national treasury
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REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

STRENGTHENING SOUTH AFRICA'S RESOLUTION FRAMEWORK FOR FINANCIAL INSTITUTIONS

The National Treasury, the South African Reserve Bank and the Financial Services Board today publish for public comment a discussion document, Strengthening South Africa's Resolution Framework for Financial Institutions.

Following the 2008 Global Financial Crisis, the Group of Twenty (G-20), including South Africa, committed to the fundamental reform of the global financial system. Given that financial institutions like banks tend to operate across borders, but can only be regulated nationally, it was recognised that there is a need for common international standards to apply via national regulations. This Basel-based Financial Stability Board was tasked by the G20 to develop a framework and to ensure that the relevant international standard-setting bodies prepared new international standards applicable to large and important financial institutions, particularly systemically important financial institutions (SIFIs). Internationally regulatory bodies have since developed common standards, monitored by mutual peer reviews, to ensure economies could still enjoy the benefits of global trade while reducing the risks caused by financial crisis.

The **first phase** of this new global regulatory initiatives focused on ending the "too big to fail" problem, in order to reduce the risk to the fiscus and taxpayers. In particular, this has meant increasing the resilience of individual institutions. In South Africa, Basel III for banks was implemented through the 2013 Bank Regulations and the Banks Amendment Act (Act 22 of 2013), while a new prudential framework for insurers will be introduced in 2016 through the Insurance Bill. The prudential framework may be further expanded to other financial sectors in the near future, to ensure a consistent regulatory approach. These reforms will support the shift towards the coming twin peaks system to regulate the financial sector in South Africa.

Making financial institutions safer is important, but the possibility of failure remains.

The **second phase** involves authorities reducing the costs from the failure of a financial institution. The Financial Stability Board set out key principles to ensure that the consequences of the failure of individual financial firms are minimised in 'Key Attributes of Effective Resolution Regimes for Financial Institutions', with most recent guidance released in October 2014.

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Effective resolution involves both pre- and post-resolution measures. Pre-resolution measures require SIFIs to develop and maintain 'living wills'. These living wills help facilitate recovery from situations of severe stress, and pre-position SIFIs for resolution in the event of failure and remove barriers to resolvability.

Post-resolution measures focus on continuity by ensuring that critical functions are maintained in order to minimise negative consequences of failure. Post-resolution measures may involve the re-capitalisation of failed firms in a manner that balances public and private interests, while minimising the cost of failure and maintaining critical functions.

When large financial institutions fail, the costs to taxpayers can be enormous. For this reason, the primary focus of the international reforms is to make SIFIs easier to resolve, and as far as possible eliminate any costs to taxpayers of bailouts, while minimising the possibility of regulatory arbitrage between jurisdictions.

Process

Comments on the paper are invited and should be sent to Mr Vukile Davidson at Financial.Policy@treasury.gov.za by 30 September 2015.

The National Treasury, the South African Reserve Bank and the Financial Services Board will be convening meetings and workshops with interested stakeholders.

Please note that the workshop dates and venues are subject to change, amendments and further details will be provided on the National Treasury, the South African Reserve Bank and the Financial Services Board websites.

Further reading:

Key Attributes of Effective Resolution Regimes for Financial Institutions (15 October 2014)

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