



South African Reserve Bank
From the Office of
the Registrar of Banks

G2/2011

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To: All banks, controlling companies, auditors of banks or controlling companies and branches of foreign institutions

Guidance Note 2/2011 issued in terms of section 6(5) of the Banks Act, 1990

Meetings to be held during the 2011 calendar year with audit committees and external auditors

Executive summary

This guidance note serves to inform all banks of the flavour-of-the-year topic for the trilateral discussions to be held during 2011

The Board Risk Committee's role in respect of interest rate risk management

1. Introduction

In order to assist this Office to discharge its responsibilities, the flavour-of-the-year topic for trilateral discussions to be held during 2011 with banks' audit committees and external auditors will be broadened to include the board risk committee, in particular its role in relation to interest-rate risk management. In this regard, feedback is required on the role and involvement of the Board Risk Committee with respect to asset and liability management, with specific reference to interest rate risk management.

2. Format of trilateral discussions

Utilising the format outlined below, all banks will be required to make a presentation on the above flavour-of-the-year topic at the trilateral discussions.

At least one month prior to the date of the trilateral discussions, this Office will provide each institution with a detailed agenda incorporating the additional topic in paragraph 3 below.

3. Presentation by the chairperson of the Board Risk Committee on the following:

3.1 Introduction:

3.1.1 An overview of the functioning of the Asset and Liability Management Committee (ALCO) structures with respect to interest rate risk and the distribution of responsibility for interest rate risk management throughout the bank. This should also include reporting structures from business line ALCOs to the main ALCO and in turn from the main ALCO through to the Board Risk Committee.

3.2 The manner in which the Board Risk Committee familiarises and satisfies itself with regard to the following aspects of interest rate risk:

3.2.1 The key considerations in executing the bank's short- to medium-term interest rate risk strategies.

3.2.2 An explanation of why and how particular interest rate risk measurement approaches are used.

3.2.3 Specific approaches the bank employs for setting its appetite for interest rate risk.

3.2.4 The bank's perspective with regard to the interest rate environment and the impact on its exposures.

3.2.5 The extent to which derivative and other financial instruments are used to mitigate interest rate risk.

3.2.6 Practices and assumptions employed to ensure compliance with regulation 30 of the Regulations relating to Banks.

3.3 Any significant outstanding issues related to interest rate risk management that the Board Risk Committee believes should be brought to the attention of this Office.

4. Attendees and duration

As in the past, all members of the Audit Committee will be required to attend the trilateral discussions. Furthermore, the external auditors, head of internal audit, head of risk, the head of compliance and the chair of the Risk Committee will need to attend. The chief executive officer (CEO) and the financial director will attend in an *ex officio* capacity. The duration of the trilateral discussions including the presentation on interest rate risk is expected, as in the past, to be approximately three hours.

5. Acknowledgement of receipt

Two additional copies of this Banks Act Guidance Note are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the CEO of the institution and the said auditors, should be returned to this Office at the earliest convenience of the aforementioned signatories.



E M Kruger
Registrar of Banks

The previous guidance note issued was Guidance Note 1/2011, dated 7 March 2011.