During the year under review, the SARB continued its preparation to fulfil its responsibilities as set out by the Financial Sector Regulation Bill (FSRB).

The FSRB makes provision for an extended mandate for the SARB, including a specific responsibility to protect and enhance financial stability, and to restore or maintain financial stability should a systemic event occur or be imminent.

The FSRB provides the SARB and the Governor with certain powers and responsibilities related to financial stability. The SARB must monitor and review the strengths and weaknesses of the financial system and any risks to financial stability and take the necessary steps to mitigate these risks. It also needs to keep the Minister of Finance informed of any imminent or actual systemic events and the steps being taken to manage an event and its impact. To assess the build-up of risks or vulnerabilities, the Governor may direct financial sector regulators to provide the SARB with information. If the risk or vulnerability is identified as a systemic event or imminent systemic event, the Governor may direct a financial sector regulator to assist the SARB in preventing it from occurring and mitigating its effects.

The FSRB also makes provision for a Financial Stability Oversight Committee (FSOC) to support the SARB in protecting and enhancing financial stability, and a Financial Sector Contingency Forum to coordinate appropriate plans, mechanisms and structures in the financial sector to mitigate financial stability risks and vulnerabilities. In addition, the FSRB provides the Governor with the authority to designate a
Financial institution as systemically important. The Governor may also impose requirements regarding the solvency, liquidity, leverage and organisational structures of these institutions in consultation with the Prudential Authority.

During the year under review, the SARB made significant progress through its strategic initiatives to:

> further develop and enhance the framework for monitoring financial stability in line with international best practice;
> develop a new macroprudential policy framework; and
> develop a legal framework for resolving systemically important financial institutions, including an explicit deposit insurance scheme.

The SARB regularly assesses the risks to financial stability. This assessment is reported at quarterly Financial Stability Committee (FSC) meetings. During the period under review, a number of key risks to the financial system in South Africa were identified. Exogenous risks remained elevated as the South African financial system was exposed to an unstable global economic, financial and political environment (including the outcome of the UK referendum to leave the European Union) that led to high levels of volatility in domestic financial markets. Despite large price adjustments globally following the UK referendum results, markets managed the increased volumes well and no disorderly events surfaced.

Domestically, the extended period of low economic growth presented headwinds to financial stability through elevated levels of household and corporate sector vulnerability that posed a risk to the financial sector by putting pressure on impairments for banks. In addition to this, the deteriorating economic and fiscal outlook and increased political risks have been presenting threats to the country’s sovereign credit rating for some time. The FSC’s assessment of these risks is published in the SARB’s biannual Financial Stability Review.

As part of its responsibilities, the FSC also monitors potential vulnerabilities within the banking sector and assesses the sector’s resilience to adverse developments. In this regard, a common scenario stress test of the South African banking sector was conducted to evaluate its resilience to a set of plausible adverse scenarios. The risks and vulnerabilities identified in the risk assessment matrix included spillovers from excessive volatility and risk aversion in global financial markets, and the possibility of a sovereign rating downgrade to sub-investment grade for South Africa. The stress test results showed that banks could withstand significant credit losses even under the most severe adverse scenario without taking into account any mitigating action by bank management. In addition to regular stress testing, a toolkit of macroprudential instruments is being developed for possible implementation by the FSC, pending the promulgation of the FSRB and an official financial stability mandate for the SARB.

Following the publication of the results of the 2015/16 stress-testing exercise, the SARB met with all participating banks to discuss the methodology and processes followed to conduct the exercise, as well as the final results. The International Monetary Fund (IMF) will conduct a peer review of the exercise in 2017 and provide perspectives on new developments in top down stress testing by including other risk types. The stress testing team has leveraged the lessons from the previous exercise, and is closely engaging with the IMF on its peer review. The workflow arising from this review is scheduled for completion by mid-2017, and in the interim the stress testing framework is being refined and the top down stress testing model enhanced to include other risk types such as liquidity risk. This is in line with the envisaged scope of the next stress testing cycle which will include liquidity risk stress testing, among others. The stress testing governance structure dictates that the financial system will be subjected to a full macro stress-testing exercise every two years. However, intermediate exercises may be conducted, if required.

The SARB, with the cooperation of international consultants, National Treasury and a resolution working group, has prepared a draft Special Resolution Bill for systemically important financial institutions. The Bill is in line with international standards and the policy proposals set out in the Strengthening South Africa’s Resolution Framework discussion paper, published in 2015. The legislation will make the necessary enhancements to South Africa’s resolution framework, enabling the SARB to deal with the orderly resolution of a systemic financial institution and provide for the establishment of a deposit insurance scheme to enhance depositor protection. It is envisaged that the draft Bill will be published for public comment during 2017.

Financial market infrastructures (FMIs)\(^1\) are critical components of domestic and international financial markets that offer essential services to participants and can help to maintain financial stability in periods of market stress. The SARB’s FMI regulatory and supervisory responsibilities have been documented and approved and will be published in due course. The National Payment System Department and the Prudential Authority will be responsible for regulation and micro-supervision, and the systemic surveillance of FMIs will be the responsibility of the Financial Stability Department. In addition, the SARB has identified a number of FMIs in the domestic payment, trade, central securities depository and clearing environments. There is currently no licensed trade repository or central counterparty for over-the-counter derivatives in South Africa, and there are other financial infrastructures operating in the domestic market that may be identified as FMIs in the future.

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\(^1\) Identified FMIs include, among others, the South African Multiple Option Settlement (SAMOS) system, SADC Integrated Regional Electronic Settlement System (SIRESS), Bankserv, Strate and the JSE Ltd.
The SARB, together with National Treasury, continues to represent South Africa on global committee structures at the Financial Stability Board (FSB). The Governor is a member of the FSB Plenary, its highest decision-making body, and the FSB Steering Committee. In addition, the Governor was appointed as the Chairperson of the Standing Committee on Standards Implementation (SCSI) for a term of two years starting on 1 April 2017. The SARB’s Deputy Governors also serve on the SCSI, the Standing Committee on Supervisory and Regulatory Cooperation and the Resolution Steering Group. During the reporting period, the FSB continued to coordinate the input into global regulatory, supervisory and financial sector policies as well as monitoring the implementation of agreed policies.

**FINANCIAL STABILITY COMMITTEE**

The FSC was established in 2000 and restructured and elevated in 2010 in terms of its membership and responsibilities. The purpose of the FSC is to formulate financial stability policy on behalf of the SARB in support of its mandate. The FSC comprises the Governor as Chairperson, the Deputy Governors, all members of the Monetary Policy Committee and a maximum of seven other SARB officials. The SARB fulfils its responsibility to monitor and review the strengths and weaknesses of the financial system and any risks to financial stability, and take the necessary steps to mitigate these risks, through the FSC.

During the year under review, the FSC met three times to monitor vulnerabilities in the global and domestic environments, assess their possible implications for domestic financial stability and decide whether any mitigating measures needed to be taken. The issues discussed by the FSC and any decisions taken are communicated in the biannual Financial Stability Review publications.