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PREFACE

i. Short title

This Guideline may be cited as **Guideline No. 01-2008/BSD: Minimum Disclosure Requirements for Financial Institutions.**

ii. Authorisation

The Guideline is issued in terms of section 45 of the Banking Act *[Chapter 24:20]* as read with section 15 of the Banking Regulations, Statutory Instrument 205 of 2000.

iii. Scope of Application

This Guideline applies to all banking institutions, non-bank financial institutions that are licensed and/or supervised by the Reserve Bank as well as to bank holding companies. Wherever the term “bank(s)” or “banking institution(s)” is used in the Guideline, it shall also be read to include non-bank financial institutions that are licensed and/or supervised by the Reserve Bank, including bank holding companies. Sector specific financial disclosures for asset management companies are outlined in schedule 9.

1. INTRODUCTION

1.1 As part of ongoing efforts to promote transparency and enhance market discipline, the Reserve Bank has developed a set of minimum financial disclosure requirements for banking institutions.

1.2 The objective of the Guideline is to encourage banks to provide stakeholders with the information they require in relation to the bank's condition and performance, and exposures to risk in order to facilitate meaningful assessments of the bank's risk profile.

1.3 Well-informed investors, depositors, creditors and other financial counterparties can provide a bank with strong incentives to maintain sound corporate governance arrangements, risk management systems and internal controls and to conduct its business in a prudent manner.

1.4 Transparency strengthens confidence in the banking system by reducing information asymmetry between banks and their clients. The Reserve Bank considers transparency regarding a bank's activities and the risks inherent in those activities to be key elements of an effectively supervised, safe and sound banking system.

1.5 In addition, contemporary banking practice requires full disclosure to enhance market discipline. The Basel Committee on Banking Supervision, through Pillar III of its International Convergence of Capital Measurement and Capital Standards: A Revised Framework (also known as Basel II), has also advocated for comprehensive financial disclosures by banking institutions to promote transparency and market disclosure in financial markets.

2. QUALITATIVE CHARACTERISTICS OF FINANCIAL STATEMENTS

2.1 The following are the principal attributes expected of disclosure information and the financial statements to ensure they are more useful to investors, creditors, and other users: *understandability, relevance, reliability* and *comparability.*

Understandability…

2.2 Information should be presented in a way that is readily understandable by users who have a reasonable knowledge of business, economic activities and accounting, and who are willing to study the information diligently.

Relevance…

2.3 Information in financial statements is relevant when it influences the economic decisions of users. The information should aid the evaluation of past, present, or future events relating to an enterprise.

2.4 **Materiality** is a component of relevance. Information is material if its omission or misstatement could influence the economic decisions of users.

2.5 **Timeliness** is another component of relevance. To be useful, information must be provided to users within the time period in which it is most likely to bear on their decisions.

Reliability…

2.6 Information in financial statements is reliable if it is free from material error and bias and can be depended upon by users to represent events and transactions faithfully. Information is not reliable when it is purposely designed to influence users' decisions in a particular direction.

2.7 There is sometimes a trade-off between relevance and reliability - and judgment is required to provide the appropriate balance.

2.8 Reliability is affected by the use of estimates and by uncertainties associated with items recognised and measured in financial statements. These uncertainties are dealt with, in part, by disclosure and, in part, by exercising prudence in preparing financial statements.

2.9 Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

2.10 However, prudence can only be exercised within the context of the other qualitative characteristics, particularly relevance and the faithful representation of transactions in financial statements.

2.11 Prudence does not justify deliberate overstatement of liabilities or expenses or deliberate understatement of assets or income, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

Comparability…

2.12 Users must be able to compare the financial statements of a financial institution over time so that they can identify trends in its financial position and performance. Users must also be able to compare the financial statements of different institutions. Disclosure of accounting policies is essential for comparability.

3. DISCLOSURE POLICY

3.1 Every banking institution shall develop and maintain a formal disclosure policy, approved by its board of directors, which should meet the minimum disclosure requirements as outlined in this Guideline.

3.2 A bank's diclosure policy should provide details of the disclosure areas and the nature of disclosures that the bank will make. The disclosure areas should include financial statements, business activities, policies and procedures, risk management systems, risk profile and corporate governance arrangements.

3.3 An internal process for assessing the appropriateness of disclosures as well as internal controls over the disclosure process should be implemented at every bank. The disclosure policy should provide for board and/or senior management oversight on the information to be published. Management should be mandated to ensure that the information for publication is verified for accuracy before dissemination.

3.4 The Reserve Bank recognises that each banking institution's specific disclosures will vary in scope and content according to its size and nature of activities. The disclosure policy should specify the disclosures that are relevant for the bank based on materiality.

3.5 All banking institutions are expected to provide timely and sufficiently detailed information that allows stakeholders to make meaningful assessment of the bank's financial condition and performance.

4. NATURE AND FREQUENCY OF DISCLOSURES

4.1 Every banking institution shall report on a half-yearly (interim) and year- end basis disclosure information in terms of this Guideline in at least two widely circulated national newspapers **no later than 60 days after the end of the interim period** and **audited results no later than 90 days after year end**.

4.2 A banking institution that is part of a banking group is required to report both group-wide consolidated financial statements as well as the financial statements for the banking entities on a stand-alone basis.

5. PRIOR APPROVAL OF INFORMATION FOR PUBLICATION

5.1 The disclosure information prescribed in this Guideline shall not be published without the Reserve Bank's prior written approval.

5.2 Every banking institution shall submit to the Reserve Bank the complete set of its financial statements and reports at **least seven (7) working days prior to the proposed publication date.**

5.3 The financial information for publication shall be accompanied by a certificate on the integrity and soundness of Information and Communication Technology systems (ICT), issued by a competent auditor registered in terms of the Public Accountants and Auditors Act [*Chapter 27:12*].

5.4 The board and senior management of a banking institution should ensure that all disclosures are accurate and are made in a timely manner.

5.5 Any contraventions to the disclosure requirements shall be dealt with in accordance with section 48 of the Banking Act and provisions of the Banking Regulations, Statutory Instrument 205 of 2000.

6. FINANCIAL STATEMENT DISCLOSURES

6.1 Overview

6.1.1 The following broad areas constitute the minimum disclosures that shall be covered by every banking institution when reporting its half-year and annual results:

a) chairman's statement;
b) auditors' report and/or ICT report;
c) directors' report;
d) financial statements:
   - balance sheet;
   - income statement;
   - statement of changes in equity;
   - cash flow statement;
   - maturity profile of assets and liabilities; and
   - notes, comprising a summary of significant accounting policies and other explanatory notes;
e) capital adequacy and solvency position;
f) risk management systems, strategies and practices covering all material risks to which the institution is exposed including:
   - credit risk;
   - market risk;
   - operational risk;
   - strategic risk;
   - liquidity risk;
   - legal and compliance risk, and
   - reputational risk;
g) corporate and management structure;
   i). any significant corporate governance developments; and
   ii). issues pertaining to compliance or non-compliance with the Banking Act, Regulations, Guidelines and other applicable laws.

6.1.2 Banking institutions that are part of a banking group shall provide a description of the entities within the group. The financial disclosures should indicate which entities are given:

a) full consolidation (IAS 27);
b) prorata consolidation (IAS 31); and
c) equity consolidation (IAS 28).

6.1.3 In addition, disclosures by a banking group should show the entities from which surplus capital is recognised and those that are neither consolidated nor deducted e.g. where the investment is risk-weighted.

6.1.4 For each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with the corresponding carrying amount in the balance sheet. Disclosure of fair value information shall include disclosure of the method used in determining fair value and the significant assumptions made in its application.

6.1.5 Further to the generalised disclosure requirements outlined above, the following sections elaborate on the minimum information to be disclosed in financial statements.

6.1.6 Detailed disclosure requirements pertaining to capital adequacy, credit exposures, market risk, operational risk, securitisation, interest rate and equity exposure in the bank book, on-site examination and external credit ratings are provided in schedules 1 to 8. In addition, disclosure requirements specific to asset management companies are out lined in schedule 9.

6.2 Balance Sheet

6.2.1 Every banking institution shall present a balance sheet that groups assets and liabilities by nature and lists them in an order that reflects their relative liquidity.

6.2.2 The content of the balance sheet should conform to the requirements of International Financial Reporting Standards.

6.2.3 The following minimum disclosures shall be made in the balance sheet and/or accompanying notes:

Assets:	Period 1	Period 2
(a) Cash and balances with Reserve Bank		
(b) Balances with local banks		
(c) Balances with foreign banks		
(d) Investments in government securities		
(e) Placements with banking institutions		
(f) Loans and advances		
(g) Investments in subsidiaries and associates		
(h) Other investments		
(i) Property and equipment		
(j) Other assets		
(k) Contingent assets		

Equity & Liabilities:	Period 1	Period 2
(a) Due to other banks		
(b) Customer deposits		
(c) Promissory notes		
(d) Financial liabilities held for trading		
(e) Other liabilities		
(f) Deferred taxation		
(g) Provision for taxation		
(h Shareholder's loan		
(i) Contingent liabilities		
Equity:		
(j) Share capital		
(k) Preference shares		
(l) Capital reserves		
(m) Revenue reserves		
(n) Minority interest		

6.2.5 The bank should provide a comment for contingent liabilities and commitments indicating the following details, among others:

(a) the nature and amount of commitments to extend credit that are irrevocable;

(b) the nature and amount of contingent liabilities and commitments arising from off-balance sheet items including those relating to: direct credit substitutes including general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities;

(c) certain transaction-related contingent liabilities including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions;

(d) short-term, self-liquidating, and trade-related contingent liabilities arising from the movement of goods, such as documentary credits, where the underlying shipment is used as security; and

(e) other commitments including note issuance facilities and revolving underwriting facilities.

6.3 Income Statement

6.3.1 The income statement should group income and expenses by nature and disclose the amount of the principal types of income and expenses.

6.3.2 A banking institution should present the income statement in a columnar form separating the banking book and trading book income and expenses.

6.3.3 The scope and content of information in the income statement should comply with applicable International Financial Reporting Standards.

6.3.4 The following minimum disclosures shall be made in the income statement and/or the accompanying notes:

(a) Interest and similar income
(b) Interest expense and similar charges
(c) Dividend income
(d) Fee and commission income
(e) Fees and commission expenses
(f) Gains or losses arising from dealing securities
(g) Gains or losses arising from investment securities
(h) Gains or losses arising from dealing in foreign currencies
(i) Other operating income
(j) General administrative expenses
(k) Other operating expenses
(l) Taxation
(m) Post-tax profit
(n) Profit or loss to Minority Interest

6.3.5 Income and expense items shall not be offset except for those relating to hedges.

6.3.6 Banking institutions should provide **comments discussing trends and levels** of income and expenses.

6.4 Statement of Changes in Equity

6.4.1 The statement of changes in equity for banking institutions should contain the following items:

(a) profit or loss for the period;

(b) each item of income and expense for the period that was recognised directly in equity, and the total of these items;

(c) total income and expense for the period, showing separately the total amounts attributable to equity holders of the parent and to minority interests; and

(d) for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with relevant accounting standards.

6.4.2 A bank shall also present, either in the statement of changes in equity or in the notes:

(a) the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders;

(b) the balance of retained earnings (i.e. accumulated profit or loss) at the beginning of the period and at the balance sheet date, and the changes during the period; and

(c) a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change.

6.5 Cash flow Statement

6.5.1 The cash flow statement for banking institutions should have the following broad headings:

a) Cash flows from Operating Activities

b) Cash flow from Investing Activities

c) Cash Flows from Financing Activities

d) Net increase in cash and cash equivalents

e) Cash and cash equivalents at beginning of period

f) Effect of exchange rate changes on cash and cash equivalents

g) Cash and cash equivalents at close of period

6.6 Maturity Profile of Assets & Liabilities

6.6.1 Every banking institution shall disclose, in the form of a maturity ladder, the assets and liabilities grouped into relevant maturity buckets based on the remaining period to maturity as at the reporting date.

6.6.2 To facilitate an evaluation of the bank's maturity mismatches, a detailed maturity or duration analysis of asset, liability and off- balance- sheet items indicating the net mismatch position and cumulative positions should be disclosed as shown in the table below:

Table 6.1: Maturity Profile

Assets	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**
e.g. Treasury Bills						
Total Assets						
Liabilities	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**
e.g. Time Deposits						
Total Liabilities						
Gap						
Cumulative Gap						

6.6.3 The disclosed information should include a discussion about concentrations of funding sources, indicators or ratios by which liquidity is measured, internal benchmarks, the monetary amount of credit facilities which represent a potential source of back-up funding, liquidity management processes, and contingency liquidity plans.

6.6.4 In order to provide users with a full understanding of the maturity profiles, the disclosures should be accompanied by a discussion of the assumptions upon which the maturity profiles are based and the way in which a banking institution manages and controls the risks and exposures associated with different maturity and interest rate profiles. The maturity profile should mirror the true liquidity condition of the banking institution.

7. SCHEDULES

7.1 FIRST SCHEDULE: CAPITAL ADEQUACY

7.1.1 The disclosure statement shouldl contain the following information pertaining to capital :

a) The banking institution's objectives, policies and processes for managing capital as well as the extent of compliance with internal and regulatory capital standards;

b) the terms and conditions and/or the main features of all capital instruments including hybrid capital instruments; and

c) assessment of available capital to support current and future activities.

7.1.2 Every banking institution shall report, in tabular form, the **amount** and **ratios** of Tier 1, Tier 2 and total capital, with separate disclosure of constituent components as follows:

	Period 1	Period 2
Core Capital (Tier 1) :		
a) issued and fully paid up ordinary share capital,		
b) non-cumulative irredeemable preference share capital;		
c) capital reserves;		
d) current period's audited retained earnings		
e) Tier one minority interests		
Less: Deductions from Tier one capital (specify each deduction)		
Plus: other adjustments to tier one capital (specify each adjustment)		
Total core capital		
Supplementary capital (Tier 2) :		
a) unaudited retained profits		
b) cumulative irredeemable preference share capital;		
c) revaluation reserves;		
d) general provisions for doubtful debts;		
e) hybrid (debt/equity) capital instruments with remaining maturity of five years or more;		
f) subordinated debt.		
Total supplementary capital		
Core capital plus supplementary capital		
Less: Deductions from total capital (specify each deduction)		
Plus: other adjustments to total capital (specify each adjustment)		
Net capital base		
Total Risk Weighted Assets		
Tier 1 Ratio		
Tier 2 Ratio		
Capital Adequacy Ratio		

7.1.3 The disclosure statement shall contain, for each class of equity share capital, information on whether it is included in Tier 1 capital or Tier 2 capital and the material terms and conditions applying to that class including but not limited to:

a) voting rights;
b) redemption, conversion or capital repayment options/facilities and their relevant terms or conditions;
c) terms or conditions of any predetermined dividend rate;
d) provision for any variation or suspension of dividend payments;
e) any options granted or to be granted pursuant to any arrangement, the consideration given or to be given, the expiry date for the exercise and the total number of shares subject to such option; and
f) the total of cumulative preferred dividends in arrears.

7.1.4 In addition, every banking institution should disclose whether its capital requirements for:

a) credit risk are subject to standardised, simplified standardised approach, or internal ratings-based approach;
b) market risk are subject to the standardised or internal models approach; and
c) operational risk are subject to basic indicator, standardised, or advanced measurement approach.

7.2 SECOND SCHEDULE: CREDIT EXPOSURES

7.2.1 Every banking institution should provide an overview of its credit risk-taking philosophy and activities giving rise to credit risk.

7.2.2 The disclosure statement should provide the organisational structure of its risk management function, policy on limits including types of limits, and how they are established and reviewed.

7.2.3 Further, for each separate credit risk area, banking institutions shall describe risk management objectives and policies, including:

a) strategies and processes;
b) the scope and nature of risk reporting and/or measurement systems; and
c) policies for hedging and/or mitigating risk as well as strategies and processes for monitoring the continuing effectiveness of hedges / mitigants.

7.2.4 The disclosure statement, which should comply with IFRS7:36-38, should state accounting policies with respect to credit risk, including:

a) definition of default;
b) the definition of past due and impaired loans and advances;
c) methods for determining specific and general provisions; and
d) the basis for writing off assets.

7.2.5 Where a bank uses credit scoring or portfolio credit risk management approaches, such as the Standardised Approach, Foundation Internal Ratings-Based Approach (IRB), and/or advanced Internal Ratings Based approaches, it should disclose:

a) descriptive information about the type(s) of models, portfolio(s) covered and size of portfolio(s); and
b) quantitative and qualitative information about the credit risk measurement models used, including model parameters (e.g. holding period, observation period, confidence interval), performance over time, model validation, back testing and stress testing information.

7.2.6 Every banking institution shall disclose, in tabular form, credit risk exposure amounts, past due and impaired loans, write-offs, recoveries as well as specific and general provisions by type of exposure to each economic sector, such as agriculture, commercial, mining, distribution, construction, transport and communication. Further a banking institution shall disclose the aggregate amount included in the balance sheet for loans and advances on which interest is not being accrued as shown below.

Table 7.1: Credit Exposures

ECONOMIC SECTOR	TOTAL LOANS	PAST DUE / IMPAIRED LOANS	WRITE-OFFS / RECOVERIES	PROVISIONS
Trade and Services				
Energy and Minerals				
Agriculture				
Construction & Property				
Light & Heavy Industry				
Physical Persons				
Transport & Distribution				
Financial Services				
State				
Other				
Total				

7.2.7 With respect to intra-group transactions and/or exposures to related parties, directors and shareholders, disclosures should indicate the gross limits, utilised amounts and maturity date in tabular form as shown below .

Table 7.2: Intragroup Exposures

TYPE OF INTRAGROUP TRANSACTIONS	GROSS LIMITS	UTILISED AMOUNTS	MATURITY DATE	VALUE OF SECURITY	PERCENTAGE OF CAPITAL
Loans to Directors					
Loans to Group Companies					
Intercompany Guarantees					
Other					
Total					

7.2.8 Every banking institution shall disclose aggregate information about credit arrangements that have been restructured during the period. Such information should include the nature of restructuring, balance of the restructured facilities, the magnitude of the restructuring activity, the impact of restructured credit arrangements on allowances and the present and future earnings, and the basic nature of concessions on all credit relationships that are restructured, including loans, derivatives and other on- and off-balance sheet activities.

7.2.9 Where a bank employs credit risk mitigation techniques it shall disclose information about the effect of the credit enhancements on counterparty credit exposures. This information should include the effect of legally enforceable bilateral and multilateral netting agreements. If the institution uses collateral, covenants, guarantees or credit insurance to reduce credit exposure the disclosure of such mitigation techniques should include:

a) the nominal and/or market value of the mitigants.
b) policies and processes for on- and off-balance sheet netting;
c) policies for mitigant valuation and management; and
d) information about (market or credit) risk concentrations within the mitigation taken.

7.3 THIRD SCHEDULE: EXPOSURES TO MARKET RISK

7.3.1 Every banking institution shall provide an overview of its market risk taking philosophy, its activities, and the various risks arising from these activities. With respect to each activity, the disclosure statement should outline the extent to which it engages in proprietary or customer-driven activities.

7.3.2 Banking institutions should disclose the organisational structure of its risk management function, policy on limits including types of limits, and how they are established and reviewed.

7.3.3 The disclosure statement should describe the market risk management objectives and policies, including:

a) strategies and processes;
b) the scope and nature of risk reporting and/or measurement systems; and
c) policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants.

7.3.4 Banking institutions should also adhere to disclosure requirements of IFRS7:40-42.

7.3.5 Every banking institution that engages in trading activities or that actively manages its marked-to-market portfolios should disclose measures of market risk in that activity.

7.3.6 Further, every institution should describe the portfolios that are covered by the standardised approach and /or internal models approach in the calculation of capital to cover market risk.

7.3.7 For portfolios that are covered by the standardised approach, banks should disclose and comment on the capital requirements for:

a) interest rate risk;
b) equity price risk;
c) foreign exchange risk; and
d) commodity risk.

7.3.8 For each portfolio covered by the internal models approach banks should disclose:

a) the characteristics of the models used;
b) a description of stress testing method applied to the portfolio; and
c) a description of the approach used for backtesting /validating the accuracy and consistency of the internal models and modelling processes.

7.3.9 Where applicable, the disclosure statement should indicate the aggregate Value at Risk (VaR) figures, which should be broken down by risk or asset classes.

7.3.10 In general, banking institutions should tabulate value-at-risk by risk category as indicated below:

Type of risk or activity	High	Median	Low	Period-end
Currency Equity Interest Commodity				
Diversification effect				
Aggregate VaR				

7.3.11 VaR should be estimated for both one-day and two-week holding periods and reported in terms of high, median and low VaR values over the reporting period and at period-end.

7.3.12 In addition, to enable investors to assess the efficiency of their risk management, banks should provide information about risk and return, including a comparison of VaR estimates with actual gains/losses experienced by the bank. The comparison should be accompanied by qualitative discussion to help stakeholders in understanding it and an analysis of important “outliers” in backtest results.

7.3.13 The disclosures relating to market risk should apply to all relevant exposures that are actively managed (such as trading activity) on a marked-to-market and self contained basis.

7.3.14 Banks should indicate which trading or mark-to-market activities are excluded from their risk measurement methodology.

7.4 FOURTH SCHEDULE: OPERATIONAL RISK

7.4.1 Every banking institution shall provide an overview of its risk taking philosophy, its activities, and the various risks arising from these activities. With respect to each activity, there should be disclosure on the extent to which the bank engages in proprietary or customer-driven activities.

7.4.2 For each type of risk, every banking institution shall disclose the organisational structure of its risk management function, policy on limits including types of limits, and how they are established and reviewed.

7.4.3 Further, for each separate risk area (e.g. credit, market, operational, banking book interest rate risk, equity, legal) every banking institution shall describe its risk management objectives and policies, including:

a) strategies and processes;

b) the scope and nature of risk reporting and/or measurement systems, and

c) policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants.

7.4.4 In addition to the general qualitative disclosure requirements with respect to operational risk, every banking institution shall disclose information about the main activities giving rise to operational risk and should identify any specific problems considered to be individually significant.

7.4.5 Every banking institution shall disclose the operational risk capital assessment approach employed.

7.4.6 Where a banking institution uses the Advanced Measurement Approaches (AMA), disclosures should include a discussion of relevant internal and external factors considered in the bank's measurement approach. In the case of partial use of AMA, the scope and coverage of the different approaches used should be specified.

7.4.7 Further, banks using AMA should provide a description of the extent to which insurance is used to mitigate operational risk.

7.5 FIFTH SCHEDULE: SECURITISATION ACTIVITIES

7.5.1 Every banking institution that undertakes securitisation of assets should disclose both qualitative and quantitative information about these activities.

7.5.2 The disclosure statement should state the extent to which these activities transfer credit risk of the underlying securitised exposures from the bank to other entities; the amount and types of assets securitised and the amount of servicing retained as shown below.

Table 7.3: Securitisation Transactions

TYPE OF ASSETS SECURITISED	AMOUNT	AMOUNT OF SERVICING RETAINED
e.g Mortgage loans		
Total		

7.5.3 Further, a banking institution involved in securitisation shall disclose the total outstanding exposures securitised broken down by exposure type into:

a) traditional/synthetic;

b) amount of impaired/past due assets securitised; and

c) losses recognised by the bank during the current period.

7.5.4 The disclosure statement should state the aggregate amount of securitisation exposures retained or purchased, broken down by exposure type. For transactions where an institution has sold an asset(s) but retains responsibility for payment in the event that the original borrower(s) or counterparty defaults or fails to fulfill other contractual or implied obligations, the disclosures shall include summary information about the recourse arrangement terms and the amount of assets sold as well as the expected losses under such arrangements.

7.5.5 A banking institution involved in securitisation shall disclose the amount of risk or assets retained; details on subordinated interests retained (e.g. first loss protection); and general recourse provisions. If the bank has a continuing interest in securitised assets, the performance of those securitised assets should be disclosed.

7.5.6 With respect to the role that a banking institution assumes in securitisation process disclosures should indicate the extent of involvement; the regulatory capital approaches (Ratings-Based Approach, Internal Assessment Approach, and Supervisory Formula Approach) that the bank follows for its securitisation activities.

7.5.7 A banking institution involved in securitization shall provide a summary of the accounting policies for securitisation activities, including:

a) whether the transactions are treated as sales or financings;

b) recognition of gain or loss on sale;

c) key assumptions for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes; and

d) treatment of synthetic securitisations if this is not covered by other accounting policies (e.g. on derivatives).

7.6 SIXTH SCHEDULE: INTEREST RATE RISK IN THE BANKING BOOK

7.6.1 Every banking institution shall provide an overview of its risk taking philosophy, its activities, and the extent to which it engages in proprietary or customer-driven activities.

7.6.2 The banking institution shall disclose the organisational structure of its risk management function, policy on limits including types of limits, and how they are established and reviewed.

7.6.3 Furthermore, every banking institution shall describe its risk management objectives and policies, including:

a) strategies and processes;
b) the scope and nature of risk reporting and/or measurement systems;
c) policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants.

7.6.4 In addition, every banking institution shall disclose the nature of interest rate risk in the banking book and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of measurement of interest rate risk in the banking book.

7.6.5 Every banking institution shall also disclose the increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk in the banking book, broken down by currency (as relevant) as shown below.

Table 7.4: Interest Rate Risk Exposure

Level of Shock	Impact on Earnings	Impact on Capital
Benchmark		

7.7 SEVENTH SCHEDULE: EQUITY EXPOSURES IN THE BANKING BOOK

7.7.1 Every banking institution shall provide an overview of the various risks arising from its equity exposures in the banking book. With respect to each activity, there should be disclosure on the extent to which it engages in proprietary or customer-driven activities.

7.7.2 The disclosure statement should state the policy on limits including types of limits, and how they are established and reviewed.

7.7.3 Furthermore, the banking institution should describe its risk management objectives and policies, including:

a) strategies and processes;

b) the scope and nature of risk reporting and/or measurement systems;

c) policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants.

7.7.4 In addition, every banking institution with equity exposures shall disclose equity holdings on which capital gains are expected and those taken under other objectives including holdings for relationship and strategic reasons;

7.7.5 A banking institution shall disclose its policies covering the valuation and accounting of equity holdings in the banking book. This should include accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.

7.7.6 A banking institution with equity exposures shall provide both the balance sheet value of equity investments and the fair value of those investments.

7.7.7 Further, the disclosure statement should cover the types and nature of investments, including the amount that can be classified as:

a) publicly traded; and

b) privately held.

7.7.8 A banking institution with equity exposures shall also disclose the following:

a) the cumulative realised gains (losses) arising from sales and liquidations in the reporting period;

b) total unrealised gains (losses); and

c) any amounts of the above included in Tier 1 and/or Tier 2 capital.

7.8. EIGHTH SCHEDULE: ON-SITE EXAMINATION AND EXTERNAL CREDIT RATINGS

7.8.1 Banking institutions are required to disclose on-site examination and external credit ratings in their half-year and year-end financial statements.

On-Site Examination...

7.8.2 Banking institutions should disclose CAMELS ratings of the **most recent on-site examination** conducted by the Reserve Bank using the **Risk-based Supervision** methodology, beginning with the publication of 2007 year-end financial results in the format shown below. Going forward, banking institutions will be required to publish the CAMELS ratings for the preceeding three on-site examinations.

CAMELS RATINGS FORMAT

CAMELS* COMPONENT	LATEST RBS** RATINGS	PREVIOUS RBS RATINGS	PREVIOUS RBS RATINGS
Capital Adequacy			
Asset Quality			
Management			
Earnings			
Liquidity			
Sensitivity to Market Risk			
Composite Rating			

[1] ***CAMELS** is an acronym for **C**apital Adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity and **S**ensitivity to Market Risk. CAMELS rating system uses a rating scale of 1-5, where '1' is Strong, '2' is Satisfactory, '3' is Fair, '4' is Weak and '5' is Critical.
****RBS** stands for Risk-based Supervision

7.8.3 Banking institutions should also disclose the institution's three most recent **summary Risk Assessment System (RAS)** ratings assigned by the Reserve Bank. The format of reporting the RAS is shown in the table below.

SUMMARY RAS RATINGS FORMAT

RAS COMPONENT	LATEST RAS RATINGS	PREVIOUS RAS RATINGS	PREVIOUS RAS RATINGS
Overall Inherent Risk	Moderate	High	High
Overall Risk Management Systems	Acceptable	Acceptable	Weak
Overall Composite Risk	Moderate	Moderate	High
Direction of Overall Composite Risk	Stable	Decreasing	Increasing

[2] **RAS** stands for Risk Assessment System

7.8.4 In addition to the above, banking institutions should disclose the most recent **summary risk matrix** assigned by the Reserve Bank using the **Risk Assessment System (RAS)** in the format shown below.

SUMMARY RISK MATRIX FORMAT

Type of Risk	Level of Inherent Risk	Adequacy of Risk Management Systems	Overall Composite Risk	Direction of Overall Composite Risk
Credit	Moderate	Acceptable	Moderate	Increasing
Liquidity	Moderate	Acceptable	Moderate	Stable
Interest Rate	Moderate	Weak	High	Stable
Foreign Exchange	Low	Weak	Moderate	Stable
Strategic Risk	High	Acceptable	High	Stable
Operational Risk	High	Acceptable	High	Increasing
Legal & Compliance	Low	Acceptable	Low	Stable
Reputation	Moderate	Acceptable	Moderate	Increasing
Overall	Moderate	Acceptable	Moderate	Stable

KEY

Level of Inherent Risk

Low-reflects a lower than average probability of an adverse impact on a banking institution's capital and earnings. Losses in a functional area with low inherent risk would have little negative impact on the banking institution's overall financial condition.

Moderate-could reasonably be expected to result in a loss which could be absorbed by a banking institution in the normal course of business.

High- reflects a higher than average probability of potential loss. High inherent risk could reasonably be expected to result in a significant and harmful loss to the banking institution.

Adequacy of Risk Management Systems

Weak-risk management systems are inadequate or inappropriate given the size, complexity and risk profile of the banking institution. Institution's risk management systems are lacking in important ways and therefore a cause of more than normal supervisory attention. The internal control systems will be lacking in important aspects particularly as indicated by continued control exceptions or by the failure to adhere to written policies and procedures.

Acceptable- management of risk is largely effective but lacking to some modest degree. While the institution might be having some minor risk management weaknesses, these have been recognized and are being addressed. Management information systems are generally adequate.

Strong-management effectively identifies and controls all types of risk posed by the relevant functional areas or per inherent risk. The board and senior management are active participants in managing risk and ensure appropriate polices and limits are put in place. The policies comprehensively define the bank's risk tolerance, responsibilities and accountabilities are effectively communicated.

Overall Composite Risk

Low-would be assigned to low inherent risk areas. Moderate risk areas may be assigned a low composite risk where internal controls and risk management systems are strong and effectively mitigate much of the risk.

Moderate-risk management systems appropriately mitigates inherent risk. For a given low risk area, significant weaknesses in the risk management systems may result in a moderate composite risk assessment. On the other hand, a strong risk management system may reduce the risk so that any potential financial loss from the activity would have only a moderate negative impact on the financial condition of the organization.

High-risk management systems do not significantly mitigate the high inherent risk. Thus, the activity could potentially result in a financial loss that would have a significant impact on the bank's overall condition.

Direction of Overall Composite risk

Increasing - based on the current information, risk is expected to increase in the next 12 months
Decreasing-based on current information, risk is expected to decrease in the next 12 months
Stable - based on the current information, risk is expected to be stable in the next 12 months

External Credit Ratings...

7.8.5 Banking institutions should disclose the external credit ratings for **the past three years**, assigned by a credit rating agency, accredited by the Reserve Bank.

7.8.6 These disclosures are required in terms of section 31 of the Banking Act [*Chapter 24:20*], as read with section 15 and Part II of the Third Schedule to the Banking Regulations Statutory Instrument 205 of 2000.

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7.8.7 Banking institutions **shall not disclose quarterly off-site CAMELS ratings**. This position is premised on the fact that the off-site ratings are based on information that has not been subjected to the Reserve Bank's rigorous and extensive validation and/or verification process.

7.9. NINTH SCHEDULE: DISCLOSURE REQUIREMENTS FOR ASSET MANAGERS

Publication of Financial Statements…

7.9.**1** Every asset manager shall report on a half yearly basis, its financial position and portfolio performance in at least two widely circulated national newspapers **not later than sixty (60) days after the end of the interim period and ninety (90) days from the finalisation of its final year end audited results.**

7.9.2 All financial statements, portfolio performance results, together with the additional disclosures, will require the Reserve Bank's approval prior to publication. These should be submitted to the Reserve Bank **seven (7) working days before the intended date of publication.**

7.9.3 The financial statements and portfolio performance presentation shall include at a minimum, the following key aspects.

Income Statement…

7.9.4 The asset manager shall clearly disclose all sources of income supported by explanatory notes, where necessary.

7.9.5 Any gains/(losses) arising from revaluation of assets should be supported by a report from a duly qualified valuator or an accountant registered as such in terms of the Public Accountants and Auditors Act [***Chapter 27:12***]***.*** All expense items should be clearly shown and supported by explanatory notes where necessary***.***

Balance Sheet…

7.9.6 All items comprising the shareholders' equity should be clearly and separately shown. The disclosure statement should also provide a comment on the level of capital and compare it with stipulated minimum capital levels.

7.9.7 Any other unspecified liabilities should be explained in the notes to the financial statements;

7.9.8 All types of assets should be clearly shown under the generally accepted classes of fixed and current assets; and

7.9.9 Any revaluation of fixed assets should be accompanied by an appropriate revaluation report.

Nominee balance sheet…

7.9.10 Every asset manager shall present a nominee balance sheet that groups the total amount of clients' funds under management and the corresponding assets acquired.

7.9.11 The following minimum disclosures shall be made in the nominee balance sheet:

Assets

a) Cash and Call Deposits;

b) Money Market Investments;

c) Bonds;

d) Equities (Quoted);

e) Equities (Unquoted);

f) Property; and

g) Other.

Liabilities

a) Unit Trust funds; and

b) Portfolio Management funds.

7.9.12 The nominee balance sheet should include a statement on any significant concentration of assets and clients' liabilities.

Unit Trust Activities...

7.9.13 Asset managers engaged in unit trust activities shall disclose the following:

a) valuation techniques used for unit trust investments;

b) for each internal scheme, the number of units and value of the scheme;

c) a statement by the institution's external auditor confirming that the unit trust accounts comply with the Collective Investment Schemes Act, Regulations and the Trust Deed; and

d) a statement by the Trustee expressing whether or not the asset manager has managed the scheme in accordance with the Act, Regulations and the Trust Deed.

Risk Management…

7.9.14 Asset managers should provide a statement and definition of the main risks inherent in the institution's operations.

7.9.15 Institutions should disclose its risk management systems and strategies.

Compliance and Corporate Governance…

7.9.16 Asset managers should also disclose corporate governance information relating to board and management composition, committees, board and committee meeting attendance as well as corporate and management structures.

7.9.17 A statement of non-compliance with the Asset Management Act **[Chapter 24:26],** Collective Investment Schemes Act **[Chapter 24:19],** Collective Investment Schemes (Internal Schemes) Regulations, 1998 and applicable sections of both the Banking Act **[Chapter 24:20]** and Banking Regulations S.I 205 of 2000 and the level of fines paid thereon**.**

Chairman' statement…

7.9.18 The asset manager shall include a Chairman statement highlighting at a minimum, the macro-economic developments, future prospects, social responsibilities and a comment on the financial performance of the institution since the previous reporting period.

Portfolio Performance Disclosures…

7.9.19 The following minimum disclosures shall be made with respect to portfolio performance:

a. whether performance results are calculated gross or net of management fees and withholding tax;

b. relevant details of the treatment of withholding tax on dividends, interest income, and capital gains;

c. the portfolio valuation methods (sources) used by the asset manager;

d. any significant events within the asset management company such as ownership or personnel changes that would help a client interpret the performance record;

e. cumulative returns and benchmarks for the reporting period;

f. portfolio concentration and management policies; and

g. investment policy and relevant risk measures such as tracking error, beta, Sharpe ratio, Treynor ratio, etc

Custody of Services…

7.9.22 In instances where the asset manager appointed a custodian/trustee, an outline of the asset manager's selection, monitoring and review processes should be disclosed.

Conflicts of Interest…

7.9.23 Every asset manager shall disclosure its procedures for identifying conflicts of interest e.g. fair treatment of client orders and allocation of trades. In addition, asset managers shall provide a description of how conflicts of interest are managed and monitored.

Fees and Commissions…

7.9.24 Every asset manager shall provide a fees and commissions schedule indicating the range of rates charged.

7.9.25 Furthermore, asset managers shall provide a description of how different trading strategies affect the rates.

General...

7.9.26 Asset managers are also expected to meet disclosure requirement as outlined in other sections of this guideline, were applicable. For example each entity should have a documented disclosure policy and publish on-site examinations and external credit ratings, as applicable.

8. CORPORATE GOVERNANCE INFORMATION

8.1 Every banking institution shall disclose the number of board meetings held during the year and the attendance record of each director.

8.2 The disclosure statement should also cover the names of committee members; number of board committee meetings held during the year, attendance record of each director for these meetings and details of the committees' roles, functions and activities should also be disclosed.

8.3 In addition, every bank should provide a summary of the remuneration policies for directors and senior executives as well as the aggregate remuneration for directors giving details of earnings, share options and all other benefits.

8.4 Every banking institution shall disclose a summary of the policies on related party transactions, which should include the definition of relatedness, limits applied, terms of transactions, and the authorities and procedures for approving and monitoring these transactions. Further, the disclosures should include, the nature, size and purpose of related party transactions and intragroup transactions.

8.5 A banking institution should include a description of the process by which the organisation assesses the effectiveness of individual board members and the board as a whole in its disclosures.

9. COMPLIANCE DISCLOSURES

9.1 Every banking institution shall disclose all issues of non-compliance with the Banking Act, Banking Regulations and other applicable laws. In particular. The disclosure statement should include violations relating to:

a) the capital adequacy ratios and leverage ratios below the prudential minimum thresholds;
b) prudential lending limits; and
c) non-compliance with minimum corporate governance standards as laid out in the Banking Act or Regulations, directives or Guidelines issued by the Reserve Bank or any other applicable enactments.

9.2 Every non-compliant banking institution shall disclose the causes of non-compliance; and provide a statement of the institution's plans and timeframe for addressing the non-compliance.

9.3 When compliance with the minimum required information prescribed above is not sufficient to give a true and fair presentation, additional disclosures should be made.

10. IMPLEMENTATION OF THE GUIDELINE

This Guideline shall remain in force until amended, withdrawn, or cancelled by the Reserve Bank and/or superseded by additional minimum disclosure requirements included or incorporated to Part II of the Third schedule, Banking Regulations [Statutory Instrument 205 of 2000] and the Banking Act [*Chapter 24:20*].