



RCAP jurisdictional assessments: self-reporting monitoring template for RCAP follow-up actions

Jurisdiction: South Africa

Status as of: 31 December 2016

With reference to RCAP reports: Basel III risk-based capital and LCR regulations (June 2015)

Part A¹

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to risk-based capital standards (RCAP-Capital)

Table A

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
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¹ To be completed only for those findings where action has been taken or initiated. Any plans for addressing other findings may be indicated in Part B.

Post-RCAP follow up: Changes applied to local regulations of the Basel Framework relating to Liquidity Coverage Ratio (RCAP-LCR)

Table B

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Detailed reference to the domestic legislation/regulation that addresses the finding	(4) Summary description of amendment or rectification made
1. LCR disclosure standard	While the SARB has implemented the LCR disclosure standard, the prescribed template has not been transcribed into domestic regulations. The SARB has indicated that this will be incorporated in 2015.	Regulation 43(2)(c)(v)(A) of the Regulations relating to Banks - incorporated by means of Government Gazette No. 40002 of 20 May 2016 (page 101), effective 1 July 2016.	Regulations relating to Banks have been updated to incorporate the LCR public disclosure template.

Part B

Please detail here your plan(s), if any, for amendment/rectification of findings, including the expected or tentative time frame.

Post-RCAP follow up: risk-based capital standards			Table A
(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Plans for amendment/rectification of finding	(4) Expected or tentative time frame
1. Calculation of minimum capital requirements and definition of capital Application of the 1,250% risk weight	Under Basel III, a 1,250% risk weight is required to be applied to certain exposures. The SARB amended its regulations to remove the option to apply deductions or to apply an imputed risk weight that effectively results in an amount equivalent to a capital deduction, and to require all such exposures to be risk-weighted at 1,250%. However, the SARB, as well as the South African banking industry, has highlighted that this treatment results in a capital requirement exceeding the outstanding exposure amount when the jurisdiction has set a higher than 8% minimum capital requirement.	In view of the capital effect of a 1,250% risk weight on exposures where domestic jurisdictions have set higher minimum capital requirements, the Assessment Team proposes that the Committee reviews the applicability and appropriateness of the 1,250% treatment in such cases and consider if modifications may be needed.	No time frame has been agreed for this item.
2. Calculation of minimum capital requirements and definition of capital Basel III paragraphs 62 to 64 Surplus capital from minority interest	Under Basel III, the recognition of minority interest is calculated with reference to the minimum CET1 requirement of the subsidiary plus the capital conservation buffer, the minimum Tier 1 requirement of the subsidiary plus the capital conservation buffer, and the minimum Total Capital requirement of the subsidiary plus the capital conservation buffer. The SARB minority interest calculations also include the Pillar 2A capital requirement and other capital buffers (eg countercyclical buffer) in subsidiary capital calculations. The Assessment Team questioned	The SARB would welcome and still awaits further guidance and clarity from the Basel Committee regarding the interpretation of both the minimum total capital and the capital conservation buffer to be used when calculating surplus capital. Once clarity is provided by the Basel Committee an amendment to the manner in which South Africa and other countries determine surplus capital from minority interests may be required.	The Assessment Team is aware that based on a recommendation in a past RCAP assessment the appropriateness of the inclusion of the countercyclical capital buffer requirements is already under Basel Committee consideration. No time frame has been agreed for this item.

Post-RCAP follow up: risk-based capital standards			Table A
(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Plans for amendment/rectification of finding	(4) Expected or tentative time frame
	whether the inclusion of the countercyclical buffer or other systemic buffers is a deviation, as these buffers are specified by the Basel Committee as an extension of the capital conservation buffer. This has been noted in previous jurisdictional assessments as well. Future guidance on this issue from the Basel Committee on its intent would be useful.		
3. Credit risk: Standardised Approach Paragraphs 72-73: Claims secured by residential mortgages	According to the Basel framework, lending fully secured by mortgages on residential property that is or will be occupied by the borrower, or that is rented, will be risk-weighted at 35%. In applying the 35% weight, the supervisory authorities should satisfy themselves, according to their national arrangements for the provision of housing finance, that this concessionary weight is applied restrictively for residential purposes and in accordance with strict prudential criteria, such as the existence of substantial margin of additional security over the amount of the loan based on strict valuation rules. In terms of the South African Regulations, a residential mortgage loan is assigned a risk weight of 35% when the loan-to-value ratio does not exceed 80%. The 20% by which the value of the property exceeds the loan is regarded as "a substantial margin of additional security over the amount of the loan". When the loan exceeds the market value of the property, the portion that exceeds 80% of the current market value, but is less than 100% of the market value, will be assigned a risk weight of 75%. The portion of the loan that	Considering the risk weights under the IRB approach for similar loans, and given that similar treatment of residential mortgage loans also exists in the capital adequacy framework of other jurisdictions, the Assessment Team recommended that the Basel Committee take a fresh look at risk weighting of the residential mortgage loans. The BSD has not made any amendments to the domestic regulations as we await the additional guidance from the Basel Committee, as requested in Annexure 13 of the RCAP report.	The time frame for this item is dependent upon the time allowed/ required for the implementation of the Basel Committee's post-crisis regulatory reform process.

Post-RCAP follow up: risk-based capital standards

Table A

(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Plans for amendment/rectification of finding	(4) Expected or tentative time frame
	exceeds 100% of the market value of the property will be assigned a risk weight of 100%. It is therefore possible to assign three different risk weights to a single loan. (Regulation 23(8)(c) of the Regulations.)		
4. Credit risk: securitisation framework Paragraph 559: Disclosure treatment of clean-up calls found to serve as credit enhancement	Implementation of the securitisation framework for credit risk was found to be compliant with the Basel framework. One non-material deviation relating to the disclosure requirement for clean-up calls remains. Basel II states that a clean-up call must be considered implicit support if it is found to serve as credit enhancement. It specifies the treatment for implicit support, which entails two components: (i) capital treatment and (ii) disclosure treatment. Domestic regulations set out the disclosure requirements where there is implicit support, consistent with the Basel framework. However, as there was no statement that a clean-up call found to serve as credit enhancement must be considered a form of implicit support, it is not apparent that the disclosure requirements are applicable. The SARB committed to clarifying this, but the amendment had not yet been issued at the cut-off date.	The required clarifying amendment to the Securitisation Notice is scheduled to be incorporated into the 2017 round of amendments to the Securitisation Notice, as part of the process to incorporate the internationally agreed revisions to the securitisation framework.	End of 2017

Post-RCAP follow up: Liquidity Coverage Ratio (LCR)			Table B
(1) Issue and/or relevant Basel paragraph number(s)	(2) Detailed description of finding (please indicate as precisely as possible the finding as identified in the relevant RCAP assessment report)	(3) Plans for amendment/rectification of finding	(4) Expected or tentative time frame
1. Scope of application	The domestic regulations apply the LCR standard to all banking entities within the banking group on an aggregated basis. However, the SARB has made provisions for exclusion of certain other financial institutions where they are assessed as non-significant exposures, as permitted by the LCR standard. Analyses showed that these excluded entities are not material. As these exposures are captured as potential outflows in the LCR denominator, the Assessment Team does not consider this treatment a deviation in terms of the LCR framework. The SARB has indicated that the scope of application is under review. The Assessment Team suggests that this issue be followed up in future RCAPs.	The scope of application is monitored by the BSD on an ongoing basis. As part of the BSD's supervisory process it may direct a bank at any stage to include any other financial entity previously excluded in the aggregation/consolidation of the LCR should the entity be regarded by the BSD to expose the bank or banking group to significant liquidity risk. As part of the migration to a Twin Peaks supervisory model, further work is also being done on the assessment of liquidity risk on financial conglomerates and consolidated banking groups.	Ongoing process.
2. LCR: Operational deposits	An area that the SARB has identified as requiring further clarity from the Basel Committee relates to the methodology for assessing the validity of operational deposits and the supervisory approval thereof.	The BSD also noted that this item is included in the ongoing work of the Working Group on Liquidity as part of the post-implementation work that the working group is conducting.	No time frame has been agreed for this item.
3. Scope of application	An area that the SARB has identified as requiring further clarity from the Basel Committee relates to the scope of consolidation relating to non-material, non-banking entities or group entities in jurisdictions that have not implemented the Basel III framework.	The BSD also noted that this item is included in the ongoing work of the Working Group on Liquidity as part of the post-implementation work that the working group is conducting.	No time frame has been agreed for this item.