

South African Reserve Bank
From the Office of
the Registrar of Banks

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To banks, branches of foreign institutions, controlling companies, eligible institutions and auditors of banks or controlling companies

Guidance Note 6/2016 issued in terms of section 6(5) of the Banks Act, 1990

Provision of a committed liquidity facility by the South African Reserve Bank

Executive summary

The South African Reserve Bank (SARB) has approved the provision of a committed liquidity facility (CLF) available to banks to ensure banks' continued compliance with the requirements related to the liquidity coverage ratio (LCR). This facility was first announced in Guidance Note 5/2012, with further guidance provided in Guidance Note 6/2013, Guidance Note 8/2014 and Guidance Note 5/2015. This guidance note replaces Guidance Note 5/2015 and contains revised guidelines in terms of the eligible collateral, pricing and other requirements for the CLF and other related conditions for the period 1 December 2016 to 30 November 2017.

1. Introduction

- 1.1 During 2012 the SARB approved the provision of a CLF in order to assist banks to comply with the requirements related to the LCR. Guidance Notes 5/2012, 6/2013, 8/2014 and 5/2015 were issued to inform banks of the relevant details related to eligible collateral for the CLF. This guidance note addresses some areas of uncertainty that have subsequently been identified and provides updated specifications related to the eligible collateral, pricing and other requirements related to the CLF for the period 1 December 2016 to 30 November 2017.

2. Size of the facility

- 2.1 Each bank will be required to comply with the level 1 High Quality Liquid Asset (HQLA) requirement of the LCR prior to recognition of a CLF. The CLF will be capped at 40 per cent of the total amount of HQLA any particular bank is required to hold in rand.

- 2.2 For the purpose of entering into a facility agreement with the SARB during the phase-in period of the LCR (that is, for the years up to 2018), the size of the CLF will be capped at 40 per cent of the full regulatory HQLA requirement for the year for which the application is made. For example, banks applying in 2016 for a CLF, for implementation in 2017, should project their minimum full HQLA requirement for 2017, and the CLF would be capped at 40 per cent of this projected amount. That is the CLF may not contribute to more than 40% of the minimum requirement.
- 2.3 The amount of the CLF that can be recognized for LCR purposes and that can be drawn down in stress will at all times be limited to the lesser of the amount of eligible collateral that is lodged with the SARB, after haircuts, and the size of the facility that has been granted.

3. Eligible collateral

- 3.1 No changes are proposed to the eligible collateral that was previously published. However, changes have been made to the haircuts applied on the eligible collateral to reflect both the credit risk and liquidity risk that the SARB will be exposed to should it take ownership of the eligible collateral and need to dispose of it. Detailed information on the collateral requirements can be found in the Addendum to the Operational Notice of the Financial Markets Department of the SARB, available through the SARB's website.
- 3.2 The eligible collateral for the facility granted but not lodged with the SARB at the beginning of the CLF contracting period shall be subject to the SARB's final approval before lodging thereof.

4. Capital and reporting requirements for SPI structures for CLF purposes

- 4.1 The look-through approach should be applied for assets transferred into a special purpose institution (SPI) for the calculation of minimum required capital requirements. That is, with regard to credit risk, the amount of capital that banks would be required to maintain shall be equal to the capital requirement had the assets not been transferred for CLF purposes. Banks should report assets that have been transferred to the SPI for CLF purposes in the original asset class (for example, residential mortgage advances) on the form BA200, i.e. the bank may not derecognise these assets. From a monthly regulatory reporting perspective there is no change.
- 4.2 In addition, for CLF monitoring purposes, banks will be required to complete the form BA 200 on a quarterly basis based on the underlying assets in the SPI. This form BA 200 should be signed off by the banks internal audit function or an equivalent internal authority approved by this Office.
- 4.3 The aforesaid sign-off will be based on a control-based audit in order to verify the accuracy and completeness of the reporting of assets maintained in the SPI and that reasonable control measures are in place for the SPI regarding the transfer of assets in and out of the SPI and that the risk management controls in place for the SPI are commensurate with those that are in place in the relevant business unit.

5. Pricing

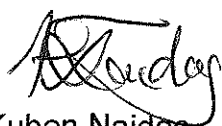
- 5.1 Banks electing to make use of the CLF will pay a commitment fee to the SARB, regardless of whether the facility is utilised. The commitment fee for the facility for 2017 will be 58 basis points. The commitment fee is set on an annual basis.
- 5.2 In order to comply with the eligibility requirements for alternative liquidity approaches (ALA) specified by the Basel Committee on Banking Supervision (BCBS), the commitment fee is based on the difference between a three year weighted average yield earned on the asset classes that have been used as collateral for the CLF by participating banks and a three year weighted average yield on a portfolio of government bonds and corporate bonds. The tranches applied to the commitment fee has been removed to ensure that the above mentioned eligibility criteria of the BCBS are met.
- 5.3 In the event that a bank draws funds from the CLF, the bank will pay a drawdown rate equal to the SARB's repo rate plus 100 basis points (equal to the SARB's normal standing facilities). Any drawdown of funds will be limited to a 31 calendar-day period.

6. Operational arrangements

- 6.1 A complete list of the operational arrangements is contained in the Addendum to the Operational Notice of the Financial Markets Department of the SARB, which is available through the SARB's website.
- 6.2 The CLF will be granted for a 12 month period from 1 December to 30 November. It then follows that banks applying for the CLF for the first time have to do so by no later than 31 August in the year preceding the facility date. Re-applications are due by 30 September on an annual basis.
- 6.3 Should you have any questions in the above regard, please contact Dr Nicola Brink, Head: Resolution Planning, at 012 313 3614, or Mr Wessel Mostert, Manager: Asset and Liability Management, at 012 313 4652.

7. Acknowledgement of receipt

- 7.1 Two additional copies of this guidance note are enclosed for use by your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.



Kuben Naidoo
Registrar of Banks

The previous guidance note issued was Guidance Note 5/2016, dated 1 June 2016.