national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

BANKS AMENDMENT BILL 2007

ADDRESS TO THE NATIONAL ASSEMBLY BY THE HONOURABLE MINISTER OF FINANCE,

TREVOR A MANUEL, MP

23 AUGUST 2007

Madam Speaker, the Banks Amendment Bill, 2007, being debated in this House today seeks to substantially enhance the regulatory framework for banks in South Africa. This Bill seeks to effect the latest international standards published as the Revised Framework on International Convergence of Capital Measurement and Capital Standards, better known as Basel II or the New Capital Accord.

The primary aim of Basel II is to enhance financial stability in the banking system by ensuring that banks keep sufficient capital to cover various risks associated with their business. Basel II does this by requiring banks to risk weight all their assets and to hold minimum capital to back any loss associated with those assets. This is important, Madam Speaker, since these assets, which are dominated by loans and advances, are predominantly funded by the public's deposits.

The global financial volatility witnessed in recent weeks underscores the paramount importance of ensuring the financial soundness of the banking sector. Banks form the core of our sophisticated financial markets and, therefore, continuously evolving regulation is important to ensure their continued soundness. Further, in today's globally integrated world, harmonisation of regulatory standards becomes crucial to ensuring fair international competition and the avoidance of regulatory arbitrage.

Basel II, as broadly incorporated in the Banks Amendment Bill in front of you Madam Speaker, seeks to achieve the above by introducing three pillars to the banking regulatory framework, namely:

- **Pillar 1,** which deals with capital requirements. Under this pillar, we will see the introduction of a capital charge for operational risk for the first time. This is important to ensure that all the various risks of a bank are properly covered. Pillar 1 will also enable South African banks to adopt more risk-sensitive approaches to determining the regulatory capital they are required to hold.

- **Pillar 2** deals with the supervisory review process. Supervisors will be tasked with determining the soundness of internal processes used to assess banking risk and capital adequacy. This supervisory approach, while quite demanding in terms of supervisory capacity and expertise, should allow for the earlier identification and interception of risks as they emerge.

And lastly,

- **Pillar 3,** which deals with market discipline. To give effect to market discipline, Madam Speaker, enhanced disclosure by banks is necessary since it enables market participants to assess the risk profile and capital adequacy of banks. This allows market intervention to complement supervisory intervention, and thereby strengthening the monitoring and oversight framework under which our banks will operate.

The incorporation of the above three pillar framework through the Banks Amendment Bill, 2007, will ensure the following:

- Enhanced regulation of all relevant banks and banking groups on a consolidated basis;
- Clearly defined roles and responsibilities of consolidating and host supervisors;
- Co-operation and sharing of information between supervisors;
- Clarifications of the responsibilities of banks, banking groups, boards of directors of banks and banking groups;
- Improved disclosure requirements for banks and banking groups;
- Risk-sensitive minimum capital requirements in respect of credit, market and operational risk exposures; and
- An enhanced supervisory review process in order to, amongst other things, assess the capital adequacy and control environment of banks and banking groups.

Madam Speaker, the National Treasury also undertook an extensive economic impact study of the implementation of Basel II in South Africa. According to this study, while the potential direct impact on bank capital requirements, bank pricing and the macro economy is expected to be negligible, the potential longer term economic impact is considered to be significantly positive, given that Basel II is expected to lead to improved international competitiveness, enhanced financial stability and more efficient allocation of economic capital.

The study also revealed that the implementation of Basel II is unlikely to negatively affect Government's other objectives of enabling access to finance, and realising the broader goals of the Financial Sector Charter and Broad-Based Black Economic Empowerment. What is evident from the analysis and qualitative surveys is that the South African banks entered into their Financial Sector Charter commitments with full knowledge of the imminent introduction of Basel II, and that the spirit of transformation embodied in the Charter remains paramount and forms a benchmark against which they will continue to be measured.

Madam Speaker, the Banks Amendment Bill, 2007, has gone through extensive consultation. The passing of this Bill into an Act this year will ensure that South Africa fulfils its commitment to implement Basel II on 1 January 2008, which will put South Africa in the leading group of countries to have introduced this measure of international best practices. The passing of the Bill will also send a clear message that the confidence that international and local investors have in entrusting their monies with our banks is well placed.

I would like to take this opportunity, Madam Speaker, to thank the Registrar of Banks for all the efforts in assisting with the Bill. Lastly, I would like to thank the Deputy Minister Jabu Moleketi, the Director-General of National Treasury, Lesetja Kganyago, and his team, and the Portfolio Committee on Finance, under the chairpersonship of Mr Nhlanhla Nene.

Madam Speaker, I hereby request that the House pass the Banks Amendment Bill, 2007.

I thank you