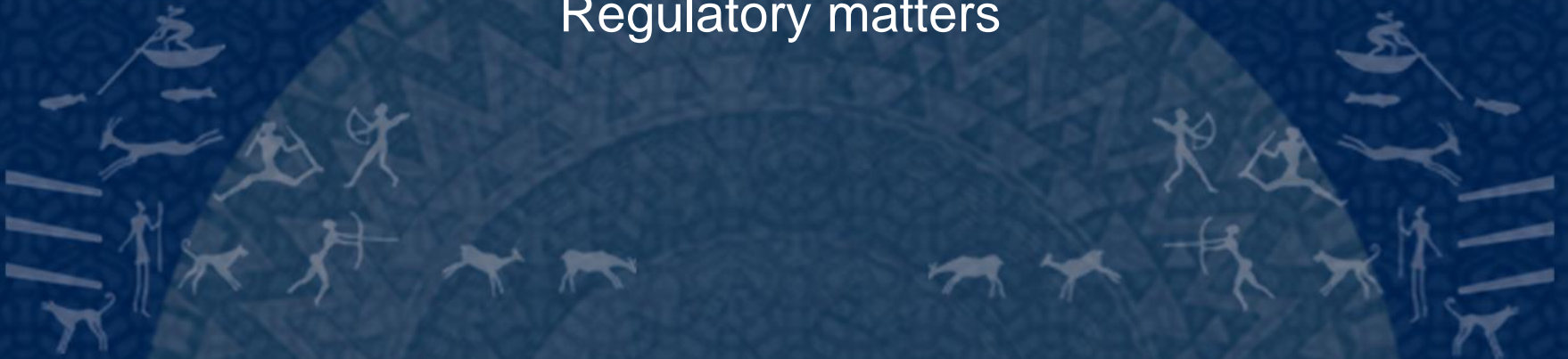




South African Reserve Bank

## High level synopsis of key issues confronting banks

Environmental issues  
Regulatory matters



# Environmental issues

- Potential sovereign downgrade
- Conduct risk
- IFRS 9
- Market illiquidity
- Shadow banking



# Potential sovereign downgrade

- Link between bank rating and sovereign (liquid asset portfolios)
- Sub investment grade
- Primary effects
  - CAR
  - LCR
- Secondary effects
  - FX volatility and broader market risk
  - Higher cost of funds
  - Endowment benefit
  - Inflation impact
  - Increased collateral placement
  - Credit risk (increased credit impairments and increased risk-weighted assets)
  - Potential business model changes

# Conduct risk

- US\$ billions in fines globally
- Trust relationship and reputational risk - franchise value impact
- FX Task Team review and a code of conduct
- Competition Commission investigation
- Renewed focus on compliance and cost of compliance vs. non-compliance
- Future recruits

# IFRS 9

- 1 Jan 2018
- Impairment matters specifically
  - Shift from incurred to expected losses (forward looking approach)
  - 12 month loss moving into lifetime loss
  - Bottom line effects expected to not be insignificant
  - Multiple disclosures for global banks
  - Understanding and heightened focus required here

# Market illiquidity

- Trading banks issue
- Deterioration in market liquidity
- Seen across all asset classes
- Global phenomenon
- Time delay in off-laying risk increased
- Self-fulfilling prophecy
- Extraterritoriality contributing to fewer effective players
- Increased regulation and loose central bank monetary policy

# Shadow banking

- Reallocation of financial assets and risk from banking sector to non-bank financial sector (financial stability)
- Possible tool to enhance capital and liquidity ratios
  - NSFR
  - CAR
  - ROE
  - Leverage
- Channel control
- Peer-to-peer lending

# Regulatory matters

- Retail credit pricing caps
- FSR Bill and Twin Peaks
- Upcoming bank prudential regulatory changes





# Retail credit pricing caps

- New draft pricing reflecting reduced pricing caps recently gazetted
- Impact on loss absorbency and profitability in unsecured lending portfolios (sustainability)
- Financial inclusion
- Business model changes and market participation

# FSR Bill and Twin Peaks

- Prudential and Market Conduct Authority
  - Interaction shift
- Conglomerate supervision
  - Perspective shift
- Financial Market Infrastructure supervision
- Timing
  - Bill to be tabled in Parliament sometime this year

# Upcoming key bank prudential regulatory changes

- Process of consultation (locally)
  - Working groups
  - Drafts issued for consultation
- Key upcoming changes (pendulum continues to swing)

Not an exhaustive list

- Net Stable Funding Ratio (NSFR)
- Leverage Ratio
- Fundamental Review of the Trading book
- Interest Rate Risk in the Banking Book
- Revisions to the Standardized Approach for credit risk
- Margin requirements for non-centrally cleared derivatives
- Revisions to the securitisation framework
- Framework for dealing with domestic systemically important banks (D-SIBs)
- Measuring and controlling large exposure
- Revised Pillar 3 disclosure requirements

# Upcoming key bank prudential regulatory changes (continued)

- Calculating regulatory capital for banks' exposures to central counterparties
- Review of the Credit Valuation Adjustment (CVA) risk framework
- Standardized Approach for counterparty credit risk
- Total Loss Absorbing Capacity (TLAC) – resolution world

## ■ OTHER

- Financial Markets Act and regulations

# Questions

