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

Ref: 15/8/3

D4/2017

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

Directive issued in terms of section 6(6) of the Banks Act 94 of 1990

Matters related to securitisation vehicles

Executive summary

In light of certain risks revealed by the global financial crisis in some securitisation structures, additional risk information is required by the Office of the Registrar of Banks (this Office) to enhance this Office's understanding of the risks in the South African securitisation market.

The purpose of this directive is to:

- **update the information required to be provided to this Office in respect of issuer special purpose institutions (SPIs) in terms of Directive 1/2011, dated 3 May 2011;**

- **require certification of information provided to this Office;**

- **require that the auditor appointed by the issuer SPI, as prescribed in paragraph 15(1)(a) of Government Notice No. 2 (the Securitisation Exemption Notice), published in *Government Gazette* No. 30628 dated 1 January 2008, includes the verification of the historical information prescribed in Annexure A in the scope of work to be done, as part of the annual auditing process; and**

- **replace Directive 1/2011, dated 3 May 2011.**

1. Introduction

1.1. During 2007 and 2008, several banks in both the United States of America and Europe were required to make significant provisions and write-offs as a result of the credit crisis that emanated from the so-called 'sub-prime' mortgage market. In addition, liquidity in the financial sectors of the aforementioned regions was significantly constrained.

1.2. The credit markets in certain regions of the world started to contract significantly in late 2007. Furthermore, the credit quality of assets began to deteriorate, which was fueled by large-scale deleveraging in the financial sector. Some holders of high-quality portfolios, such as rated corporate paper, began to sell their assets at discounts in order to meet their demand for liquidity. Banks stopped lending to each other and certain central banks were forced to become extensively involved in efforts to restore confidence in financial markets.

1.3. The turmoil in the international financial markets that commenced in 2007 gathered momentum during 2008 and early 2009, resulting in significant distress in certain large corporate institutions. In an effort to mitigate the impact, interest rates were reduced and large bailout plans were approved in various jurisdictions.

1.4. Following the aforementioned events, this Office directed all banks partaking in securitisation activities during April 2008, in terms of the provisions of section 7(1)(b) of the Banks Act 94 of 1990 (Banks Act), to provide it with a report by a person with the appropriate professional skill, which report was subsequently submitted to the Registrar of Banks (Registrar).

1.5. The purpose of this directive is to enhance monitoring by this Office of risks arising from securitisation schemes by updating the reporting requirements in respect of issuer SPIs as required by D1/2011, dated 3 May 2011.

1.6. This directive replaces D1/2011, dated 3 May 2011.

2. Banks Act

2.1. Paragraph (cc) of the definition of 'the business of a bank', in paragraph 1 of the Act excludes:

2.1.1. "any activity of a public sector, governmental or other institution, or of any person or category of persons, designated by the Registrar, with the approval of the Minister, by notice in the *Gazette*, provided such activity is performed in accordance with such conditions as the Registrar may with the approval of the Minister determine in the relevant notice".

3. Regulations relating to Banks

3.1. Form BA 500 and regulation 35(2) of the Regulations relating to Banks (the Regulations) specify:

3.1.1. "The purpose of the BA 500, amongst other things, is (a) to determine the amount of assets securitised by the reporting bank; (b) to determine the required amount of capital and reserve funds of the reporting bank in respect of securitisation exposures; (c) to obtain selected information in relation to securitisation schemes, including selected information relating to the role(s) played by the reporting bank in respect of securitisation schemes."

4. Other relevant references

4.1. The following paragraphs in *Government Gazette* No. 30628, dated 1 January 2008 (Securitisation Exemption Notice), have reference:

4.1.1. Paragraph 14 (1)(b)(ii): Issue of commercial paper

4.1.1.1. "Conditions relating to the issue of commercial paper: (ii) shall be issued only by a juristic person authorised in writing by the Registrar to issue commercial paper pursuant to a traditional or synthetic securitisation scheme, in accordance with the provisions of this Schedule and subject to such further conditions as the Registrar may determine in such written authorisation."

4.1.2. Paragraph 15(1)(a): Appointment of auditor

4.1.2.1. "The board of directors or the trustee, as the case may be, of a special-purpose institution established for purposes of a traditional or synthetic securitisation scheme shall appoint an auditor ..."

4.2. A publication by the Basel Committee on Banking Supervision (Basel Committee) titled *Liquidity risk: management and supervisory challenges,* issued on 21 February 2008, pertains to liquidity risks resulting from securitisation schemes. Paragraph (ii)(C) of the publication refers to the following:

4.2.1. Securitisation

4.2.1.1. "Some forms of securitisation (i.e. asset backed commercial paper) give rise to contingent liquidity risk, i.e. the likelihood that a firm will be called upon to provide liquidity unexpectedly, potentially at a time when it is already under stress. For example, some firms provide liquidity backstop arrangements in which they commit to provide funding if certain agreed-upon conditions occur, ensuring timely payment of principal and interest to holders of the commercial paper and thus contingent funding of the assets. Another example of contingent liquidity risk arises from early amortisation provisions incorporated into securitisations of revolving credits (e.g. credit card receivables). Lastly, additional liquidity needs can be created when institutions provide support to conduits and off-balance sheet vehicles they have sponsored even if not contractually obligated to do so, as they judge that the failure to provide such support would have a material adverse impact on their reputation."

4.3. A publication by the Basel Committee titled *Enhancements to the Basel II framework*, issued on 13 July 2009, covers the committee's amended standard to strengthen Pillar 1 (minimum capital requirements in addition to those covered under the trading book), Pillar 2 (supervisory review process) and Pillar 3 (market discipline). The publication makes reference to the following:

4.3.1. Ratings resulting from self-guarantees

4.3.1.1. "The Basel Committee added language to the Basel II framework so that a bank cannot recognise ratings – either in the Standardised Approach (SA) or in the Internal Ratings Based (IRB) Approach – that are based on guarantees or similar support provided by the bank itself."

4.3.2. Higher risk weights for re-securitisation exposures

4.3.2.1. "After reviewing the empirical work conducted in assessing IRB re-securitisation risk weights, the Committee believes that the rationale for applying higher risk weights to re-securitisations in the IRB Approach is equally applicable to the SA".

5. Factors influencing the final decision

5.1. This Office authorises issuer SPI schemes to issue commercial paper pursuant to a securitisation scheme in terms of paragraph 14(1)(b)(ii) of the Securitisation Exemption Notice. Thereafter, sufficient follow-up should be done to monitor the performance of the issuer SPI.

5.1.1. The form BA 500 captures securitisation exposures on a bank-solo level, which has resulted in certain issuer SPI schemes being excluded from reporting in terms of the form BA 500. Furthermore, the said BA form does not require extensive credit risk and liquidity risk information to be reported.

5.1.2. In addition to the form BA 500, the form BA 200 only relates to on- and off-balance-sheet exposures of banks to securitisation schemes.

5.2. The aforementioned resulted in this Office not receiving sufficient information that would enable it to obtain a sufficiently detailed understanding of the risks emanating from the South African securitisation market.

5.2.1. Directive 1/2011, dated 3 May 2011, was issued to provide this Office with specific information in respect of issuer SPIs.

5.2.2. To enable better analysis of the information received, this Office updated the template required to be completed by issuer SPIs on a half-yearly basis.

5.3. As required in regulations 36 and 39 of the Regulations, boards of directors and senior management are required to understand the banking group-wide risk profile, including concentrations, and to aggregate banking group-wide exposure information appropriately.

6. Directive

6.1. Based on the aforesaid, and in accordance with the provisions of section 6(6) of the Banks Act:

6.1.1. issuer SPIs are hereby directed to provide this Office with the information, as set out in Annexure A, in respect of both their traditional and synthetic securitisation schemes for which approval was obtained from this Office, in terms of current and prior exemption notices, to issue commercial paper;

6.1.2. issuer SPIs are hereby directed to provide the stated information to this Office on a six-monthly basis, based on the half-year and year-end of the relevant issuer SPI;

6.1.3. issuer SPIs are hereby directed to provide this Office with a declaration by an independent issuer SPI director or trustee and, where applicable, the chief financial officer of the bank, controlling company or branch of the foreign institution, as set out in Annexure A;

6.1.4. issuer SPIs are hereby directed to submit the information, as set out in Annexure A, to this Office within 30 business days immediately following the half-year and year-end of the SPI to which the specified statement and return relates; and

6.1.5. the appointed auditor, as envisaged in paragraph 15(1)(a) of the Securitisation Exemption Notice, are hereby directed to include the verification of the historical information specified in Annexure A in the scope of work to be done, as part of the annual auditing process.

6.2. In the context of the information required:

6.2.1. the classification categories for purposes of this directive shall be: (i) performing; (ii) special mention; (iii) substandard; (iv) doubtful; and (v) loss, which are further described in regulation 24(5)(c) of the Regulations.

6.3. Scope of application

6.3.1. The reporting requirements apply to all issuer SPIs of traditional or synthetic securitisation schemes that were authorised by this Office to issue commercial paper in terms of the current and prior securitisation exemption notices.

6.4. The date of implementation of the new reporting requirements shall be in respect of half-yearly periods ending 31 December 2017 onwards.

7. **Acknowledgement of receipt**

7.1. Kindly ensure that a copy of this directive is made available to 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.

Naidoo

Kuben Naidoo
Deputy Governor and Registrar of Banks

Date: 27/9/2017

Encl. 1

The previous directive issued was Directive D3/2017, dated 30 August 2017.

Annexure A
(Confidential and not available for inspection by the public)
Name of Special Purpose Institution
Period ended (yyyy-mm-dd)

A. Credit risk (R'000)

The following table documents the status of the issuer's Special Purpose Institution[1] assets for the six month period ending

Credit risk classification and impairment / Asset Class	Line no.	Total gross credit exposure, collateral and specific impairment: Performing assets: Gross exposure[3]	Performing assets: Collateral[4]	Performing assets: Specific credit impairment	Special mention[2]: Gross exposure[3]	Special mention[2]: Collateral[4]	Special mention[2]: Specific credit impairment	Sub-standard[2]: Gross exposure[3]	Sub-standard[2]: Collateral[4]	Sub-standard[2]: Specific credit impairment	Doubtful[2]: Gross exposure[3]	Doubtful[2]: Collateral[4]	Doubtful[2]: Specific credit impairment	Loss[2]: Gross exposure[3]	Loss[2]: Collateral[4]	Loss[2]: Specific credit impairment	Total gross credit exposure (Col1+4+7+10+13)	Total impairment: Total	Total impairment: Of which: specific credit impairment
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Non-retail (total of items 2 to 5)	1																		
Corporate loans and receivables	2																		
SME loans and receivables	3																		
Commercial property	4																		
Bonds	5																		
Other	6																		
Retail (total of items 7 to 10)	7																		
Mortgages	8																		
Revolving products	9																		
Instalment sales and leasing	10																		
Other	11																		
Total (total of items 1 and 7)	12																		
Of which securitisation or re-securitisation exposures	13																		
Exposure to self-employed individuals (where available)	14																		
Percentage of scheme assets	15																		
Percentage of portfolio covered by collateral	16																		
Guarantee provided by the originator in terms of underlying assets (specify)	17																		

1. To be completed for each scheme / series
2. Further described in regulation 24(5)(c) of the Regulations relating to Banks
3. This column shall reflect the aggregate amount of gross credit exposure before credit risk mitigation or specific credit impairments
4. Further described in regulation 24(4) of the Regulations relating to Banks

B. Scheme triggers

Type of trigger	Line no.	Trigger level[1,2]	Current level[1,2]	Breached (Yes/No)[3]
		1	2	3
Arrears reserve trigger -Test and implication of breach (Specify)	18			
Clean-up call option trigger -Test and implication of breach (Specify)	19			
Redraw reserve trigger -Test and implication of breach (Specify)	20			
Early amortisation -Test and implication of breach (Specify)	21			
Principal deficiency -Test and implication of breach (Specify)	22			
Principal lockout -Test and implication of breach (Specify)	23			
Interest deferral event -Test and implication of breach (Specify)	24			
Required credit rating as per scheme document -Test and implication of breach (Specify)	25			
Other -Test and implication of breach (Specify)	26			

1. Trigger level to be reported as R'000, %, weighted average life or credit rating
2. none=0 AAA=1 AA+=2 AA=3 AA-=4 A+=5 A=6 A-=7 BBB+=8 BBB=9 BBB-=10 BB+=11 BB=12 BB-=13 B+=14 B=15 B-=16 CCC and below=17
3. Yes = 1; No = 2

C. Assets

Assets	Line no.	(R'000)	Number of loans
		1	2
Opening asset balance at the beginning of the period	27		
Principle payments (scheduled)	28		
Principle payments (unscheduled)	29		
Settlement	30		
Foreclosure proceeds	31		Grey-out
Redraws	32		
Readvances	33		
Further Advances	34		
Financial charges/Interest charges accrued	35		Grey-out
Financial charges/Intereste charges collected	36		Grey-out
Write-offs	37		
Substitution Loans transferred in	38		
Substitution Loans transferred out	39		
Additional loans purchased	40		
Repurchased loans/Originator buy-backs	41		
Other (Specify)	42		
Closing asset balance at the end of the period (Total lines 27 to 42)	43		

D. Cash-flow forecast of the scheme for the next six months

Cash-flow forecast	Line no.	Month 1 (R'000)	Month 2 (R'000)	Month 3 (R'000)	Month 4 (R'000)	Month 5 (R'000)	Month 6 (R'000)
		1	2	3	4	5	6
Total cash inflows	44						
of which Principal and interest received	45						
Other (specify)	46						
Total cash outflows	47						
of which Interest payment on commercial paper	48						
Redemption of commercial paper	49						
Expenses	50						
Other (specify)	51						
Net surplus/ (shortfall) (line 44 less line 47) (if shortfall, specify)	52						

E. Subordinated loans

Subordinated loans	Line no.	Subordinated loan No. 1 (First Loss)	Subordinated loans no 2 (second loss)
		1	2
Subordinated loan amount	53		
of which provided by the originator	54		
of which provided by an institution other than the originator (specify)	55		
Balance at the beginning of reporting period	56		
Bad debt written-off against Subordinated Loan during the period	57		
Balance at the end of reporting period	58		

F. Reserves

Reserves	Line no.	Cash Reserve	Redraw Reserve	Arrears Reserve	Interest Reserve	Other
		1	2	3	4	5
Balance at the beginning of reporting period	59					
Amount paid into the Reserve during the period	60					
Utilisation of the Reserve during the period	61					
Balance at the end of reporting period	62					

G. Liquidity commitments received by issuer SPI

Liquidity Facility	Line no.	Committed amount		Drawn amount	
		Amount (R'000)	Percentage of notes outstanding	Amount (R'000)	Percentage of notes outstanding
		1	2	3	4
Liquidity facility Provider (Specify)	63				

H. Hedge Counterparty

Hedge Counterparty	Line no.	Interest rate swaps		Foreign currency swaps	
		Notional	Marked -to-market value	Notional	Marked -to-market value
		1	2	3	4
Hedge Counterparty (Specify)	64				

I. Key features of the scheme

Commercial paper[1]	Line no.	Rated by[2]	International scale Rating[3]	National Scale rating[3]	JSE listing (Yes/No)[4]	Years to scheduled maturity	Issue date (YYYYMMDD)	Date of legal maturity (YYYYMMDD)	Step-up call date (YYYYMMDD)	Date of scheduled maturity (YYYYMMDD)	Instrument profile (floating/fixed)[5]	Interest rate benchmark[6]	Spread above (+) or below (-) benchmark rate / fixed rate (basis points)	Total value of commercial paper issued at inception (R'000)	Total value of commercial paper currently issued/outstanding (R'000)	Possibility of refinancing in the next 6 months[4]	Guarantee provided by the originator in terms of commercial paper issued[4]
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Class A (Specify)	65																
Class B (Specify)	66																
Class C (Specify)	67																
Class D (Specify)	68																
Class E (Specify)	69																
Class F (Specify)	70																
Class G (Specify)	71																
Other (Specify)	72																
TOTAL	73																

1. Use bond code as unique indentifier
2. not rated=0 Global Credit Rating=1 Fitch Rating Services=2 Moody's Investor Services=3 Standard and Poor's=4 other=5
3. none=0 AAA=1 AA+= 2, AA=3 AA-=4 A+=5 A= 6 A-=7 BBB+ = 8 BBB=9 BBB-=10 BB+=11 BB=12 BB-=13 B+=14 B=15 B-=16 CCC and below =17
4. Yes = 1 No = 2
5. Fixed = 1 Floating = 2
6. Fixed = 0, 3m Jibar = 1, prime = 2, other=3

J. Top 10 investors

Top 10 investors:	Line no.	Exposure R'000
		1
Total (Specify)	74	

Information relating to Asset Backed Commercial Paper programmes

K. General information

General information	Line no.	Value
		1
Program Limit (R'000)	75	
% Notes issued	76	
Maximum tenor allowed (days)	77	
Maximum tenor outstanding (days)	78	
Maximum maturity of assets (years)	79	
Average expected maturity of assets (years)	80	
Largest participating Asset as a % of total assets	81	
Conditions preventing issue of Notes[1] (Yes/No)	82	

1. Yes = 1, No = 2

L. Assets	Line no.	(R'000)	Number of loans
		1	1
Balance at the beginning of reporting period	83		
Asset purchases of which	84		
Loans	85		
Bonds	86		
Investments	87		
Securitisation	88		
Asset sold of which	89		
Loans	90		
Bonds	91		
Investments	92		
Securitisation	93		
Asset matured of which	94		
Loans	95		
Bonds	96		
Investments	97		
Securitisation	98		
Other movements	99		
Balance at the end of reporting period	99		

M. Liquidity commitments received

Liquidity Facility	Line no.	Committed amount		Drawn amount	
		Amount (R'000)	Percentage of notes outstanding	Amount (R'000)	Percentage of notes outstanding
		1	2	1	2
Liquidity facility Provider (Specify)	100				

N. Hedge Counterparty

Hedge Counterparty	Line no.	Interest rate swaps		Foreign currency swaps	
		Notional	Marked -to-market value	Notional	Marked -to-market value
		1	2	3	4
Hedge Counterparty (Specify)	101				

O. Other facilities

Other Facilities	Line no.	Committed Amount (R'000)	Drawn amount (R'000)
		1	2
Other facilities (specify)	102		

P. Credit Enhancement

Credit Enhancement	Line no.	Available Amount (R'000)	Required Amount (R'000)	Drawn amount (R'000)
		1	2	3
Credit Enhancement (specify)	103			

Q. Notes issued[1]	Line no.	Rated by[2]	JSE listing (Yes/No)[4]	Days to scheduled maturity	Issue date (YYYYMMDD)	Date of scheduled maturity (YYYYMMDD)	Instrument profile (floating/fixed)[5]	Interest rate benchmark[6]	Spread above (+) or below (-) benchmark rate / fixed rate (basis points)	Issue Value (R'000)	Face Value (R'000)	Possibility of refinancing in the next 6 months[4]
		1	2	3	4	5	6	7	8	9	10	11
Notes outstanding (Specify)	103											

1. Use rating unique identifier
2. not rated=0 Global Credit Rating=1 Fitch Rating Services=2 Moody's Investor Services=3 Standard and Poor's=4 other=5
3. none=0 AAA=1 AA+= 2 AA=3 AA-=4 A+=5 A= 6 A-=7 BBB+ = 8 BBB=9 BBB-=10 BB+=11 BB=12 BB-=13 B+=14 B=15 B-=16 CCC and below =17
4. Yes = 1, No = 2
5. Fixed = 1 Floating = 2
6. Fixed = 0, 3m Jibar = 1 prime = 2, other=3

R. Top 10 Investors

Top 10 Investors:	Line no.	Exposure R'000
		1
Total (Specify)	104	
Hashtotal	105	

S. Certification

Declaration in respect of returns submitted by issuer Special Purpose Institutions (SPI)		
Name of issuer SPI:		
Name of bank, controlling company or branch of foreign institution (if applicable):		
Period ended:	....(yyyy-mm-dd)	
A.	Declaration in respect of returns	
We, the undersigned, hereby declare as follows in respect of each of the relevant returns submitted herewith for the period indicated above:		
1.	General (i) The information contained in the returns is, to the best of our knowledge and belief, correct. (ii) The returns have been compiled in accordance with the relevant instructions. (iii) The returns reflect the management accounts and risk information presented to the Board of Directors or trustees of the relevant issuer SPI. (iv) We confirm that we have made adequate enquiries to fulfill our fiduciary duties and have brought to the attention of the Registrar of Banks any information that we believe he/she should be made aware of in conducting his/her function.	
	Signed at ...., this......................day of...(yyyy-mm)	
	.... *Chief Financial Officer** *(Name of bank, controlling company or branch of foreign institution)*	.... *Independent Director/Trustee** *(Name of issuer SPI)*

*Please note: When the Chief Financial Officer, Independent Director or Trustee is not available to sign a completed certification, the officer performing the relevant function shall sign the said form in an acting capacity and not on behalf of the absent officer, and the normal office of the officer so acting shall clearly be stated.