated standard on the regulatory capital treatment of banks' investments in instruments that comprise TLAC for global systemically important banks (G-SIBs).[10]

The standard aims to reduce the risk of contagion within the financial system should a G-SIB enter resolution, and applies to both G-SIBs and non-G-SIBs.

The standard also reflects changes to the Basel III framework to specify how G-SIBs must take account of the TLAC requirement when calculating their regulatory capital buffers.

10 Available online at https://www.bis.org/bcbs/publ/d387.htm

Abbreviations

AACB	Association of African Central Banks
AEG	Accounting Experts Group
AFI	Association of Financial Inclusion
AIRB	advanced internal ratings-based
AMA	advanced measurement approach
AML/CFT	anti-money laundering and combating the financing of terrorism
ASA	alternative standardised approach
BASA	Banking Association of South Africa
Banks Act	Banks Act 94 of 1990
BCBS	Basel Committee on Banking Supervision
Basel III framework	'Basel III: a global regulatory framework for more resilient banks and banking systems' and 'Basel III: international framework for liquidity risk management, standards and monitoring'
BI	Business Indicator
BIA	basic indicator approach for operational risk
BIS	Bank for International Settlements
board	board of directors
BSD	Bank Supervision Department
CABS	Community of African Bank Supervisors
CAR	capital adequacy ratio
CBCG	Correspondent Banking Coordination Group
CET 1	common equity tier 1
CIV	client identification and verification
CMG	Capital Monitoring Group
Core Principles	Core Principles for Effective Banking Supervision
CPMI	Committee on Payments and Market Infrastructure
CVA	credit valuation adjustment
D-SIB	domestic systemically important bank
ECL	expected credit losses
ERIBB	equity risk in the banking book
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FASB	Federal Accounting Standards Board
FAQs	frequently asked questions
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act 38 of 2001
FinTech	financial technology
FIRB	foundation internal ratings-based
FRTB	fundamental review of the trading book
FSB	Financial Services Board
FSCA	Financial Sector Conduct Authority
FSR Bill	Financial Sector Regulation Bill, 2014
G20	Group of Twenty
GHOS	Group of Central Bank Governors and Heads of Supervision
G-SIB	global systemically important bank
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICAAP	internal capital adequacy assessment process
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
IRRBB	interest rate risk in the banking book
IMA	internal model-based approach for market risk
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IRB	internal ratings-based
IRBA	Independent Regulatory Board for Auditors
ISA	International Standard on Auditing

IT	information technology
ITSG	Information Technology Supervisors Group
KYC	Know Your Customer
LCR	liquidity coverage ratio
LGD	loss given default
MoU	memorandum of understanding
NCOP	National Council of Provinces
NCR	National Credit Regulator
NSFR	net stable funding ratio
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
OTC	over the counter
PA	Prudential Authority
PDG	Policy Development Group
Principles	Principles for Effective Risk Data Aggregation and Risk Reporting
PwC	PricewaterhouseCoopers
QCCP	qualifying central counterparties
QIS	quantitative impact study
RCAP	Regulatory Consistency Assessment Programme
RCG	Regional Consultative Group
RDN	Risk Data Network
RDS	Residual Debt Services
Registrar	Registrar of Bank
Regulations	Regulations relating to Banks
ROA	return on assets
ROE	return on equity
RO Regulations	Regulations relating to Representative Offices of Foreign Banking Institutions
RO	Representative Office
RPD	Resolution Planning Division
RWA	risk-weighted asset
SADC	Southern African Development Community
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SFA	strategic focus area
SFT	securities financing transactions
SIB	systemically important bank
SIFI	systemically important financial institution
SIG	Supervision and Implementation Group
SIG-TB	Supervision and Implementation Group-Trading Book
SMA	Standardised Measurement Approach
SMS	Short Messaging Service
SREP	supervisory review and evaluation process
STA	standardised approach for credit risk
STC	simple, transparent and comparable
TBG	Trading Book Group
TFFT	Task Force on Financial Technology
TFIR	Task Force on Interest Rate Risk
TFSA	Task Force on Standardised Approaches
the Bank	South African Reserve Bank
TLAC	Total Loss Absorbing Capacity
TSA	standardised approach for operational risk
US	United States
VaR	value at risk
WGC	Working Group on Capital
WGL	Working Group on Liquidity
WGOR	Working Group on Operational Risk
WGSS	Working Group on SIB Supervision