



CO-OPERATIVE BANKS DEVELOPMENT AGENCY



South African Reserve Bank

Prudential Authority

Co-operative Banks Act, 2007 (Act No. 40 of 2007)

Joint Communication 5 of 2020

COVID-19: Regulatory response

Objective of this Joint Communication

This Joint Communication (Communication) sets out the responses by the Prudential Authority (PA) to the corona-virus disease 2019 (COVID-19) as well as the observed and predicted impact it has had, and is likely to have, on the South African economy, specifically co-operative financial institutions (CFIs) and co-operative banks (co-op banks). The approach of the PA is supported by the Co-operative Banks Development Agency (CBDA).

The PA and the CBDA recognise that COVID-19 has had, and will have, an impact on the financial soundness of CFIs and co-op banks. The PA, nevertheless, expects that these institutions will continue to operate in a prudent, sound and socially responsible manner. To this end, this Communication outlines some of the temporary regulatory and supervisory actions that will be implemented by the PA to alleviate the stress caused by the COVID-19 pandemic on CFIs and co-op banks.

The PA and the CBDA will continue to engage with the financial co-operative sector as well as all other relevant stakeholders as further analysis on the impact of COVID-19 is conducted, and may issue further communication or implement additional actions in this regard.

1. Purpose

1.1 This Communication sets out the PA's current position concerning COVID-19 and its impact on the economy, and more especially, in the sector in which the CFIs and co-op banks operate. The approach of the PA is supported by the CBDA.

1.2 This Communication does not have the force of law and is only intended to signal an indication of the regulatory and supervisory approach to COVID-19 with respect to those matters that are an immediate priority to alleviate the stress experienced by the CFIs and co-op banks.

1.3 The CFIs and co-op banks are urged to continue to act in good faith towards their members, stakeholders and the citizens of South Africa, and to make prudent decisions in the spirit of solidarity. Any regulatory and supervisory relief granted by PA should not be seen as a permanent relaxation of the prudential regulatory and supervisory requirements, or as an opportunity for CFIs and co-op banks to unduly benefit from any potential regulatory or supervisory relief by the PA.

2. Prudential priority measures for consideration by co-operative financial institutions and co-operative banks

2.1 The proposed measures for consideration have been categorised into prudential policy issues; supervisory activities including regulatory reporting; as well as governance and operational issues.

2.2 The following are some of the proposed areas where CFIs and co-op banks may seek relief from the PA, on a case by case basis, to ensure that the impact of COVID-19 on the financial institution is minimised, and that the insolvency of the institution is limited and as far as possible avoided.

2.3 It must be noted that all relief measures will be considered in the context of a system and framework that promotes and enhances safety and soundness.

Prudential policy-related measures

2.4 Where a CFI or co-op bank is in contravention of prudential requirements, foresees possible contravention of the prudential requirements or requires a review of prudential requirements to continue to support its members during COVID-19 outbreak, it must notify the PA immediately. On receipt of that notification, the PA will engage with the institutions on a case-by-case basis.

2.5 The following prudential areas will be considered from a relief perspective:

2.5.1 Capital adequacy;

2.5.2 Loan delinquency ratio;

2.5.3 Loan provisioning requirements;

- 2.5.4 External credit: CFIs and co-op banks will be permitted to apply for funding support available for the COVID-19 crisis from the relevant government entities, subject to getting approval from the PA to increase the external credit limit. Furthermore, the CFIs and Co-op banks, that meet the funding requirements, may apply for additional funding support, through their relevant commercial banks;
- 2.5.5 Non-earning assets to total assets ratio; and
- 2.5.6 Loan at default window for those CFIs and Co-op Banks that apply International Financial Reporting Standard (IFRS) 9.
- 2.6 The starting point for the supervisory dialogue in terms of relief sought will be to seek assurance from the CFIs or co-op banks on their plan to restore their capital position.

Supervisory activities, including regulatory reporting

- 2.7 The yearly on-site inspections will be extended to commence during the third quarter of the 2020 financial year and where possible, virtual examinations will be conducted.
- 2.8 In terms of section 279 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) the submission for the quarterly returns for the 2020 financial year is temporarily extended by one month. For example, institutions will be allowed to submit their first quarter returns in July 2020 instead of June 2020. However, bi-weekly reports on the COVID-19 impact on loans must continue to be submitted to the PA for analysis and monitoring.

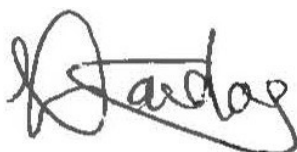
Governance and operational issues

- 2.9 The PA has consistently stressed the importance of sound governance, risk management, co-operative principles and general prudence in its past communications with the sector. It is crucial that CFIs and co-op banks are mindful of these principles, especially at this time of economic stress.
- 2.10 In particular, at a time where meeting face-to-face is a challenge, boards should think carefully about how board decisions can be made, and what type of management information is to be collected and provided to board

- members so that they are able to identify, prioritise and focus on the risks being faced by their institution. Where possible, the institutions should consider making use of virtual meetings.
- 2.11 Physically constituted Annual General Meetings (AGMs) are to be suspended until further notice. However, CFIs and co-op banks may consider hosting these meetings virtually.
- 2.12 CFIs and co-op banks must prudently manage loan issuances. For example, loans should only be issued to members that have savings to maintain a fair recoverability rate for the institution to continue to exist. CFIs should continue to collect the outstanding loans from their members, and the collection procedures should be reviewed to accommodate the current lockdown.
- 2.13 CFIs and co-op banks should develop credit restructures with specific criteria to be met before any loan is considered for restructuring. For example, a loan that was already at default before the COVID-19 outbreak cannot be structured in the same way as a loan that started being at default after the COVID-19 outbreak, as the circumstances are different. The restructured loans should then be classified as COVID-19 restructured loans. The institutions must develop a sound corporate governance framework relating to the treatment of COVID-19 restructured loans and document a policy on its approach.
- 2.14 Similarly, the co-operative principles of 'Education, training and information' and 'Concern for the community' are particularly pertinent. Therefore, CFIs and co-op banks must maintain an effective member communication initiative to educate members on what COVID-19 means for the financial institution. Institutions should further reassure their members on the safety of their funds and provide regular statements to members.
- 2.15 Those CFIs and co-op banks that run online banking platforms must ensure effective use of the technology, and invest time in informing and educating their members on how these platforms can be used efficiently and effectively during this crisis.

2.16 The PA will assess the risks posed to each financial entity on a case-by-case basis and the appropriate level and type of relief will be applied.

Requests for further information about this Communication may be submitted via email to Lebogang.Tshabalala@resbank.co.za at the PA and David.DeJong@treasury.gov.za at the CBDA.



PRUDENTIAL AUTHORITY



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AGENCY**

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