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REPORT
0f the
TECHNICAL COMMITTEE
on
BANKING AND BUILDING SOCIETY LEGISLATION

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REPORT OF THE TECHNICAL COMMITTEE ON BANKING AND BUILDING SOCIETY LEGISLATION.

To THE HONOURABLE THE MINISTER OF FINANCE:

Sir,

At the beginning of 1961 you appointed a Technical Committee consisting of oHicers of the Financial Institutions OITice and the Reserve Bank to examine the provisions of the Banking and Building Societies Acts and to advise you on desirable amendments. The Committee now has the honour to submit its Report, together with two complete draft amendment bills, namely the Banking Amendment Bill and the Building Societies Amendment Bill.

The Committee conducted its inquiry in the following manner: It began by examining certain special studies and other material which had been prepared for it by the Financial Institutions O&ice and the Reserve Bank, as well as work done in this field in other countries. At the same time, it undertook a fresh study of the changes which had occurred in monetary and banking conditions in South Africa since the Second World War and of the implications of these changes for monetary policy, banking legislation and the sound functioning of the financial structure as a whole.

By the middle of 1962 the Committee had reached certain preliminary conclusions and had formulated certain tentative proposals for amending the existing banking and building society legislation. These proposals were embodied in two draft bills, one to amend the Banking Act and the other to amend the Building Societies Act. Together with an explanatory memorandum setting out the Committeeis general approach and motivating specihc proposed amendments, these draft bills were submitted to all banking institutions, building societies and other tinancial institutions concerned, with a view to obtaining their comments and suggestions. The Committee made it clear at the time that the draft bills were merely intended as a basis for discussion and emphasized their tentative nature.

The response was gratifying. All the important banking or deposit-taking institutions, including building societies, either individually or through their recognized associations, submitted written memoranda dealing at length with the issues involved. After studying these written submissions and holding a further series of meetings, the Committee also took oral evidence from virtually all the groups of institutions concerned. In Appendix A lists are given of all the organizations and persons who submitted written memoranda and gave oral evidence.

The comments and suggestions put forward in this way proved to be of great value. The Committee had hoped that, having given the institutions an indication of what it sought to achieve by means of the proposed amendments, they themselves might provide the best and most practical answers to some of the problems involved, and this in fact turned out to be the case.

’1 he Committee desires to place on record its appreciation not only of the material assistance which it received from the various groups of institutions but also of the spirit in which they co-operated.

After this stage of its inquiry had been completed and after further deliberations, the Committee reached its tinal conclusions and reformulated its proposed amendments to the existing banking and building society legislation, as embodied in the accompanying draft amendment bills.

The Committee wishes to express its appreciation of the important contribution made to this Report by Mr. L. W. Verheijen, former Registrar of Building

Societies, who was a member of the Committee until his death in January, 1963. His place was subsequently taken by Mr. J. van Deemter of the Financial Institutions Ohice.

C. R. B. de Villiers (Chairman).
G. P. C. de Kock.
A. J. Pretorius.
G. Rissik.
J. van Deemter.

CHAPTER 1
INTRODUCTION

1. Important structural changes have occurred in monetary and banking conditions in South Africa since the end of the Second World War. Several new kinds of banking institutions, such as merchant banks, discount houses and hire-purchase banks, have been established, while many of the existing deposit-taking institutions, including the building societies and commercial banks, have changed or added to their functions. At the same time, the relative significance of the different types of deposit-taking institutions, as well as the attitude of the public towards the various classes of deposits, including building society llsharesi has undergone a material change.

2. These developments have raised three major sets of questions:

(1) Can the Reserve Bank under the present legislation, which largely confines its immediate sphere of inHuence to the commercial banks, perform its function of controlling money and credit in the interests of economic stability as effectively and equitably as it should? If not, how should the legislation be altered to increase the eEective-ness of monetary policy and to render its impact more equitable?

(2) Is the existing banking and building society legislation, which was framed long before the above changes occurred, still equitable and does it promote efficient resource allocation and rapid as well as steady economic growth? If not, how should it be amended in order to attain these desirable objectives?

(3) Are the savings of the public as adequately protected by legal safeguards over the solvency and liquidity of the various kinds of deposit-taking institutions as can be expected? If not, how can the position be improved?

3. It was in order to search for answers to these and related questions and to review banking and building society legislation in general that the present Committee was appointed. The Committees analysis, conclusions and recommendations are presented in the next live chapters. In the first of these, namely Chapter 2, an attempt is made to set out the Comrnitteels general analysis of the problems involved. This is followed in Chapter 3 by a summary of the Committeeis proposed approach, while Chapter 4 deals more specifically with the problems of building society legislation. Chapters 5 and 6 contain further explanatory comments on the specific amendments proposed in the accompanying Banking Amendment Bill and Building Societies Amendment Bill, respectively.

CHAPTER 2
GENERAL ANALYSIS
Conventional Approach: tIMoney-Creating Commercial Banks" versus "Savings Institutions"
4. Until recently, both monetary policy and banking legislation in South Africa were, to a large extent, based on an important assumption which formed one of the corner-stones of orthodox monetary and banking theory during the ithirties and iforties. This was the premise that commercial or eheque-depostt banks comprised a very special class of deposrt-rcceivmg institution. basically ditferent from all others in that they alone. apart from the central bank, could create "money". It followed from this that they were in a position to exercise an important influence on total spending and accordingly on both internal economic huctuations and the balance of payments. By contrast. other deposit-receiving institutions. such as building societies and savings banks, tended to be viewed as relatively tlinnocenti' intermediaries which served mainly to channel genuine saving into various forms of real investment and consequently did not affect the behaviour of aggregate demand to any significant extent.
5. This conventional division of deposit-receiving institutions into the two main categories of tlmoney-creating commercial banks" and IIsavings institutionsii was. of course. always a simplification. But for many years it proved to be a useful and justifiable one. Until about the early nineteen-tifties. it fitted the facts well in South Africa, as in most other countries with similar financial structures. On the one hand, the commercial banks served as repositories for most of the funds which private business enterprises and households desired to hold as highly liquid assets. At the same time, demand deposits with commercial banks were virtually the only deposits used and generally accepted by the public as means of payment, so that. apart from notes and coin, the commercial banks enjoyed the virtual monopoly of the payments mechanism. On the other hand, nearly all the deposits held by the private sector with the other deposit-receiving institutions existing at the time were generally accepted as being considerably less liquid and, in fact, had a very low velocity of circulation. Moreover, far and away the major part of these deposits was held by households and had its origin primarily in genuine (iivoluntaryli) personal saving.
6. Under these conditions it was useful both in theory and in practice to work with a iimoneyii concept which included only notes, coin and demand deposits held by the private sector with the commercial banks and the Reserve Bank. since these were the only assets which conformed to the widely used definition of money as fany medium of exchange or means of payment which is generally acceptable and which also serves as a unit of account? It then followed that, apart front the Reserve Bank. the commercial banks were the only deposit-taking institutions which could create money. Moreover, as is well known, they could, as a system, simultaneously increase their advances, discounts and investments, on the one hand, and their deposit liabilities. on the other hand, by some multiple of any increase in their cash reserves, assuming, of course, that the demand for their credit facilities was suthciently strong. In other words. if as a result of a balance of payments surplus or credit creation by the Reserve Bank the cash reserves of the commercial banking system were increased by a given amount, the system was then able. by expanding its advances, discounts and investments, to bring about an increase in its deposits, and thus in the money supply, of a much

greater amount.
7. The extent to which the commercial banks could do this depended mainly on two factors. The first was the proportion of their advances, discounts and investments which returned to them as deposits. Since their demand deposits served as generally acceptable means of payment and at the same time represented the main form in which the public kept that liqmd assets, this ttreturn flow" was very large. The second factor was the minimum percentages of their Iidemandii and iitimeii liabilities to the public which they were legally required to hold in the form of balances with the Reserve Bank, namely 10 and 3 per cent, respectively. In addition, the fact that they were also required to maintain a minimum liquid asset ratio of 30 per cent naturally placed a further limitation on their ability to expand their advances to the private sector and their non-quuid investments. Since these percentages Were relatively low and the itrcturn How" very large, the money-creating capacity of the commercial banks was considerable.

Banking Act of 1942

8. In view of these considerations, it was both logical and justihable to differentiate between commercial banks and other deposit-reeeiving institutions for purposes of monetary policy and banking legislation. The Banking Act of I942 accordingly provided a special category for commercial banks, defined as "persons who carry on a business of which a substantial part consists of the acceptance of deposits of money withdrawable by (-liequeii. Three other categories were also distinguished in the Act, namely, (a) people’s banks, defined as ilassociations established for the purpose of promoting thrift among their members and making loans to their members": (1)) loan bunks, defined as "persons (other than people’s banks) who carry on the business of accepting deposits of money and of granting small loani’:l and (t’) (leposit-receiving institutions, detined as "persons who carry on the business of accepting deposits of money but who are not commercial banks or peopleis banks or loan banks? In view of their special nature, building societies were exempted from this Act and their activities continued to be governed by a separate Building Societies Act. In effect. therefore, five groups of deposit-taking institutions were distinguished.
9. Considerable differences existed between the legal requirements for these five groups in regard to such matters as minimum capital and unimpaired reserve funds. minimum liquidity and minimum balances with the Reserve Bank, as well as in other important respects.2 In general. the commercial banks were subjected to consnderably more stringent requirements than the other groups. Of particular importance is the fact that they not only had to comply with more stringent liquid asset requirements than the other groups. but were also the only institutions required to maintain minimum balances. earning no interest, with the Reserve Bank. Furthermore. when the Reserve Bank was granted the power of imposing supplementary reserve requirements in 1956. as an additional method of credit control. this applied only to the commercial banks.

Inzp/icutirms of Recent Monetary and Banking Developments

IO. In the view of the Committee. this broad approach was correct and served the monetary authorities and the country well for a long period. In recent years. however. the underlying assumption upon which it was based, namely that commercial banks are basically different from all other deposit-taking institutions. would appear to have lost much of its force and

validity. In the conditions prevailing in the deposit-taking sector of South Africais credit market today, it is no longer as useful (LY it war to distinguish betti’een commercial bunks and all other deposit-taking institutions. whether for purposes of monetary policy or banking legislation.

I. This definition was later changed to "persons (other than peoplels banks) who carry on the business of accepting deposits of money and of granting loans whereof a sub-;tangal proportion consists of loans secured by surety on s .

2. These differences are set out in detail in Appendix B.

GRAPH 1.
RM
800
200
60
4O
20
I920
FIXED AND SAVINGS DEF
i925
COMMERCIAL BANKS’ DEPOSITS
I930
1920 - 1963
DEMAND DEPOSITS
I935
OSQTS AS A PERCENTAGE OF TOTAL DEPOSITS
W
I940
I945
I950
IQSS
I960
- RM
1 800
400
200
0&3
4O
20

11. In the first instance, the commercial banks themselves have in recent years competed more actively and successfully for fixed and savings deposits. thereby reverting to the policy they had followed before South Africa left the gold standard in 1932. Thus, at the end of 1963, the ratio of their fixed and savings deposits to their total deposits amounted on average to about 40 per cent, as compared with an average of about 20 per cent during the first twenty years follow1ng the abandonment of the gold standard. Moreoyer, as_Tab1e 1 indicates. in several individual cases th1s ratio was well over 50 per cent at that date. In other wor_ds, _the commercial banks have become more hybrtd institutions, mixing their iimoney-creatingii and 2savmgs intermediary" functions to a much greater extent than at the time the Banking Act was framed.

TABLE 1

COMMERCIAL BANKs' DEPOSITS, DECEMBER, 1963

(R millions)

- - Fixed and Savings Savings 1 . 5331133322th Demand _ A Total Deposns as Banks Fixed Savxngs Total Percentage of Total Depostts _ 00 7 37	
Barcla 3 Bank D.C.O. .. .. r 4 .. 412 146 99 245 65	
The Sthndard Bank of' South Africa Ltd. . . 365 124 77 201 566 36	
Volkskas Bpk. ,. . . .. i 118 74 36 109 227 48	
Nethcriands Bank of South Africa'Ltd. . t 47 26 18 (112 19213 g:	
The French Bank of Southern Africa Ltd. . , 3 __ 12 84	
The First National City Bank ofN.Y. (S.AJ Ltd. 2 10 - 10 8 64	
Chase Manhattan Bank (S.A.) Ltd. .. .. 3 5 1 i 6 63	
Die Steiicnbossche Distriksbank Bpk. . . 2 r 1 3 62	
S.A. Bank of Athens Ltd. .. .. l '5 1 2	
TOTAL 952 403 233 636 1,588 40	

12. Secondlyeand this is of far greater importanceie the past fifteen years have witnessed a remarkable development in South Africa of deposit-taking institutions whose activities. in certain directions at least, have come to resemble those of the commercial banks so closely that they can perhaps best be described as iinear commercial banks, or, more briefly, tinear-banks? This development took two main forms. namely (1) the establishment of new kinds of deposit-taking institutions and (2) changes and extensions by existing institutions of their functions.

13. The first of the new kinds of deposit-taking institutions was the National Finance Corporation, which was established by a special Act of Parliament in 1949 with the specific aim of encouraging the development of an organized and active money market in South Africa. Although the initiative in this move was taken by the monetary authorities and the Reserve Bank subscribed for 10 per cent of the capital, the co-operation of the most important types of financial institutions was obtained from the outset and the rest of the capital was contributed by them. The main function of this special institution is to accept call money on deposit and to invest these funds mainly in Treasury bills, Land Bank bills and short and medium-term gilt-edged securities. The Corporation was an immediate success. Ten days after its establishment its deposits amounted to more than R34 million and by the middle of 1950 to approximately R136 million. Since then. they have Huctuated between about R88 million and R239 million.

14. As a result of the Corporations activities, the money market was broadened and better organized. In the nature of the case. however. the Corporation could

not by itself serve as a complete substitute for a well-developed and really competitive money market. nor was it ever intended as such. Nevertheiess. it demonstrated that the opportunity for the development of such a market did exist and, following upon its success, five merchant banks and two discount houses were established in South Africa during the period 1955-63. The South African merchant banks perform the charae-teristic functions of their London counterparts, namely to accept trade bills at a commission and thus to lend their good iinames" to them, so that they can be discounted easily and at reasonable terms in the market; to supply other banking services, such as the issue of letters of credit and the purchase and sale of foreign exchange; to undertake and underwrite the issue of shares and debentures; and to act as adviser and agent for institutional as well as private investors. The two _ discount houses are likewise modciied largely on the London pattern. They discount, buy and sell or hold as investments bank acceptances, Treasury bills and short-term Government stocks. and tinance this portfolio largely with call money placed with them by commercial banks and other financial institutions against the pledge of these securities. At the end of 1963 the assets of the merchant banks already totalled R192 million and those of the discount houses R194 million.

15. As far as changes and extensions by existing deposit-taking institutions of their functions are concerned, the main example is that of building societies, which experienced a truly remarkable growth after the end of the Second World War, as indicated in Table 2 and Graph 2. and some of whose activities increasingly came to resemble those of ordinary money or near-money-creating banks. as will be discussed in more detail in Chapter 3. In addition, many hire-purchase finance companies. which formerly had operated largely with their own resources and bank credit, began to work on an increasing scale with deposits including demand and other short-term deposits, and certain new institutions established in this field made spectacular advances in a relatively short space of time.

16. Table 2 and Graph 2 afford a synoptic View of the growth of the various classes of deposit-taking institutions in South Africa between 1942, when the Banking Act was passed, and the early nineteen-sixties, although. as will become more evident later on, it is not suggested that all these institutions qualify for the description tinear-commercial banksii or ttnear-banksii. Graph 2 does indicate, however, the extent to which the commercial banks lost ground relative to other deposit-taking institutions during this period.

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TABLE 2
TOTAL ASSETS ()F DEPOSIT-TAKING INSTITUTIONS
(R millions)
Average
1942 196043"
National Finance Corporation . . . 1 _ 148
Discount Houses . . . . . 1 . - 143
Merchant Banks . . - 113
Hire-Purchase Banks, SiavingsnBankis,
People’s and Loan Banks and Other
"Dcposit-Rcceiving Institutions" . . 32 313
Building Societies .1 .. .. .. 157 1,400
Land Bank (Short-term assets only) . . 7 146
Post 011100 Savings Bank 86 147
Sub-Total 282 2,409
Commercial Banks. 1. 1. 1 . 418 1,459
TOTAL . 1 . . 1. . 1 . . 700W 36L
Commercial Banks as Percentage of Total 59- 7 3777
1’ Average of 31st December, 1960, 1961 21nd 1962, and 30th June, 1963.

"Nmr-Bank1s"’ versus "Savings Institutiom"

17. The (lcposit-taking activities of the near-banks in South Africa today differ in the following important respects from those of the relatively pure savings institutions of former years:

(1) Whereas the older savings institutions operated mainly with relatively long-term fixed deposits (i.e. of six months or longer) and with genuine savings accounts. many of the present-day deposit-taking institutions work on a large scale with funds deposited with them at call, very short notice or for relatively short periods.

TABLE 3
SHORT-TERM DEPOSITS WITH INSTITUTIONS OTHER THAN COMMLRCIAL BANKS AS AT 30TH Jum, 1963
(R millions)

	Demand Deposits	Savings Deposits	Payable within 6 Months	Total
National Finance Corporation ..	125 _	-	125	
Discount Houses ..	165 1	-	-	165
Merchant Banks ..	20 _	18	38	
Hirc-Purchusc Banks, Savings Banks, Peoples and Loan Banks and Other "Deposit-Receiving Institutions" ..	20	44	55	119
Building Societies	11 3	228 _.		228
Land Bunk	22 _	2		24
Post Ollice Savings Bank	- 133	-.		133
TOTAL . .	352	405	75	832

(2) Moreover, virtually all deposits held with these institutions, including longer period iitixed" deposits and funds held on savings account. have in practice come to be looked upon and treated us withdrawable on demand. These deposits accordingly tend to have higher velocities of Circulation today than commonly associated with genuine savings held in deposit form. In the case of savings accounts. for example. it is often argued that, for such funds to qualify as genuine savings, the yearly velocnty of Circulatlon, Le. the total annual withdrawals divided by the average amount on deposit, shouldtbe in the vicinity of 0.5, and certainly not hlgher than 1.0.3 From Table 4, however, it is clear that,

with certain exceptions, such as deposits in the Post Office Savings Bank, savings deposits in South Africa today typically have velocities of circulation well above 0.5. Furthermore, since these are average figures and since it can be assumed that substantial amounts held on savings account still represent genuine personal savings and accordingly remain very inactive. it would appear that there must be groups of savings deposits which are very active indeed and probably more in the nature of current accounts than genuine savings accounts.

TABLE 4

VELOCITY 0F CIRCULATION OF SAVINGS DEPOSITS, 1963

Building Societies 2-0
Commercial Banks 1-2
Trust Companies, Boards of Executors and Private Savings Banks 0- 8
Post Othce Savings Bank 0-4

(3) While virtually all the deposits formerly held with deposit-receiving institutions other than commercial banks belonged to private individuals. a significant portion of the deposits with these institutions are today held by companies and other forms of business enterprise, as Table 5 indicates.

(4) 1n the process of becoming repositories of funds which both business enterprises and ordinary households desire to hold as temporarily idle cash balances (as opposed to genuine personal savings). some of the near-banks have even devised ways and means of providing depositors with transfer facilities and other services specitically designed to compensate for the lack of Cheque facilities.

(5) Unlike the savings institutions of former years, some of the near-banks of today have established direct credit facilities with the Reserve Bank. while many of the others have indirect access to Reserve Bank credit in one way or another. for example by drawing on overdraft facilities with a commercial bank which, in turn. has direct recourse to the Reserve Bank. This has naturally greatly enhanced the liquidity of the deposits held with these institutions. since large withdrawals can now be financed. in need. by falling back on the Reserve Bank and forcing it to create money. as actually happened on a substantial scale in 1960-61. when a considerable amount of capital left the country.

3. Compare. C1111. M. W. Holtrop. Munclurx’ Policy in (In (Him E(mmmx’: I15 Objectivity, Insrrmnmilx, Limitations and Dilcmnmx. lissuys in International Finance. Princeton University. 1963. p, 41. Dr. Holtrop states: "A useful indication of the monetary significance of the institutions concernttl miuht bu.- t’ound in the velocity of turnover of their deposits. or of any special group of their deposits. I believe that :my yearly velocity of turnover in excess of unity should be looked upon with suspicion."

TABLE 5
OWNERSHIP OF DEPOSITS HELD WITH INSTITUTIONS OTHER THAN COMMERCIAL BANKS 3181" DECEMBER. 1962

Owners of Deposits Banking Insurance individuals _ . and Other and All Depostt-Takmg Kindred Businesses Government Non-Protit Holders Institutions Institutions Institutions	Amount R millions	Per cent	Amount R millions	Per cent	Amount R millions	Per cent	Amount R millions	Amount R millions	Per cent
National Finance Corporation	56	35	85	53	160	100			
Discount Houses . .	169	89	20	11	189	100			
Merchant Banks	5	12	33	78	43	100			
Building Societies . .	31	5	53	9	626	100			
Land Bank	2	3	56	96	59	100			
RC. Savings Bank _ _ _ _					140	100			
TOTAL	262	22	248	20	1,216	100			

Importance of Near-Money in South A fried Today

18. In the opinion of the Committee, these Changes in the deposit-taking activities of institutions outside the commercial banking system have had considerable monetary significance. In the conditions existing in South Africa today, there can be little doubt that a substantial proportion of the funds held with these institutions serve either as money or as near-money in the sense that they are not only looked upon by their holders as money substitutes but can. in fact, be monetized conveniently, speedily, without significant loss and lien massc". The Committee is therefore convinced that it is no longer adequate to place the emphasis in monetary analysis and policy upon the ilmoney supply7 in the narrow sense defined earlier. If monetary analysis is to be as useful and monetary policy as effective as it might be, the emphasis will have to be shifted to the wider concept of nmoney plus near-money". or, as it is also called. ccliquid assets in the hands of the private sector?

19. This has, of course, been recognized for some time by the monetary authorities and the Reserve Bank has for some years been using the concept of near-money in its monetary analysis, as published in its Quarterly Bulletin of Statistics. The most recent Reserve Bank definition of near-money. for example, included the following:4

(1) fixed and savings banks:
(2) call money with the National Finance Corporation and discount houses:
(3) deposits with the Land Bank:
(4) Treasury bills and short-term Government stock.

deposits with commercial

20. But it is known that the Reserve Bank itself is of the opinion that, under existing conditions in South Africa, this near-money concept is not wide enough and should be broadened to include also those demand and short-term deposits with merchant banks. hire-purchase banks, building societies and other deposit-receiving institutions which can be monetized conveniently, speedily, without significant loss and tlen masseli. The Committee fully endorses this view. but, like the Reserve Bank, appreciates that it is impossible under present conditions to determine accurately the extent to which deposits with these institutions serve as near-money. Since the major part of these funds probably represents genuine personal savings which are

41 See B. van Staden. A Monelarv Analysis for South Africa. Reserve Banks Quarterly Bulletin of Statistics. March. 1963.

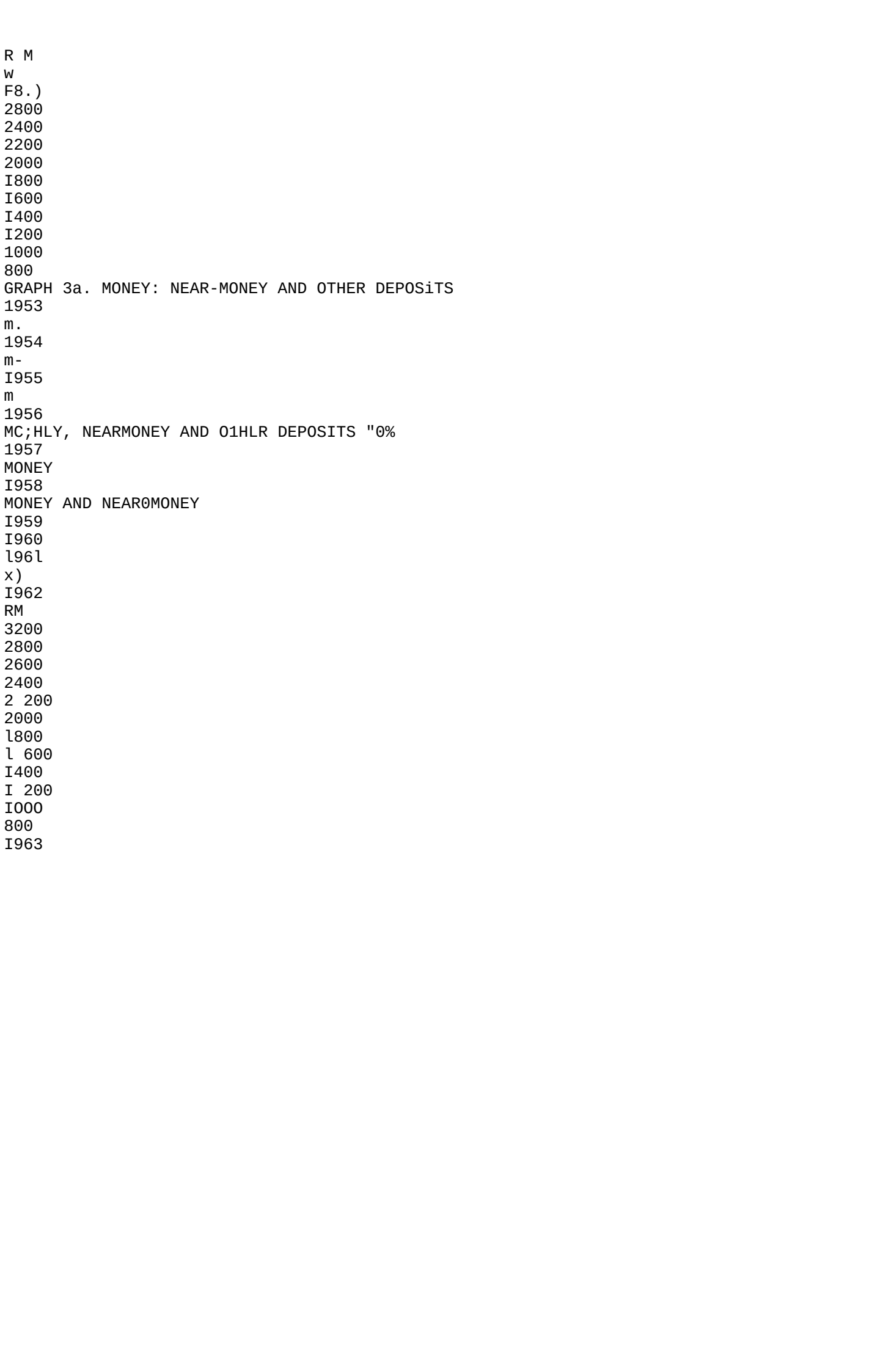
not to any significant extent looked upon or used by holders as close substitutes for money and which are accordingly very inactive. it would be misleading to include all these deposits under near-money. On the other hand. there can be little doubt that by excluding all these deposits the total supply of near-money is significantly underestimated. Further attention will therefore have to be given to the question of finding the most useful and realistic definition of near-money under South African conditions and it is hoped. as will become more evident later. that the adoption of the Committeeis proposed amendments to the Banking and Building Societies Acts will facilitate this task.

21. The inadequacy of working only with the old, narrow concept of money is illustrated by the fact that. while the gross national product increased by 97 per cent between 1953 and 1963. the money supply in the narrow sense only increased by 30 per cent. The result was that the ratio of money to gross national product declined sharply from 25 per cent in 1953 to less than 17 per cent in 1963. Since this ratio was not abnormally high at the beginning of this period, as was the case just after World War II, this in itself is susa pieious and suggests that other forms of money or close substitutes for money must have been created. If coin, bank notes and demand deposits with commercial banks and the Reserve Bank had really been the only kinds of money or liquidity in the economy, a serious liquidity shortage would probably have arisen long before the end of this period, as it is difficult to see how such a small and relatively constant money supply could have supported the rapidly rising gross national product over these years.

22. It is, therefore, interesting to note from Graph 3 that. if to this money supply is added near-money as (narrowly) defined by the Reserve Bank, the total shows a marked upward tendency since 1953. Moreover. expressed as a percentage of the gross national product. this total also declined much less sharply over this period (and shows the marked fluctuations in liquidity since I960 much more clearly) than the ratio of money supply to gross national product.

23. Finally, if to this total is further added (with the necessary technical adjustments to avoid double counting) all deposits held by the private sector with building societies. hire-purchase banks. merchant banks and other deposit-receiving institutions. the resultant total shows an even more marked upward tendency over this period. while in relation to gross national product it has remained more or less constant.

24. Although. as indicated earlier, the Committeels view is that under present South African conditions the most meaningful and useful definition 01’ near-money is to be found somewhere between the two concepts used above, the statistical evidence presented in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w
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2800
2400
2200
2000
I800
I600
I400
I200
1000
800
GRAPH 3a. MONEY: NEAR-MONEY AND OTHER DEPOSiTS
1953
m.
1954
m-
I955
m
1956
MC;HLY, NEARMONEY AND O1HLR DEPOSITS "0%
1957
MONEY
I958
MONEY AND NEAR0MONEY
I959
I960
l96l
x)
I962
RM
3200
2800
2600
2400
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2000
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Graph 3 appears to confirm the desirability of placing the emphasis in monetary analysis and policy not on the money supply as narrowly defined. but on the wider concept of timoney plus near-money".

25. This view in no sense implies acceptance of the "quantity theory of moneyii in its crude form. i.e., of any simple, direct relationship between, on the one hand, changes in the supply of money and near-money and on the other, changes in prices or income. The Committee merely believes, in accordance with most modern monetary theories, that the supply of money and near-money is an important factor affecting actual investment and consumer spending and. therefore. national income. prices and general economic aettvrty. Not only may an increase in money and near-money, under certain eireumstanees. form a necessary cort-dition for a further increase in these economic magni-tudes. but changes in the supply of money and near-money may. through their influence on interest rates and the availability of credit. as well as in other ways. exercise an important stimulating or restraining in-fluenee on the economy.

Monetary iSiigiiifit’mice of Near-Banks

26. It. then. as the above analysis indicates. the amount of truly near-monev in South Africa has in recent years increased to a hgiire even larger than the supply of money itself. it follows that the commercial banks no longer ditTer as fundamentally from all other deposit-receiving.y institutions as they did twenty years ago. Like the commercial banks. some of these other institu-tions now finance themselves to a considerable extent by accepting demand or other short-term deposits and so puttingY into the hands of the public highly liqu1d assets which either serve as money themselves or as near-money. In other words. like the commercial banks. these institutions perform the iiact of wizardry? as it has been called. of increasing! their indebtedness without anpreeiably reducingY the liquidity of their creditors. Hence the name i’near commercial banksa or tinear-banks?

27. To some extent these other institutions taken together may even be able. like the commercial bank-ing system. to ttereateii money or near-money. i.e. to increase simultaneously their loans. discounts and in-vestments. on the one hand. and their deposit liabilities on the other. bv more than any given increase in their cash reserves. The greater the extent to which their deposit liabilities serve as money or close substitutes for money. the greater is likely to be the proportion of their loans. discounts and investments which return to them as short-term deposits and the greater. there-fore. their ability to create liquiditv. It is true that. under present conditions in South Africa. the ticredit multiplierlt of the commercial banks is no doubt con-siderablv larger than that of other deposit-reeeiving institutions. nartlv because the banks have proportion-atelv more short-term deposits than the other institu-tions. but partly also because their cheque deposits have. after all. more of the attributes of monev than the short-term (lenosit liabilities of these other institu-tions. so that the ttreturn how" in the case of the banks is more automatic and greater. But the difference which still exists between the commercial banking svstem and the near-banks in this regard would appear to be one of degree rather than of principle.

ZR. In view of all this. the Committee has reached the conclusion that the nmr-brm/ts can no longer be (’mzsidere/l as innocent intermediaries which merelr r-hmmel Hemline saving into real investment, but must be viewed as institutions whose activities have unpred-ahlr’ monermir simn’firrmr’e. An increase in their assets

and liabilities need not necessarily be associated with voluntarv current saving: by any sector of the economy. Thus. funds previously held in the form of coin. bank notes or deposits with commercial banks and still reqnired to satisfy the desire of the holders to be liquid

may be shifted to these near-banks, perhaps in response to more attractive interest rates. This would mean an increase in their deposits and in their ability to extend credit without necessarily a corresponding decrease in the eredit-ereating ability of the commercial banks (see paragraph 30). In addition, as already indicated, the near-banks would even appear to be in a position to create new near-money deposits by extending their loans, discounts and investments. As a result of the activities of the near-banks, the supply of loanable funds can therefore be increased quite independently of the publids savings. This, in turn, could seriously disturb the balance between total investment outlays and total saving and thus bring about or, at least, facilitate inflationary () ver-spending.

Genuine "Non-Bank" Financial Intermediaries versus N ear- Banks

29. In the view of the Committee the conclusions of the previous paragraph do not apply to any significant extent to other so-called ttnon-bank financial intermediaries? such as genuine savings banks, pension funds. insurance companies. etc. Since their liabilities are not nearly as close substitutes for cheque deposits as some of the deposits of the building societies, hire-purchase finance companies. merchant banks and other deposit-receiving institutions, and should therefore, in the view of the Committee, preferably not be included in the concept of near-money. large shifts of idle funds from the commercial banks to them are less likely to occur in practice. while the ttreturn fiowii in their case is probably also negligible. Their monetary significance and potential influence on total spending is therefore not nearly as great as that of institutions accepting highly liquid deposits. The problem in South Africa is not so much (me of genuine non-bank financial interntediaries. such as insurance companies and pension funds, but rather one Of near-banks, i.e. new kinds of banks (or existing institutions with new banking functions) which create highly liquid deposit liabilities at close substitutes for cheque deposits.

C(Hh/hWCittl Banks in a uSpecial Position", But Still Adi’ersely Affected by Growth of Near-Banks

30. It is. of course. true that in the competition for funds in a country like South Africa. where most large payments are made by cheque. the commercial banks as (I group are in a special position. Thus. if deposits are shifted from commercial banks to other deposit-reeeiving institutions. a large proportion of these funds normally returns to the commercial banking system almost immediately. since the great majority of these other institutions as well as most of the people to whom they disburse funds bank with commercial banks. In the normal course of events. the cash reserves of the commercial banks as a group. and thus their money and near-money creating capacity. can therefore only be reduced by shifts of deposits to other financial institutions if such shifts are accompanied. in one way or another. by a deterioration in the balance of payments or a net reduction in Reserve Bank credit. i.e. after allowing for changes in Government and other non-bzmk deposits with the Reserve Bank.

31. At the same time. two important considerations should not be overlooked. The first is that this conclusion is not necessarily valid in the ease of the individual commercial bank. which has to compete directly with

other kinds of deposit-taking institutions as well as with other commercial banks. Secondly. the two channels mentioned above whereby the commercial banking svstem may be adversely affected by the growth of other deposit-reeeiving institutions. namely the balance of pavments and net Reserve Bank credit. may at times be important and may have a significant long-term elieet. particularly where the increase in the deposits with these other institutions does not emanate from saving out of current income. but is simply the result of a transfer of idle funds from the commercial

banks. A close relationship usually exists between the transfer of idle funds from commercial banks to other kinds of deposit-taking institutions and changes in the size and composition of the expenditure of the economy, and such changes may well have an adverse effect on the cash reserves of the commercial banks. A shift of idle funds from commercial banks to hire-purchase banks, for example, may facilitate an increase in total spending in the form of purchases of durable consumer goods, which, under South African conditions, have a relatively large import content, and this may well adversely affect the balance of payments and the cash reserves of the commercial banks.

32.. Thus, as pointed out earlier, it seems probable that if South Africa had not experienced such a rapid growth of near-banks during the past decade, which served to increase liquidity and the availability of credit and greatly contributed to the more than doubling of the velocity of circulation of cheque deposits during this period, the thmoney supplyil in the traditional sense Would have proved insuliicient to support the rapidly rising gross national product. One of two things, or a combination of both, would presumably then have happened: namely, the dehationary effect of the slowing down of total spending would have led to a llbetterll balance of payments position or the Reserve Bank would have had to create more new money than it has actually been called upon to do. In both cases the effect would have been to increase the cash reserves and, therefore, the credit-creating capacity of the commercial banks. Their assets and liabilities, as well as their share of total lending in the economy, would then have been substantially higher than they are today. The conclusion must therefore be drawn that, despite their ttspecial position" in the financial structure, the commercial banks have been adversely affected by the growth of the near-barzks (as distinct from insurance companies, pension funds and other truly non-bank financial intermediaries).

Urgent Need for a Modified Approach and Amended Banking and Building Society Legislation

33. On the basis of the analysis presented in paragraphs 1-32, the Committee has reached the conclusion that the situation calls for a modified approach to the broad question of monetary policy and banking regulatiorzs in South Africa. The monetary authorities have, of course, long been aware of the changes taking place in the monetary and banking field and various modifications have already been elfected in the official approach to credit policy and related matters. In the opinion of the Committee, however, the time has now arrived for more material adjustments. In particular, an urgent need has arisen to amend the Banking and Building Societies Acts.

34. In the light of the arguments advanced earlier, the Committee considers the existing legislation relating to the various classes of deposit-taking institutions to be inadequate in the following three main respects:

(1) Under the present legislation the Reserve Bank does not have sufficient scope for influencing the supply of money and near-money or the activities of near-banks and cannot, therefore, perform its function of controlling money and credit in the interests of economic stability as eEectively as it should,

(2) The existing legislation is no longer equitable, but discriminates unfairly against certain institutions, particularly the commercial banks. This prevents the price or market mechanism, i.e. the

interplay of supply and demand, from adequate-

ly performing its important function in a free economy of canalising the available funds into the economically most desirable uses, and thereby adversely affects economic growth.

(3) The deposits of the public are not in all cases as adequately protected by legal safeguards over the solvency and liquidity of the various kinds of deposit-taking institutions as can be expected.

35. In the view of the Committee the Banking and Building Societies Acts should, therefore, be amended in order to achieve (1) greater e/jiciettcy of monetary stabilization policy, (2) greater equity of justice in the (’mnpetition between the various Classes of banking institutions and (3) greater protection for the depositor in the case of certain Classes of institutions. The realization of these aims, in turn, would help to promote rapid and stable economic growth.

Suggested Approach: Adaptation Rather than Scrapping 0f Conventional A pproach

36. Before turning, in the next chapter, to the specilic amendments which the Committee wishes to propose, it is perhaps necessary to point out that the general analysis and proposed approach set out above are not as unorthodox as might at iirst appear to be the case. Certainly the Committeeis iindings are far less revolutionary than those of, for example, the Radcliffe Committee in the United Kingdom or the American economists Gurley and Shaw, whose provocative views on the role played by non-bank iinancial intermediaries have attracted considerable attention and greatly influenced monetary theory and policy since they were first published in 1955.5 Despite certain differences among themselves, the Radcliffe Committee, Gurley and Shaw, and various other writers on this subject have found common ground in suggesting that the orthodox approach to these matters, with its emphasis upon the "money supplyil and the unique position of the commercial banks as creators of credit, be completely scrapped and a new revolutionary approach adopted. The Radcliffe Committee, for example, although recognizing the clearing banks in the United Kingdom as "key lenders in the systemll, did not consider their role as tlcreators of money, very importantl5 and, indeed, attached little significance to the concepts "money" and ttveloeity of circulation?7 Instead, they preferred to emphasize the "state of liquidity of the whole economylh,8 which they related to ilthe ease or difficulty encountered by spenders in their efforts to raise money for the purpose of spending on goods and services?)

37. By contrast the present Committee is convinced that there is still much that is extremely useful in the orthodox approach and that it should not be scrapped, but merely modernized and adapted to the changed circumstances. More specifically, as indicated earlier, the Committee believes that the answer is to work with a concept of ttmoney plus near-moneyll instead of just with stmoneyd, and to recognize certain deposit-taking institutions as linear-money-creating banks" and to treat them accordingly. "Near-money" should, however, not be too broadly defined, otherwise it loses its value as a concept in monetary analysis and policy. As stated

5.Financia1 Aspects of Economic Development, American Economic Review, September, 1955.

6. Report of the Committee on the Working of the Monetary System. p. 134.

. 0p. cit., pp. 132-133.

. Op. cit, p. 337.

. 0p. cit, p. 132.

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earlier, the Committee suggests that it should be defined as liquid assets in the hands of the private sector which can, in fact, be monetized conveniently, speedily, without significant loss and hen massell, which is, of course, a much narrower concept than the Radclilfe Reportis tithe state of liquidity of the whole economy".

38. If the concepts ltmoney" and tlbanksl, are extended in this way to cover also tlnear-moneyll a_nd ttnear-banksli, the orthodox view that the tlbanking system" dillers in a fundamental way from other financial institutions can, in the opinion of the Committee, still be upheld. Indeed, for the reasons given earlier, the Committee is convinced that for purposes oftmonetary analysis and policy it is important to distinguish between, on the one hand, the money and near-money-creating ttbanking sectorn (broadly delined) and, on the other, genuine non-bank linancial intermediaries such as insurance companies, pension funds and genume savings banks.

CHAPTER 3

PROPOSED FUNCTIONAL APPROACH

Main Problem Involved in Amending the Legislation

39. The main problem in elliecting the adjustments in the Banking and Building Societies Acts which the Committee considers appropriate in the light of the analysis presented in the previous chapter, is the fact that the majority of deposit-taking institutions operating in the Republicis credit market today cannot satisfactorily be titted into specialized moulds. While there have been some instances of increased specialization, such as in the case of the recently established discount houses, the activities of banking institutions have, in general, shown a tendency towards diversitication. Thus, as previously mentioned, the commercial banks have competed more actively for tixed and savings deposits, while the building societies, hire-purchase finance companies, merchant banks and others have found it to their advantage to offer the public a wide variety of liquid assets to hold. At the same time, there has been some diversification of the lending, discounting and investing activities of many of these institutions. Moreover, the position in this regard would appear to be one of continual change. Instead, therefore, of containing a limited number of specialized, virtually non-competing groups of institutions, the deposit-taking sector of the Republicis credit market today consists of a wide variety of evolving institutions performing many overlapping functions and competing directly and vigorously with (me another in many ways.

40. An illustration of this can be obtained by comparing the activities of, say, a commercial bank, a hire-purchase bank, a merchant bank and a building society, respectively. Despite certain important differences between them, particularly in regard to their methods of extending credit, they have much in common. In the final analysis they are all banking institutions extending credit in a variety of ways and for a variety of purposes, and financing themselves to a certain degree by placing highly liquid assets in the hands of the public. They operate in one and the same credit market and compete actively with one another for deposits, as well as in the extension of credit. Thus a business firm wishing to keep, say, R100,000 in a liquid but interest-bearing form for a few months or longer, depending upon conditions, could deposit this amount with any of these institutions. Similarly. a credit-worthy iirm requiring additional finance to meet a capital commitment could probably obtain credit in one form or another from any one of them. It could. for example, borrow on overdraft from the commercial bank. discount hire-purchase contracts or borrow against them from the hire-pur-

chase bank, arrange acceptance credits with the mer-

chant bank or obtain a mortgage loan or a reinstate-
ment loan on an existing mortgage from the budding
society.

’tModel" Financial Structure?

41. In considering possible solutions, the question arises whether the authorities should aim at forcing the various deposit-taking institutions into predetermined, highly specialized moulds and thereby try to achieve a strict demarcation of functions. In other words, should an attempt be made to create a "modelll financial structure consisting of, for example, tlpureil commercial banks accepting only cheque deposits and adhering closely to the precepts of the tlcommercial loan theory of banking", i.e. extending only short-term credit of the self-liquidating kind; ltpurell savings banks accepting only genuine small savings and investing largely in gilt-edged securities, mortgages and small personal loans; ttpure" hire-purchase tinance companies working largely with their own resources and bank credit, and extending only hire-purchase credit in a rigorously de-fined way; ttpure" merchant banks working largely with their own resources and with strict limitations on the kinds of activity they engage in; etc?

42. Such a tlmodelil would undoubtedly have certain advantages, but in general there would not appear to be sufficient justification for adopting the drastic approach of forcing deposit-taking institutions into the kinds of air-tight compartments envisaged above. In the first place, it is extremely doubtful whether it is possible to determine what constitutes an tlidealh or "modelll financial structure in the Republic under pre-sent conditions. It is well-known that the position in this regard differs greatly from country to country. Secondly, since the very concept of "banking institu-tionll is an evolving one, any model financial structure decided upon and achieved in 1964, however adequate it might be initially, would probably be badly out of touch with credit market conditions by 1974 or 1980. in general, therefore, it would appear to be desirable to accept the constantly changing verdict of the market as regards the degree of diversification and specializa-tion in the financial structure and to adjust the banking legislation to the changed conditions, rather than the other way round.

Proposed F unctional Approach: Six Categories But One Main Set of Legal Requirements

43. In view of all this, the Committee has attempted to devise a legal framework for banking institutions which is conducive to efjicient monetary stabilization policy, equitable in its impact upon the di17erent classes of institutions and provides adequate protection for the depositor, but which at the same time affords both existing and new institutions a considerable amount of freedom to develop along the lines they deem desirable and to adjust their methods of obtaining deposits and other funds, on the one hand, and of lending, discount-ing and investing. 0n the other, to the changing require-ments of the Republic’s growing economy. For reasons which will be given later, exceptions to this rule will be proposed in the case of discount houses, whose highly specialized activities require separate treatment, and in the case of the building societies, whose activities, in the view of the Committee, should continue to be governed by a separate Building Society Act.

44. The Committeels proposal is that a functional rather than an institutional approach be adopted in drafting the main legal requirements for the different kinds of banking institutions. In the interests of both the public and the institutions themselves, as well as for

purposes of monetary policy, it is still considered desirable to distinguish oilicially between different groups of institutions according to their predominating form of activity. Provision is therefore made in the

accompanying Banking Amendment Bill for six categories, namely (1) commercial banks, (2) merchant banks, (3) discount houses, (4) hireapurchase banks, (5) savings banks and (6) a general category for other types of deposit-taking institutions, including trust companies and boards of executors, called general banks. But instead of laying down a different set of requirements in respect of capital, minimum balances with the Reserve Bank, liquidity ratios, etc. for each of these categories, the Bill prescribes one main set of requirements, applied functionally, for all of them, with the exception of the discount houses. These requirements, which cover a broad field, including such matters as registration and returns, are set out in detail in the Bill and some of them are discussed more fully in Chapter 5 of this Report. But their main financial features will be briefly summarized in the following paragraphs.

Capital and Unimpaired Reserve Funds

45. It is proposed that, with the exception ot certain existing small institutions, every banking institution other than a discount house be required to maintain a paid-up capital and unimpaired reserve funds amounting to not less than R200,000 or 6 per cent of its liabilities to the public in South Africa, other than liabilities under acceptances, plus 10 per cent of the latter liabilities; whichever is the greater. It is suggested, however, that for purposes of this requirement, a banking institution be allowed to deduct from its liabilities, other than liabilities under acceptances, its excess liquid assets, i.e. the amount of liquid assets it holds in excess of the amount required by the Banking Act, and that a commercial bank also be permitted to subtract from its liabilities (other than acceptances) an amount equal to 50 per cent of its remittances in transit. It is further proposed that existing banking institutions be allowed a year within which to comply with the new requirements in respect of capital and unimpaired reserve funds.

46. As far as the minimum absolute amount is concerned, the proposed figure of R200,000 contrasts with R100,000 for commercial banks and nothing for other institutions in the old Act, and therefore represents a tightening of the requirement. The Committee is of the opinion that, under present conditions, this increased minimum is desirable if the depositor is to be adequately protected and sound banking conditions maintained. At the same time, the proposed alternative requirement of 6 per cent of liabilities to the public other than acceptances (less the deductions referred to above), which becomes applicable in cases where this minimum exceeds R200,000 represents a concession for some institutions since the required percentage in the existing Act is 10 per cent, after allowing for a long list of permissible deductions of specified ltsafeli assets from these liabilities.l In the light of the experience of the past twenty-two years, the Committee is satisfied that such a concession would be justified.

47. The main reason for allowing banking institutions, for purposes of this requirement, to deduct from their liabilities to the public their excess liquid assets is to prevent them from being compelled to enlarge their own resources on occasions when their liabilities show a temporary increase as a result, say, of a favourable turn in the balance of payments. The purpose of the second permissible deduction, namely 50 per cent of remittances in transit, which is applicable only to commercial banks, is to reduce the extent to which certain liabilities can rank twice.

48. The proposed requirement of 10 per cent against acceptance liabilities will naturally affect the merchant banks more than other institutions, but the Committee

deems it desirable that institutions which are officially accorded the special status of iimerchant banks, and which by lending their iinamell to trade bills automatically make them eligible for rediscount by the central bank, should have a strong capital position.

1. See Appendix B.

49. The following special capital and reserve funds formula is proposed for existing small banking institutions whose liabilities to the public do not exceed R2 million:

Liabilities t0 the Public	Minimum Amount	Minimum Percentage
R	R	%
Not Exceeding 1,000,000	_	10
Not Exceeding 2,000,000	100,000	8
Exceeding 2,000,000	160,000	6

A number of such institutions exist at present, some with little if any growth potential, and it would be unreasonable to expect them to comply with the new R200,000 minimum within a short space of time. The existing Act merely requires these institutions to hold a minimum capital ratio of 10 per cent of their total liabilities to the public, after deducting from these liabilities an amount equal to all their liquid assets. The new formula will mean that as these institutions grow, they will have to increase the absolute amount of their capital and reserve funds, even though this will comprise a progressively smaller percentage of their liabilities, until finally when their liabilities pass the R33 million mark, they become subject to the same minimum requirement as other banking institutions, namely R200,000 or 6 per cent of their liabilities to the public, whichever is the greater.

New Proposed Dennition of Liquid Assets

50. As far as the liquidity requirements for banking institutions are concerned, the Committee proposes in the first instance that the legal definition of liquid assets be tightened by restricting it to assets which are either cash or can be turned into cash immediately and without any significant loss. This will bring the definition into closer conformity with accepted banking standards in countries with relatively well-developed financial structures. The assets which the Committee proposes should be included under the new definition are the following:

(a) Reserve Bank notes and subsidiary coin;

(b) credit balances with the Reserve Bank;

(c) deposits withdrawable on demand with the National Finance Corporation;

((1) deposits withdrawable on demand with a banking institution which is required to maintain a reserve balance with the Reserve Bank;

(e) loans to discount houses repayable on demand:

(f) South African Treasury bills:

(g) stocks of the Government with a maturity to the latest redemption date of not more than three years;

(11) bills issued by the Land Bank and advances extended to it which. at the option of the lender, are convertible into bills;

(1’) debentures of the Land Bank with a maturity of not more than three years;

(j) acceptances of a banking institution which is required to maintain a reserve balance with the Reserve Bank, not being acceptances of the banking institution concerned itself:

(k) self-liquidating bills or promissory notes arising out of the movement of goods, with a maturity not exceeding 120 days, or 180 days in the case of agricultural bills, and which are eligible for

discount by the Reserve Bank; and
(l) such other assets as the Registrar may approve for the purposes of this definition.

51. If the above list is compared with the old definition of liquid assets in the existing Act. it will be seen that the Committee in effect proposes that the following assets should in future be excluded from the definition of liquid assets:

(i) Government stocks with a maturity exceeding three years;

(ii) public utility and municipal stocks;

(iii) Iscor debentures, South African Reserve Bank and South African Broadcasting Corporation stocks, which are at present included under stother securities approved by the Registrarh;

(iv) deposits with building societies; and

(v) time and savings deposits with commercial banks.

The reason why it is proposed that these assets should be excluded is that, although they may be safe investments. they cannot always be monetized immediately and without considerable loss.

Liquid A sset Requirements

52. In addition to this new definition of liquid assets. the Committee proposes that every banking institution other than a discount house should be required to maintain in the Republic liquid assets amounting to not less than

(u) 30 per cent of its ttshort-termil liabilities to the public in the Republic. other than liabilities under acceptances:

(b) 20 per cent of its "tmedium-termli liabilities to the public in the Republic. other than liabilities under acceptances;

(c) 5 per cent of its "long-termil liabilities to the public in the Republic. other than liabilities under acceptances; and

(d) 10 per cent of its liabilities under acceptances.

"Short-term liabilityil, in relation to any date, is defined as a liability which is payable within 30 days as from that date or which on that date is subject to less than 30 days notice before becoming payable. thedium-term liabilityh, in relation to any date, means a liability which is payable after the expiration of a period of not less than 30 days but less than six months as from that date or which on that date is subject to not less than 30 days but less than six months notice before becoming payable, and includes savings deposits.

Finally, "long-term liability? in relation to any date, means a liability which is payable after the expiration of at least six months as from that date or which on that date is subject to at least six months notice before becoming payable.

53. The reason for drawing a distinction between liabilities under acceptances and other liabilities is that the obligation to repay the latter is certain, while the former amount to guarantees that other parties will meet their liabilities. The likelihood of a call on the accepting institution"s resources is therefore smaller in the case of acceptances than in that of other liabilities.

54. As in the calculation of minimum own resources, and for the same reasons, it is proposed that 50 per cent of an institutionis remittances in transit be permitted as a deduction from its liabilities to the public for purposes of the liquid assets requirements. In addition, it is suggested that loans granted by an institution against the security of deposits held with it be allowed as a deduction in this case, since it is tantamount to a refund of the deposits concerned.

55. It follows from the above that the application of this single set of liquidity requirements to all bank-

ing institutions other than discount houses will not mean that commercial banks, merchant banks, hire-purchase banks. etc., will all have to maintain the same ratio of liquid assets to their total liabilities to the public. On the contrary. the required liquidity ratio will vary according to whether the liabilities concerned are ttshortli, ttmediumll or illong-termil, in the manner indicated above. This means that a commercial bank operating on a large scale with cheque deposits, for example, will have to maintain proportionately much more liquid assets than, say, a merchant bank or a hire-purchase bank operating with relatively less short-term liabilities.Indeed,banking institutions whichaccept deposits only for periods of six months or longer, or requiring at least six months notice of withdrawal, and whose short and medium-term liabilities at any given stage will therefore be very small, will not be required to maintain a liquid asset ratio of much more than 5 per cent of their total liabilities to the public. Only those banking institutions which choose to have a large proportion of their total liabilities in short and medium-term form, i.e., in the form of liabilities which serve as money or close substitutes for money, will be required to maintain a relatively high ratio of liquid assets to total liabilities.

56. Although some banking institutions will, no doubt, be allected more than others, it is not expected that this proposed amendment will have any general disruptive effects on either the banking system or the gilt-edged market. Most of the commercial banks, for example. should easily be able to comply with the new requirements, since they have in any event tended to maintain a relatively high ratio of truly liquid assets (as redefined) to their liabilities to the public. Since they normally also hold substantial investments in longer term gilt-edged securities, their iiliquid assetsh, as broadly defined in the existing Act, have normally been greatly in excess of the prescribed minimum 30 per cent. In addition, any restrictive effect which the proposed tightening of the definition of liquid assets might have on the commercial banks will tend to be offset by the fact that these banks will, in terms of the new proposals, only have to maintain liquidity ratios of 20 and 5 per cent in the case of their medium and long-term liabilities respectively, whereas the existing Act requires them to keep liquid assets equal to 30 per cent of their total liabilities to the public. A further important concession to commercial banks is the proposal that savings deposits, as defined in the Bill. be considered as medium-term liabilities, whereas the existing Act treats the commercial banks savings deposits as "demand liabilities?

57. As far as other banking institutions are concerned. only those institutions which accept demand and other short-term deposits on a relatively large scale without maintaining a high degree of liquidity themselves, will be seriously affected, and in their case the Committee deems it highly desirable that the necessary adjustments be effected. In any event it is proposed that banking institutions be allowed a year, and in exceptional cases two years. to comply with the new liquid asset requirements.

Variable Liquidity Ratios

58. It is further proposed that, whenever the Reserve Bank deems it to be in the national interest, it may, with the consent of the Treasury, increase or decrease the liquidity ratios in the case of short and/or medium-term liabilities for any or all classes of banking institutions. provided that the maximum increase per month shall be 4 per cent of the liabilities concerned and that the maximum prescribed ratios shall be 40

and 30 per cent and the minimum ratios 20 and 10 per cent of short and medium-term liabilities, respectively. Alternatively, the Reserve Bank may, with the consent of the Treasury, require institutions in any

category to maintain supplementary liquid assets equal to percentages not exceeding 70 and 80 per cent 01' any increase, after a given date. in their short and medium-term liabilities. respectively.

59. This proposed amendment is intended as a substitute for the present power which the Reserve Bank has to impose supplementary reserve requirements on the commercial banks as a weapon of monetary policy. If the definition or" liquid assets is tightened as proposed earlier, such assets will be virtually identical with those which are eligible as supplementary reserves under the present provisions. Under these circumstances it appears to be simpler to empower the Reserve Bank, subject to the approval of the Treasury, to vary the minimum liquidity ratios along the lines proposed in the draft Bill, rather than to continue with the present method. which was devised when the broader definition of liquid assets was in use. The main difference between the proposed and existing provisions in this connection is that the former will be applicable to any or all classes of banking institutions, whereas the latter relate only to the commercial banks. For the reasons given earlier, the Committee considers it essential that these wider powers be given to the monetary authorities.

Minimum Reserve Balance with the Rcserw Bank

60. The Committee further proposes that ewry banking institution, other than a discount house, whose s/zort-term liabilities to the public in the Republic, other than liabilities under acceptances and loans from other banking institutions, exceed R500,000, shall be required to maintain a reserve balance with the Reserve Bank of not less than 8 per cent of these liabilities. Naturally, such a reserve balance would also count as liquid assets. No minimum balances are proposed in the case of medium and long-term liabilities.

61. This proposed amendment would change the present legal position in two main ways. In the first place, this requirement would apply to all banking institutions except discount houses, whereas at present only commercial banks have to keep minimum balances with the Reserve Bank. In practice this amendment would mean that, in addition to the commercial banks, about twelve other banking institutions, including the live merchant banks currently operating in the Republic, would be called upon to hold minimum balances with the Reserve Bank. Banking institutions which prefer not to work with short-term deposits to any significant extent and whose short-term liabilities accordingly do not exceed R500.000, will not be affected by this requirement at all.

62. Secondly, for commercial banks the proposed new requirement of 8 per cent against ltshort-term liabilitiesil only. would mean an important concession, since at present they have to hold in this non-interest-bearing form at least 10 and 3 per cent of their so-ealled lidemandii and titimeit liabilities, respectively. Moreover, as mentioned earlier, it is proposed that savings deposits be considered as medium-term liabilities, whereas under the existing Act they are treated as iidemand liabilities".

63. In the view of the Committee, these concessions are justified. particularly if seen in conjunction with the tightening of the definition of liquid assets. It must be taken into account that both the capital and the money markets in the Republic are today much more developed than they were in 1921, when the banks were first required to maintain minimum balances with the newly established Reserve Bank. or in 1942, when the Banking Act came into being. As a result of the establishment of the National Finance Corporation and

the discount houses. as well as the existence of broader and more active markets for Treasury bills, short-term Government stocks. Land Bank bills and bank acceptances, and given the proposed liquidity requirements, it no longer appears to be necessary, whether from the point of view of protecting, the depositor or of achievmg monetary stability, to require the commercial banks to maintain as much as 10 and 3 per cent of their tldemandii and iitime liabilitiesn to the public, respectively, with the Reserve Bank, especially since they in any event have to maintain additional working balances with the Bank and comparatively large amounts of till money.

64. The reason for excluding acceptance liabilities from short-term liabilities for purposes of this requirement is to prevent this proposed amendment from having an unduly severe impact on the merchant banks, which engage in accepting business on a large scale. For the reasons already discussed, it seems only fair that all banking institutions which accept highly liquid and active deposits on a substantial scale should maintain minimum balances with the Reserve Bank, but to include acceptances in the liabilities against which such balances have to be held would appear to discriminate unfairly against the merchant banks.

Prescribed In vestments

65. A further financial requirement proposed by the Committee relates to iiprescribed investments? This is a new term and includes the following:

(a) Liquid assets (new definition);

(b) deposits with any banking institution which is required to maintain a reserve balance with the Reserve Bank, other than deposits ranking as liquid assets;

(0) deposits with a local authority within the Republic;

(d) deposits with the National Finance Corporation and loans to discount houses, other than deposits or loans ranking as liquid assets;

(6) stocks of the Government, other than those ranking as liquid assets;

(f) debentures or stocks guaranteed by the Government;

(3)) stocks of and loans to any local authority in the Republic;

(/1) debentures or stock of the Rand Water Board or the Electricity Supply Commission;

(i) debentures of the Land Bank, other than those ranking as liquid assets; and

U) such other investments as the Registrar may approve for the purposes of this defmition.

In other words, prescribed investments include, in addition to truly liquid assets, a list of other safe assets which correspond closely to those included under the existing broad dctinition of liquid assets. but excluded from the proposed new deflnition. In effect, therefore, tiprescribed investmentsll is merely a new name for the old concept of liquid assets as defined in the existing Act.

66. The Committees proposal in this regard is that every banking institution, other than a discount house, shall be required to maintain in the Republic uprescribed investments, of an amount not less than 15 per cent of its total liabilities to the public. The intention of this is not to ensure the liquidity of these institutions. That aspect is dealt with by the liquid asset requirements. The purpose of the prescribed investments requirement is to ensure that those institutions which have mainly long-term liabilities and which accordingly will not be required to maintain much more than 5 per cent of thcir total liabilities to the public

in liquid form. invest a reasonable proportion of their funds in a tlsafei’ form. In other words, this require-

mcnt is conccrncd with thc solvency rttthcr than the
liquidity of (lcposit-tnking institutions. Naturally, sincc
:1ll truly liquid :1sscts :1rc lllCltKlCtl in uprescribed invest-
lllCllSii, connncrcinl bunks, mcrchunl bunks 11nd other
institutions which in any cvcnt maintain :1 rclutivcly
hiyh liqnitlily ratio will not bu :1chctcd by this rcquirc-
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tion chooscs to :1cc1:pl. say. l2 months’ lixcd deposits
and, until thcy reach 21 maturity of less than six months,
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to kccp :1ny minimum balances with tho Rcscrvc Bunk
against lhcr-c lizibilitius. while its minimum hqu1dtty

ratio in this case will l)c only 5 er cunt and, more-
ovcr, not snbjcct to incrcnsc. int this highly favourable
trcntincnt in comparison with that of lecdium" 21nd
llsllorl-tcrm ll:1l)llllcsh can only be justihcd if these
(lcposits 1’11 jru’I cannot bc withdrawn for at least 6
months. It b’1nking; institutions were to indulge in the
practice of p’1yiny, out such (Icposits on (lcmnnd, thc
l’11nction’1l 1111111’11111’h proposed by the Committee would
lose much of its mcztning.
7l. It might be 1111;11:11 that thcrc is no harm in thc
pructicc ol’ paying out lixctl and notice Llcposits on
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lcgnl right to rcliusc to repay such deposits bcforc
maturity. llut thcrc urc other important considcrutions.
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to tukc i1 for granted that llXCtl deposits are in fact
witl11lr11w11blc on (lctnnntl and accordingly keep 21 con-
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problems C(1tlltl :1risc it" banking institutions were
s111l1lcnly to stop rcpttying such deposits bcforc
111:1t1nity. lhc public would thcn (liscovcr th:1l their
liquidity w:1s considcrnbly lcss than they had thought
:1111l in thc rcr.nlt’1nt "scrnniblc l’or liquiclityi, some
institutions might bc scriously z1ll’cctctl. In such circums
stunccs lhc Ruscrvc Bank would probably be forced
to cruntc :1 s11bst:1nti.1l amount of credit for banking
institutions in orilcr to cnablc thcm to continue paying
out thcir tlcposits. 11nd this might not be in accordance
with thc ollicinl monctnry policy :11 the time.
72. lloth lroni thc. point of view of protucting thc
tlcpositor :1nr.l tl1:lt oi prcscrving monetary stability. it
is thcl’cl’orc i111portnnt th’1t :1ll thrcc pzlrtics conccrnctl,
nnmcly the public, the banking institutions and thc
nionctnry :111tl1oritics. should know which dcposits arc-
in l’uct short-tct’m, which are mcdium-tcrm and which
:n’c long-tcrin. Banking institutions will be free to accept
any clztss ol (lcgiosit 11nd the public will. of coursc. h:
t’t’cc to dcposit thcir moncy in any form thcy tlcsirc.
But thcr: shonltl bc no inisundcrstunding 11s to which
(lcpmits :nc truly liquid 11nd which are not.
73. Banking institutions will bc allowcd to cxlcntl
lonns to thcir depositors against thc security of their
own llXCLl :1111l noticc Llcposits. liul to prcvcnt this con-
ccssion l’rom bcing ntisnsctl :1s :1 dcvicc to circumvent
thc :1bovc provisions, it is provided that thc rate of
intcrcst on such loans sl1:1ll cxcccd thc rutc payable
on tho deposits concct’ncd by not lcss than I pcr cent.
Discount llnmrs
74. As nicntioncd curlicr. :1 Llill’crcnt approach is
stiggcstctl in thc c:1sc of discount houses. It is proposed
that :1 discount honsc bc clctinctl 11s ":1 pcrson whosc
bnsincss consists of discounting or buyingy 21nd selling
or invcsting in the kinds of sccuritics rclicrrcd to in sub-
scction (l) of scction 111’1’11/12111’11 11nd also of :1cccptin".
ptctlominnntly against the plctlgc of such securities.
lonns rcpnynblc on demand or at short noticc from the
institutions rclcrrctl to in sub-scction (2) of the said
section". The sccntitics spccilicd in proposal section
22 (l) inclndc only bnnlx :1cccptnnccs. bunk-cntlorscd
billst ’llrcnsnry bills. l,:1111l lhnk bills. (iovcrnmcnt
stocks with :1 maturity of thrcc ycnrs or less. Land
Bank 1lcbcnt111cs with :1 111111111in ot’ thr3c ycurs or loss
and olhcr short-tci’m sccnritics or invcstmcnts approved
by thc chistrnr. although provision is 111:11lc for ccrtnin
cxccptions. whilc thc only kinds of institutions spccihcd
in proposcd scction 22 (2) are banking institutions (i.c.
connncrcinl bunks, incrchnnt bunks. hirc-purchzlsc
bunks. sni’ings banks and gcncml banks). building
socictics, mining houscs, thc Rcscrvc Bunk. thc 1.:1nd
Bunk. the Department or l-iinnncc and other institutions
approvcd by the Registrar.

75. In other words, it is proposed that in direct contrast to the procedure in the ease of ordinary banking institutions, the activities of discount houses should be narrowly circumscribed. This will ensure that they remain highly specialized institutiwzr which afford little if any direct competition to other banking institutions. As such, and in view of the nature of their operations. they_ are entitled to exemption from the hnancial requ1rements imposed upon ordinary banking institutions, which in their case would be unduly severe.
76. When, for example. a discount house accepts a call or other short-term loan against the pledge of the kinds of bills, stocks, ete. stipulated above, these securities are normally deposited with the lender and a suitable margin is provided by the discount house, varying according to the nature of the security. In the case of Treasury bills, the usual margin is between 1 and 2 per cent. A call loan of R! million, for example, will be secured against Treasury bills to the value of, say Rl,015,000. In the ease of short-term Government stocks and bank acceptances, the margin is normally wider. A genuine discount house is, therefore. in the nature of the case so liquid that no spceilie requirements in respect of Reserve Bank balances or liquid assets are called for.
77. It follows further that it would be unreasonable to expect a discount house to maintain the same ratio of capital and unimpaired reserve funds to liabilities to the public as an ordinary banking institution. Some minimum requirement in this regard seems advisable, however, and it is proposed in the Bill that this should be either R200,000 or 2 per cent of total liabilities to the public in the Republic, whichever is the greater.
78. Apart from the above provisions. no hxed rules are laid down in the Bill in regard to the operations of discount houses, such as, for example. minimum margin requirements in respect of the different kinds of security ’ provided against loans. Having regard to the nature of discount house operations. such requirements might be too inflexible. It is proposed instead that it be largely left to the Reserve Bank to control the operations of these institutions. Since discount houses tllend short but borrow even shorteril, their relationship with the Reserve Bank as the lender of last resort and the ultimate guarantor of their liquidity must necessarily be close. and it would appear to be only logical that their privileges at the Bank should be dependent upon their satisfying it as to the soundness of their operatlons.

Peoples Banks and Loan Banks

79. The Banking Amendment Bill makes no separate provision for lipeoplels banksll and ttloan banksll, as is done in the existing Act. Largely owing to the excellent facilities of a similar nature afforded by other banking institutions, the peoples and loan bank movement has never been as popular in South Africa as in some European countries and has at no stage been of quantitative significance. At present there are only two loan banks,’with assets totalling about R21 million, and one peoplels bank with total assets of less than R1 million. Under these cireumstanceg the Committee feels that separate treatment for these categories is no longer justified and that the institutions concerned might more _ appropriately be registered in future as savings banks or in some other category if they so desire and if their activities warrant it. This will mean that they will have to comply with somewhat more stringent financial requirements than at present, but at the same time they will enjoy greater freedom in both the acceptance of deposits and the employment of their funds, since they will no longer be subjevt to the various restrictive

provisions relating to these matters in the present Act.

17

National Finance Corporation

80. Although its terms of reference did not specifically include an investigation of the provisions of the special Act of Parliament governing the operations of the National Finance Corporation, the Committee is of the opinion that acceptance of its main proposals regarding banking institutions would necessitate a reconsideration of the position of the Corporation, particularly in relation to the merchant banks and discount houses. The Corporation is neither a merchant bank nor a discount house, but is a special kind of deposit-reeeiving institution which in some ways competes directly with these other money market institutions, and the Committee feels that this competition should be equitable. What constitutes fair competition in this case is, however, very dillieult to determine, since the Corporation is not only restricted to a limited range of activities (it may not, for example, invest in bank acceptances), but has also voluntarily placed itself at a disadvantage in more ways than one. Thus it pays less interest on call money than the discount houses, leaving a sufficient margin between its call money rate and the Treasury bill tender rate for the discount houses to operate profitably in Treasury bills, and only accepts call money in amounts of not less than R100,000 at a time. On the other hand, it derives certain special advantages from the fact that the Reserve Bank serves as its banker and manager, and will enjoy other advantages if the legal requirements affecting banking institutions are tightened up in the manner suggested in this Report.

81. The Committee therefore recommends that the position of the Corporation be investigated anew in the light of the proposed amendments to the banking legislation and with a view to effecting such adjustments to the National Finance Corporation Act as may be considered appropriate. In particular, the Committee wishes to suggest that consideration be given to the desirability of applying to the Corporation the same requirements in respect of liquid assets and minimum balances with the Reserve Bank as are proposed for banking institutions registered under the Banking Act.

Land Bank and Industrial Development Corporation

82. The Committee further wishes to point out that its proposals might also have implications for the Land Bank and, to a lesser extent, the Industrial Development Corporation, both of which accept deposits in competition with institutions registered under the Banking and Building Societies Acts. The Land Bank,s deposit liabilities are substantial and have increased considerably during the past ten years, namely from R19 million at the end of 1953 to R91 million at the end of 1963. Moreover, these deposits are mainly of a short-term nature and, particularly in view of the ease and regularity with which the Reserve Bank and the commercial banks can and do create credit for the Land Bank, appear to form part of the near-money supply in the Republic. The Industrial Development Corporatimfs deposit liabilities have recently fluctuated around the R20 million mark and are also largely short-term in character. The question therefore arises whether similar requirements in respect of liquid assets and minimum balances with the Reserve Bank as are proposed for ordinary banking institutions, should not also apply to these two institutions, i.e. if they continue to accept short-term deposits on a large scale. At the same time, the Committee fully realizes that both the Land Bank and the Industrial Development Corporation are special Government financial institutions with specific

functions and that special considerations may apply in their case. It is therefore merely suggested that further thought be given to this matter, particularly if deposits with these institutions were to rise signilicantly.

CHAPTER 4

PROBLEMS OF BUILDING SOCIETY LEGISLATION

83. The problem of how to adjust the building society legislation to the changed conditions discussed in Chapter 2 and how to dovetail it with the proposed new banking legislation is a dillicult one. As can be seen from Table 2 and Graph 2 (paragraph 16), the building societies have grown remarkably since the end 01’ the Second World War, both in absolute terms and in relation to the commercial banks, the Post Olliee Savings Bank and certain other classes of deposit-taking inwtitutions. While it is widely accepted that this expansion has in many ways been 01’ great benetit to the economy, concern has been expressed in some quarters about its nature and its implications for both monetary policy and the sound development of the tinancial structure as a whole. l’rom time to time the building societies have also been subjected to severe criticism by various bodies and persons and for a variety of reasons. ’1 he Committee has reconsidered the entire matter and has reached certain definite conclusions.

84. On the one hand. it is lirnily ol’ the opinion that much of the criticism directed against the building societies in recent years is unfounded and based upon misconceptions regarding either the linancial structure and modus operandi ol the societies themselves or the functioning of the credit market in general. The building societies are, in the view of the Committee, exceptionally well managed and operate within a comprehensive and effective legal framework which atl’ords a high agree of protection to the tlepositor. Moreover, under South African conditions they constitute an efficient mechanism for mobili/ ng savings and hnancing housing, and so perform extremely important functions. The country has every reason to be proud of its pro’ gressive building society movement. At the same time, the Committee is convinced that the rapid growth of the building societies and the accompanying changes in their functions have given rise to certain problems for which answers will have to be found.

llBanking" Fumtions Performed by Building Societies

85. Thus itAis evident that the buildingl societies, as they operate in the Republic today, are no longer pure savings institutions in the orthodox sense, performing only the fmzt’tion (2/ channelling genuine personal saving into fixed investment in housing and into Government, municipal and puh/it’ utility securities. Some 01’ their present-c/uy activities (’losely resemble those of ordinary banking institutions. The most important 01’ these activities are the following:

(a) They work to some extent with funds deposited with them for short periods. Indeed. despite the various provisions in the Act regarding the withdrawal of deposits and shares, as set out in Appendix B 0.1 this Report. a large proportion of their liabilities is in practice treated as withdrawable on demand. This at any rate is how it has come to be viewed by many depositors and shareholders. and it is on that assumption that they have placed their money with the building societies instead of with banks. as they would formerly have done. Moreover, it would be understandable if some building society managers have encouraged this view in order to induce an upward trend in their business. Depositors on savings account. in particular, are allowed to use their accounts virtually as current accounts.

(b) The building societies serve as repositories for the

funds not only of individuals but also of companies and other forms of business enterprise, as well as public authorities and other corporate bodies. Thus, at the end of 1962, about R30 million or 4 per cent of the building societies shares and about R109 million or 17 per cent 01 their deposits belonged to ordinary public and private companies, insurers, banking institutions, agricultural control boards and public authorities. No information is available concerning the amounts held by business enterprises organized in the form of sole proprietorships or partnerships. Since companies and other forms of business enterprise do not normally invest their funds in pure savings intermediaries, as this would entail a reduction in their liquidity without the compensation of either a high yield or the prospect oi capital appreciation, it can be assumed that a large proportion of these funds represents money or near-money in the hands of the holders.

(tr) Although the societies cannot provide ordinary cheque facilities, since the Building Societies Act clearly stipulates that "a registered society shall not accept deposits of money subject to withdrawal by cheque, draft or order payable on demand", they have devrsed ways and means of providing depositors with transfer facilities and other services specifically designed to compensate for the lack of cheque facilities. Thus, to some extent, they indulge in the practice of issuing cheques to their depositors made out in specified amounts in favour of third parties, i.e. they operate a limited system of ttcredit transfers? In addition, some of them allow and encourage depositors to withdraw funds from any branch in the Republic and, in order to facilitate this, issue "letters of crediti, or ttcash vouchers? The result is that more and more people are discovering that a building society is not only an institution in which they can invest their savings but also a place where they can keep a current account, and the practice of having salaries paid directly into accounts with building societies appears to be on the increase. It is not surprising, therefore, to find that the annual velocity of circulation of these savings accounts. i.e. the total annual withdrawals divided by the averane amount on deposit, has increased from 1.07 in 1945-46 to 1.95 in 1962-63. As indicated in paragraph 17, the latter figure is nearly four times as large as might be expected in the case of genuine savings accounts.

((1) Although the building societies do not normally make much direct use of Reserve Bank credit, the experience of the early nineteen-sixties showed that in time of severe strain a position might well arise in which the Reserve Bank has little option but to create credit for them to enable them to meet large withdrawals.

86. The result of all this is that, in addition to their ordinary activities as savings intermediaries, the build-in:, is’ocieties today perform the typical banking function of serving as repositories of the money or near-money (2f the public. Like the commercial banks, they are therefore able to increase their indebtedness without appreciably reducing the liquidity of their creditors. Indeed. as indicated earlier, owing to the important extent to which building society deposits and even some of their shares serve as substitutes for money in the Republic today. it can be assumed that a proportion

of the funds disbursed by them in the form of loans and investments returns to them as deposits or shares. If this is so. it means that, like the commercial banking system. the building society movement as a whole is

able to create money or near-money in the hands of the public by more than any given increase in its cash reserves, although for the reasons mentioned earlier, the ttcredit multiplierii in its case is no doubt considerably less than in that of the commercial banking system. To the extent that their liabilities serve as money or near-money, the societies can therefore exercise an inhuence on aggregate demand similar in principle to that of the banks.

Present Restrictions on Building Societies

87. It is, of course, true that in the employment of their resources the building societies are limited mainly to mortgage loans against the security of urban fixed property and investments in prescribed gilt-edged securities. Moreover, as set out in Appendix B, they are subject to severe restrictions regarding such matters as the size of their mortgage loans. the security margins on such loans. compulsory monthly repayments, etc. The result is that, as far as lending activities are concerned, the field in which they can compete directly with ordinary banking institutions is very limited. Nevertheless, they are not totally debarred from extending credit for purposes other than construction. and to some extent their ordinary as well as their reinstatement loans. although granted against the security of urban fixed property, are in fact used for such other purposes. Within limits it is even possible for commercial and industrial companies to finance their normal operations in part by means of such loans, although this practice is not common.

Unfair Competition between Building Societies and Banking Institutions

88. But while the building societies can afford only limited competition to banking institutions in the lending held, it follows from the above analysis that they compete actively and vigorously with them for funds of various kinds. They are therefore not the virtually tlnon-competing groupii of financial institutions which they are sometimes held to be.

89. To this competition as such there can be no objection. Indeed, there can be little doubt that the banking services rendered by the building societies are proving extremely valuable to the community and are provided in a very efficient manner. But the problem is that the basis on which they compete with the commercial banks and (m which they will be competing with all banking institutions if the proposals contained in the Banking Amendment Bill are adopted without appropriate amendment of the Building Societies Act. is inequitable.

90. In the view of the Committee there are four main factors producing this unfair competition. Firstly, in spite of their ttbankingi, activities. building societies are not required to maintain any minimum balances with the Reserve Bank. As against this. commercial banks at present have to keep 10 per cent of their ttdemand liabilities" and 3 per cent of their titime liabilitiesil with the Reserve Bank. while, as already mentioned, it is proposed in the Banking Amendment Bill that henceforth all banking institutions with short-term liabilities in excess of R500,000, except discount houses. be required to maintain an amount equal to 8 per cent of these liabilities in this form.

91. Secondly. the building societies have to comply with considerablv less onerous liquiditv requirements than those existing at present for banking institutions or than those proposed for such institutions in the Banking Amendment Bill. Thus. as set out in detail in Appendix B. each building society at present has

to keep in the form of cash deposits and investments

in specilied securities (i.e. in assets which more or less correspond to the illiquid assetsii of the existing Banking Act) ttll amount not less than (a) 30 per cent of its savings deposits, bank loans and overdrafts and certain other specified liabilities; (1)) 20 per cent of its tixed deposits, fixed period subscription shares issued for a period of not more than five years and certain other specified liabilities; (c) 10 per cent of its fixed period subscription shares issued for a period of more than five years, its fully paid-up fixed period shares and certain long-tertn loans; (d) the full amount of dividends due by the society, but not yet paid on fully paid-up shares: and (e) 25 per cent of the amount of loans granted but not yet paid. But the important point is that they are not required to keep any liquid assets against their indefinite period shares. which comprise the great bulk of their shares and about 54 per cent of their total liabilities to the public, and yet these ilsharesii are to some extent looked upon by their holders as repayable either on demand or at short notice and therefore as near-money. At the end of 1963 the building societies accordingly had ttliquid 118568,, of the kind mentioned above equal to only 21 per cent of their total liabilities to the public, i.e. including itsharesii. Moreover. compared with other years. this was an abnormally high percentage; the whole economy was in an exceptionally liquid state at that stage.

92. At; against this, commercial banks are at present required to keep liquid ai-sets amounting to not less than 30 psr cent of their total liabilities to the public. even though a considerable proportion of these liabilities is in the form of hxed and savings deposits. Similarly, peoples and loan banks and ltdeposit-receiving institutions" are subject to liquidity requirements which, although less onerous than those for commercial banks. are still stricter than those for building societies. Moreover. as already mentioned. it is proposed in the Banking Amendment Bill that all banking institutions in future be required to maintain liquid assets equal to at least 30. 20 and 5 per cent of their short. medium and long-term liabilities, respectively.

93. The position will be further influenced by the proposed tightening of the liquid asset definition, since the building societies at present keep most of their "liquid asset? in the kinds of’ securities which will not qualify as liquid assets under the new definition and which. of course, earn a much higher rate of interest than genuine liquid assets, such as Treasury bills and call loans to discount houses. In fact. in terms of the proposed new definition, the societies at the end of I962, when the economy was in an exceptionally liquid state, had liquid assets CQU’li to only about R75 million or 5.6 per cent of their total liabilities to the public, including iisharesii. whereas they would have had to keep more than double this amount if they had been registered as, say, savings banks under the proposed new banking legislation and their tisharesli treated as deposits.

94. Thirdly. the building sorieties are not subject to any requirements regarding supplementary reserves or variable liquidity ratios. whereas the commercial banks are at present subject to the former and, under the proposed Banking Amendment Bill. all banking institutions will be subject to the latter.

95. Fourthly. the building societies enjoy an important competitive advantage over banking institutions as a result of the unique Ht’apital structure" and the related tax benefits which they are allowed at present. Thus. unlike ordinary banking institutions, they have no equity capital in the normal sense. They do issue

"sharesli of 21 special character and, as can be seen from
Appendix B. are even subject to certain minimum
"share capitalil requirements. It is also true that the
shareholders have a last call on profits and carry the

normal shareholdersl risk and responsibility. But the shares are issued at predetermined ttrlividend ratesii and can be redeemed at par by the building,y societies, so that, in elIect, they are equivalent to guarantee deposits. Furthermore, while the societies are required to contribute something to their reserve funds every year in accordance with u prescribed formula, these funds. nt the end of March. I962, amounted to only about R64 million, which is equivalent to 5.0 per cent ol’ their (OLIl liabilities to the public or (Ll per cent after deducting their liquid assets from these liabilities. By comparison, the present requirement in respect of capital and Line impaired reserve funds for banking, institutions is It) per cent. alter allowance for certain deductions from the liabilities, while. as already mentioned. it is proposed in the Banking Amendment Bill that this be reduced to 6 per cent for all hillllx’lllg institutions, but that considerably l’ewer deductions then be allowed.

96. This unique cn pital structure of the building societies, coupled with the. l’net that until the 1959 Budget they were exempted l’rom income tax and stamp duties, enabled them to operate with n considerably smnllcr margin between what they had to pay. on the average, for their funds and what they earned thereon, than coinparable banking institutions. During the year ended March. 1958. for example. the average cost of their funds amounted to 4.7 per cent and their average interest receipts to 5.8 pct cent, leaving a mnrgin of only 1.1 per cent. ’lhis smnll mnrgin was adequate since it had to cover only administrntion costs and a contribution to reserve funds. lint it the societies hard been registered under the Banking Act as ordinary deposit-receiving institutions with normal cupit’tl structures, such a margin would have been insullicient. since it would then have had to cover not only a larger contribution to reserves, in order to comply with the capital zind reserve funds requirement of the Banking Act. but also taxation at the rate of 30 cents in the rand on the total prolit before the p’tyment of dividends or transfers to reserves. Moreover, on their genuine equity capital the societies would then probably have had to pay (1 higher dividend than the 55 or 6 per cent paid at that stage on their special kind of shares. They would, therefore. have been forced either to raise their lending, rates or to reduce their deposit rates or to provide fewer ancillary services to depositors. all of which would naturally have tended to exercise an adverse ellect on their competitive ability and rate of expansion.

97. The moderate taxes imposed upon the building societies since I959 have to some extent reduced the competitive advantage they enjoy in this respect. but have by no means eliminated it. It is true that. like ordinary banking institutions and other companies, the societies are now required to pay 30 cents in the rand on their llprotith, but in their case ’tprolitll is merely the small current surplus which remains alterdcducting from income not only administration costs and interest paid on deposits. but also (1H (Iii’it/UlIt/A’ paid on sharps. To allow such a deduction would appear to be logical. since these shares, as alrendy mentioned. are really not shares but guarantee deposits. lint it does serve to emphasize that the peculiar capital structure of building societies makes it impossible to tax them on the same basis as ordinary financial institutions. They therefore still enjoy a competitive ndvantzige in that they are allowed to obtain their capital in a way which greatly reduces their tax burden and which cannot be emulated by ordinary bankingy institutions registered under the Banking Act.

98. The above-mentioned advantages enjoyed by the

building societies are. of course, partly otl’set by the various restrictions on their lending. investing and deposit-taking activities. as summarized in Appendix II. But in the light of the evidence presented above. the Committee has reached the conclusion thnt. (m Imlam’e, the building societies enjoy an unfair advantage in the competition for funds with ordinary banking institutions.

Deviation from Basic Objcr’tives

99. The problem has been further complicated by the fact that the building societies have tended in recent years to deviate increasingly from what has always been considered their lnsie objectives, namely to mobilize genuine personal savings and to employ these mainly in the form of loans to persons in the lower and middle income groups to enable them to acquire their own homes. On the one hand, as already muuioned. the societies receive funds not only from personal savers but also from ordinary public and private companies. b’inking, insurance and other financial institutions, agricultural control boards and public authorities. as well as from business enterprises organized in the form of sole proprietorships and partnerships. On the other hand, they extend mortgage loans not only to home owners but also to ordinary protit-seeking business enterprises against the security of blocks of llttts. industrial and commercial buildings. Thus. ot" the total amount of mortgage loans granted by building societies during the period 1953-62, nearly 9 per cent was extended uglinst the security of blocks of flats and 8 per cent against the security of commercial and industrial buildings. In the case of mortgage loans for new (’(Jtzs’trttr’limt. the percentage for flats, commercial and industrial buildings amounted to as much as 26 per cent duringy this period. Of the advances outstanding: at the end of I962 about R157 million or 14 per cent had been extended to (mummies.

100. In thus deviating from their basic objectives, the building societies have in no way acted contrary to the letter of the Building Societies Act, which does not restrict them to these objectives. Moreover, in the process of this evolution of their activities, they have performed functions of great importance to the South African economy. tor example in helping to finance the building o." flats and commercial buildings. But this deviation has meant that the advantages derived from the building societies unique form of financial organization and the other privileges afforded them under their own special Act have been enjoyed not only by the small saver and the person of modest means seeking to acquire his own home. for whom they were originally intended. but also by ordinary business enterprises. In consequence. it has bcmme more (/itht/lt to justify their privileged position on sociological and other non-(’(’ot1mnic grounds.

I/nplir’tttiohs of Unfair (Vumpetitinn

lt)l_ Apart from the desirability of equity of justice in linancial legislation as an end in itself. the unfair advantages enjoyet by the building societies have other unfavourable implications. In elIeet. these advantages all-oril the building societies a privileged position in the t/HUHU for lUtI/Itl/J/t’ funds and thus prevent the market mechanism from canalizing such funds in the economically most desirable way. The danger therefore exists thnt an unduly lnrge prOportion of the scarce capital resources of the country might be canalized into the construction of houses. flats and commercial buildings. The assertion that this has already happened. has often been made during recent years. Whether this is so or not is open to debate. but if the building societies were

to continue to expand at the rate of the past decade, this problem might indeed become a serious one in the future.

I(IZ. In short. the building society problem emerges as part of the more general problem discussed earlier, namely that umlcr the changed monetary and banking mmlitions of today, the misting) legislation governing the various r’luxsm of (lepoSit-talting institutions is no longer equitable (Ind, (If the same time, prevents the monetary authoritimv from applying monetary policy in the most efficient aml equitable manner. An urgent need

has therefore arisen to amend the building society legislation in order to achieve greater equity of justice in the competition between the societies and other kinds of deposit-taking institutions and greater efficiency of monetary policy.

Building Societies under Banking Act?

103. In the view of the Committee there are two broad dirertions in which the solution to this problem can be sought. The one approach would be to adopt the view that the building societies have already deviated so far from their original objectives and have become such an integral part of the iiliquidity-creating banking sectori, of the economy that it is too late now to induce them to become reasonably ttpurehl building societies again. The Building Society Act could then be repealed and the societies brought within the purview of the amended Banking Act. This would mean that they would have to comply with the same requirements as other banking institutions in respect of capital and unimpaired reserve funds, minimum balances with the Reserve Bank, liquid assets and prescribed investments, and would also be subject to changes in their minimum liquid asset ratios in the manner already described. In addition. they would then presumably be taxed 0n the same basis as ordinary banking institutions.

104. Naturally. if this approach were adopted, it would be difficult to justify the maintenance of the present restrictions on their lending and investing activities. To do so would be to reverse the present situation and to discriminate unfairly against them. They would, therefore, have to be allowed the same freedom to lend and to invest as the other banking institutions.

105. This approach has many attractions and would certainly achieve the aforementioned objectives of eliminating the unfair advantages enjoyed by building societies and improving the eHiciency of monetary policy. But it would be fraught with serious difficulties. In the first instance. it would require a major and drastic change in the building societies capital structure. Thus a portion of their present share capital would have to be transformed into ordinary equity capital and the rest into deposits. This would increase their tax burden and in all probability force them to increase their lending rates and/or to reduce their deposit rates and/or to provide fewer ancillary services.

106. Secondly, the societies would then not only have to maintain 8 per cent of their short-term liabilities with the Reserve Bank. but would also have to keep more than twice the amount they do at present in total liquid assets (as redefined). partly because the major part Of their present shares would then be treated as deposits. against which liquid assets would have to be held. Since they would earn considerably less interest on these liquid assets than on mortgage loans or investments in municipal, public utility andlong-term Government stocks, this also would probably force them to charge a higher rate of interest on their loans and/or to pay less interest on deposits held with them and/or to provide fewer ancillary services.

107. Thirdly, it follows that the buildifg societies would then have to dispose of large amounts of their present holdings of municipal. public utility and long-term Government stocks. which. depending upon the conditions prevailing at the time, might have serious implications for the markets in these securities and the interest rate structure in general. The importance of the building societies as investors in such securities is illustrated by the fact that at the end of 1963 they held R90 million in municipal stocks, R77 million in public utility stocks and R64 million in Government stocks

with a maturity exceeding three years. If the require-
ments of the amended Banking Act were to be applied

to them. they might have to sell about R100 million
of these securities.
108. Fourthly. the fact that the building societies at
present uborrow short and lend longli poses certain
problems for this approach. This aspect of their opera-
tions was one of the main reasons why it was seen fit
to ensure their liquidity by means of restrictions on
their lending activities, such as limits on the amount of
any individual advance, limits on advances in excess of
R10.000 and the requirement of regular monthly repay-
ments in the case of most of their mortgage loans. If
these restrictions were removed, their practice of
itborrowing short and lendingY long, would have to be
Viewed in a different perspective. Moreover, 1iborrowing
shortit is one thing if it means accepting genuine per-
sonal savings in limited amounts from thousands of
small savers, but it becomes a different matter if it
consists of accepting highly liquid and active deposits
from ordinary business enterprises. public authorities,
other financial institutions. etc. If the buildingy societies
were completely freed from the present restrictions on
their deposit-taking activities. care would have to be
taken that the process of borrowing short and lending
long was not carried so far as to undermine monetary
stabtllty.
109. Finally. the difficult question arises what kinds
of lending. discounting and investing activities the
1tbuilding soeietiesib would engage in if they were given
the same freedom in this regard as other banking
institutions and what the implications of this would be
not only for housing finance but also for existing
banking institutions. If the societies were afforded the
same legal treatment as other deposit-taking institutions,
it follows from the above analysis that they would be
under some compulsion to branch out into fields of
lending and discounting which yield a higher rate of
return than ordinary housing loans. If they were to do
this on a large scale. not only might a shortage of funds
for ordinary housing purposes develop but existing
banking institutions. which came into beingy when a
totally different legal framework existed, might be
seriously allected.
110. The Committee has, therefore. reached the con-
clusion that this broad approach would be too drastic
and unpractical. It would bring about the disappearance
from the South African financial scene of the true
building society movement, together with its many
important advantages; greatly increase the rate of
interest on housing loans and create other problems
of housing finance; produce dimculties in the markets
for municipal and public utility stocks; raise new
problems of controlling the practice of iLborrowingz short
and lending length and cause dislocation in the financial
structure.

Proposed Solution: Building Societies as Pure Savings Institutions

111. The other broad direction in which a solution
can be sought is the gradual return by the building
societies to their basic objectives, which could even
be broadened to take account of changed conditions.
T his would make them predominantly savings institu-
tions again, instead of combined savings and near-
money creating institutions as at present. They would
then confine themselves to performing the function of
canalizing personal saving into the capital market to
finance mainly home ownership, instead of having one
foot in the liquidity-creating banking sector, as is
currently the case. If this could be achieved, it is felt

that there would be sufficient justiheation for continuing to afford special legal treatment to the building societies under their own Act, instead of subjecting them to the same set of requirements as proposed for other deposit-taking institutions.

112. It is this approach which the Committee proposes should be adopted and the details of which are set out in the accompanying draft Building Societies Amendment Bill. The effect of the suggested amendments would be, on the one hand. to place certain new restrictions on the activities of building societies and, on the other. to grant them important privxleges not enjoyed by other deposit-taking institutions. In the opinion of the Committee, the addition of these _restr1ctions to the existing limitations on the aettvtttes of the building societies would be sufflcient to balance their special privileges.

Proposed N ew Restrictions

113. The main new restrictions proposed by the Committee are the following:

(a) It is proposed that advances by building societies against the security of eommercialor industrial buildings be limited in any tinancml year to 5 per cent of their total advances during that period. This will largely restrict their advances to loans against the security of houses and flats (with allowance for up to 50 per cent of the floor area to be used for eommereiitl purposes). It is. of course realized that in extending loans to finance the building or purchase of blocks of tlats. building societies are tinancing ordinary business investments made by proht-seeking persons or companies and that this form of lending activity also represents a deviation from their original objectives. But it is considered neither practieal nor desirable at this stage to prohibit the societies from granting such loans. They have built up trained and experienced staffs to supervise the erection of flats and handle related matters. such as the making of progress payments during the course of construction. and are in a position to provide this type of finance efficiently. Account must also be taken of the fact that housing habits have changed and that an increasing number of people today prefer or have to live in flats.

(b) It is proposed that. as in the case of all banking institutions, building societies be prohibited from repaying fixed deposits before due date. provided that after the expiration of a period of twelve months from the date on which a deposit was made or re-invested, the society concerned may repay such a deposit before due date if given at least 30 days notice of withdrawal. Provision will, however. be made for a long list of exceptions (see Proposed Section 23 of the Building Societies Amendment Bill) and building societies will still be permitted to grant loans against the security 01’ such deposits. provided that the rate of interest on such loans exceeds the rate payable on the deposits concerned by not less than 1 per cent

(C) It is proposed that the same restrictions on savings deposits as suggested by the Committee for banking institutions registered under the Banking Act should also apply to building societies. i.e. that they be prohibited from accepting savings deposits from any limited liability company other than a non-protit association and that no one person be allowed to maintain a credit balance on savings account of more than R6000 (R2000 if the soeietyls assets do not exceed RSOODOO). The Committee hopes that these mild restrictions. which should not present any administrative ditlieulties. will be sufficient to ensure the "savings character"

of these deposits and to reverse the considerable increase shown by their velocity of eireulation during recent years, If this does not prove
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to be the case, the Committee foresees that it might become increasingly difficult to justify the special privileges afforded to the building societies and that more drastic action might have to be taken. Much depends upon the attitude of the societies themselves, and the Committee is confident that the monetary authorities will be able to count upon the full support of the building society movement in this important matter.

((1) It is further proposed that building societies be prohibited from issuing subscription shares to any limited liability company other than a non-proht association. Although these shares amount to only about 2.5 per cent of the building societiesl total liabilities and are therefore of little quantitative significance, the Committee feels that since they were specifically devised to encourage thrirt and since dividends paid on them have been exempted from income tax, they should only be made available to true personal savers.

(e) Finally, the Committee proposes that holders of building society shares be required to give at least three months notice it they wish to redeem their indefinite period shares at any time or their tixed period shares belore maturity (assuming that the society concerned agrees to such redemption) and that. moreover, no such redemption be allowed within the first 18 months from the d’tte of acquisition of the shares. It is proposed. however. that as in the case of fixed deposits, provision be made for certain exceptions to this rule (see Proposed Section 25 (9)) and that societies be allowed to extend loans agtinst the security of such shares. The aims of this proposed restriction are not only to ensure the true savings character of building society shares and to prevent their being misused as ne;ir-money in the hands of the public, but also to justify the fact that the societies will not be required to hold any liquid assets against their indehnite period shares.

114. The Committee also considered the desirability or specifically prohibiting building societies from aceepting fixed deposits from or issuing shares to limited liability companies. corporate bodies or local authorities. The motivation for such a prohibition would have been not only that these companies and other bodies have no claim to the special benefits flowing from the building societies unique form of organization and other privileges. but also that the funds which such companies and bodies hold with any class of deposit-taking institution usually represent part of their liquidity or near-money and should, therefore, not flow to institutions which claim to be pure savings intermetlittries outside the banking sector. It was felt. however. that the other restrictions discussed above would in any event tend to keep such funds away from the building societies and that it was therefore not necessary to add this further prohibition.

Special Privileges to he Enjoyed by the Building Societies

1151 The special privileges which the Committee proposes should be enjoyed by building societies under the new legislation are the following:

(a) They will not be required to maintain any mini-

mum balances with the Reserve Bank.
(It) Whereas all institutions falling under the Banking Act will be required to maintain genuine liquid

assets, as redefined. amounting to at least 30, 20 and 5 per cent of their short. medium and long-term liabilities, respectively, the correspond-ing ratios for building societies will be only 15, 10 and 5 per cent. Moreover, for purposes of this requirement, the societies, liabilities to the public will be taken to exclude all indefinite period shares. This represents a major conces-sion since, as mentioned earlier, these shares comprise more than 50 per cent of the societies' total liabilities. In addition, with a view to sim-plification and administrative ease. it is proposed that, in respect of fixed deposits, societies be allowed, if they so prefer. to maintain a single liquidity ratio of 7% per cent. instead of an amount calculated in accordance with the pro-visions referred to above (see Chapter 6. com-ments on Clause 7). As in the case of banking institutions. all savings deposits with building societies will be treated as mediumnterm rather than as short-term liabilities.

(c) Unlike other deposit-taking institutiom. building societies will not be subject to changes in their liquidity ratios.

(d) Whereas banking institutions will have to main-tain prescribed investments to an amount not less than 15 per cent of their liabilities to the public, the corresponding ratio for building societies will be 10 per cent. although for pur-poses of this requirement, liabilities to the public will be taken to include all classes of shares issued by societies.

(e) Building societies will be allowed to continue enjoying the important advantages of their pre-sent capital structure.

116. Apart from affording the building societies the special privileges listed above. the accompanying Draft Building Societies Amendment Bill contains several provisions relating to such matters as capital require-ments. acceptance of fixed deposits. limits on advances. and the treatment of transfer costs. which represent important further concessions to building societies. These proposed amendments are discussed in detail in Chapter 6 of this Report.

Summary

117. To summarize. it is submitted that the building societies cannot have the best of both worlds. They were originally set up as pure savings intermediaries outside the liquidity-ereating banking sector to perform certain circumscribed functions which were considered desirable on social and other non-eeonomic grounds. To this end, they were given a special legal frame-work of their own. which entailed on the one hand certain restrictions on their lending. investing and deposit-taking activities and. on the other. certain important privileges not enjoyed by other dep-osit-taking institutions. In the course of time they have partially deviated from their original objectives and. in the pro-cess of doing so. have come to perform some tynical 1thankingh functions and to exercise an important influ-ence on the liquidity position of the economy. If. now. they want to continue to develop these Thankingd functions. it is onlv fair that. to the extent that they engage in such activities, they should complv with the same legal requirements and be subject to the same taxation as other deposit-takingy institutions. It. on the other hand. they prefer to continue eniovine their special privileges. they should gradually revert to being genuine building societies again. For the reasons dis-cussed earlier. the Committee proposes that the latter approach be adopted. lt believes that this is also the

course which the building societies themselves. or at least the great majority of them. would prefer.

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CHAPTER 5
SPECIFIC AMENDMENTS TO THE BANKING ACT

The following explanatory notes refer to the specitic amendments proposed in the accompanying draft Banking Amendment Bill.

C lause 1

Sub-z-lrmre ((1). Already discussed in paragraph 44 of this Report.

Sub-clause (b) 7

A. Definitions deleted

The reasons for the deletion of the detinitions of ttdemand liabilityii and ttdeposit-reeeiving institutionii have already been discussed in paragraphs 44. 52. 55 and 60-64.

The need for a detinition of ttdirectorii has lapsed SInCC, in terms of section six, as amended. only companies can be registered as banking institutions.

In regard to the term ttguarantee depositsd, it may be stated that when the principal Act was passed in 1942, it was envisaged that peopleis banks and other mutual banking institutions might, during their initial years, prefer to provide uown resourcesii in the form of nguarantee depositsii until such time as adequate reserves had been built up. The attributes of these deposits were to be_

(i) that they would be repayable only at the discretion of the institution:

(ii) that they would have to be repaid as soon as the accumulated reserves of the institution rendered this pozssible; and

(iii) that in the event of the liquidation of the institution the holders of these deposits would be in the same position as shareholders,

But no institution has made use of this method of obtaining capital since the coming into operation of the Aet-aaoparently because. as mentioned in paragraph 79. the small mutual institution has not found favour in South Africa. The Committee therefore proposes the deletion of the provision for iiguarantee deposits?

B. Definitions inserted

Discount house, general bank and lzire-purclzase bank, Already discussed in paragraphs 44 and 74-78.

CO-operatz’ve Society and Land Bank are inserted as abridgments.

Sub-clause (6). Already discussed in paragraphs 50 and 51.

Sub-clause (d)

The definitions of illong-term liabilityil and iimedium-term liability" have already been discussed in paragraphs 52. 55 and 6064. The inclusion of savings deposits under medium-term liabilities has also been referred to in paragraphs 67 and 68.

Definition of merchant bank. In efleet this definition means that the Registrar of Financial Institutions will register as merchant banks only those bankingy institutions whose accepting activities comnrise a substantial ’part of their total business and which have satisfied iboth him and the Reserve Bank that their status is such that trade bills accented by them. i.e. to which they have itlent their name". are automatically acceptable for re-discount with the Bank.

Sub-clause (e)

The definition of ttMinister" is being brought into line with current usage.

Sub-clause (f)

National F inance Corporation

abridgment.
is inserted as an

Sub-clause (g)
Already discussed in paragraph 79.
Sub-clause (h)
Already discussed in paragraph 65.
S ub-clause (1’)
Definitions deleted : Already discussed in paragraphs 52 and 79.
Definitions inserted : The reasons for introducing the definitions of iisavings accounti, and iisavmgs dcpos1t7 have been discussed in paragraphs 67 and 68.
Definitions of ttsavings bank" and ilshort-term liabilityii: Already discussed in paragraphs 44 and 52, respectively.
The insertion of a definition of fTreasury" is necessitated by clause 10, proposed section 17 (3).
Sub-clause (j)
The existing wording of the proviso to section 1 (I) My has proved in practice to be too vague. A mere statement by someone that he was in fact issuing debentures was diflicult to refute.
Sub-clauw (A): Proposed section 1 (2)
In terms of section 1 (2) of the existing Act. a person is deemed to carry on the business of accepting deposits. and therefore to be subject to the requirements of the Act, if the accepts, as a regular feature of his general businessdenositsfromthegeneralpublic".
The application of this criterion has in practice always presented great dimcultics: what must be the extent of a persons deposit-tuking activities before he quallCS? And. in relation to a given person, who represents tithe general publicii?
The proposed amendment is aimed at easing the ttisk of the Registrar somewhat in this respect by laying down some criteria-ibe they arbitrary_according to which he can iudge the business of a given person.
Proposed section 1 (2) bis. This sub-section sets out the conditions under which co-operative societies and companies may obtain their finance from their own members without being required to register as banking institutions.
S ub-Clausc (I)
The proposed deletion of words arises from the deletion of the definition of guarantee deposits.
The insertion of the words tito the satisfaction of the registrar and of the auditor of such institutionii will entail that the auditors of an institution. as well as the Registrar, will have to satisfy themselves that the institution has made adequate provision for items such as depreciation and irrecoverable advances. In practice there have been cases where the boards of individual institutions have been over-optimistic in this regard.
Paragraph (6) is proposed because the malpractice occurs that an institution waters down its capital-liubilities ratio by simply using its deposits to invest in the shares of a subsidiary which itself is a banking institution. The proposed amendment will entail that where an institution invests in the shares of another banking institution. it will be considered to have financed the investment from its own capital and reserves.
Sub-clmlse (In)
All the existing banking institutions are corporate bodies and the present section 6 (2) (c) (clause 4. proposed section 4 (6)) of the Act requires that all new ones should likewise comply with this requirement. Section 1 (4) (c). which applies only to an individual or a partnership conducting banking business, can therefore lapse.
Clause 2
Proposed section 2 (1)
Since the Post Office Savings Bank, the Land Bank,

the Reserve Bank, the National Finance Corporation
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and the Public Debt Commissioners are all exempted from the provisions of the existing Act, the Committee proposes that the Industrial Development Corporation, which is a statutory body of which the State holds all the shares, should be added to this list. As mentioned in paragraphs 80-82, however, the Committee is of the opinion that acceptance of its main proposals regarding banking institutions might necessitate a reconsideration of the position of the National Finance Corporation, the Land Bank and the Industrial Development Corporation in so far as they accept deposits in competition with institutions registered under the Banking and Building Societies Acts.

Proposed section 2 (2)

This amendment arises merely from the renumbering of other sections in the Act.

Clause 3

The insertion of the proposed words arises from the simplified form of appeal which will apply where an institution and the Registrar cannot reach agreement after the coming into operation of the amending Act, in regard to the category in which the institution falls (see clause 4, proposed section 5 (4) (a)).

Clause 4

The proposed sections 4, 5 and 6 aim at systematizing the requirements of the existing sections with these numbers and also section 12, which deal With the names and registration of institutions and at effecting improvements in the existing requirements; they also provide the machinery for the classification of existing institutions according to the new categories. In this regard attention is drawn to:

1. Proposed section 4 (1)

For a discount house, recognition as such by the Reserve Bank is in the nature of the ease of decisive importance. Obtainment of this recognition is, therefore. a prerequisite for registration in this category.

2. Proposed section 4 (5)

This sub-section will require a banking institution to have the minimum prescribed capital before commencing business.

3. Proposed section 4 (7) (c)

in future it will be necessary for prospective promoters of a b.tnking institution to prove that they are competent to manage such an institution.

4. Proposed section 4 (10)

This sub-seetion lays down the steps to be taken if the Registrar does not renew the provxsxonul registration of an institution.

5. Proposed section 4 (12)

This sub-scction makes provision for the formal registration of the emstmg discount houses.

6. Proposed section 5

As the existing categories of peoples bank, loan bzmk 11nd deposit-receiving institution will disappear and be replaced by others. this proposed section makes provision for the procedure to be followed in the reclassification of existing institutions.

7. Proposed section 6 (l) (C)

This sub-section will replace the existing proviso (ii) to section 4 (6). It will provide the Registrar. in his consideration of the names proposed for new institutions. with the slightly wider power contained in section 10 (2) 0f the Companies Act. He will be able to reject unv misleading name and not only those 7which . . . are likely to mislead the public in regard to the true character of its business?

Clause 5 ((1) effects a consequential amendment.

Clause 6
The proposed section 7this will fill a gap in the extsttng Act. by prescribing explicitly what happens to depostts which someone has in his possession illegally.
C 101156 7
Sub-clause (a). Section 9 (1) is being amplified by stipulating that also a false statement in connection with an application for permission to establish a banking institution. or in connection with an applicaton for registration or in the reply by a person from whom the Registrar calls for information because he suspects that he is illegally conducting banking business. shall be deemed to be fraud or falsitas.
Sub-clause (b) ellects a consequential amendment.
Sub-clausc (c). This provision will entail that the Registrar. with the consent of the Minister. can withdraw or suspend the registration of a discount house if the Reserve Bank were to cease to provide it with rediscounting facilities.
Sub-clause ((1). The existing section 9 (3) provides that if in the opinion of the Registrar. an institution no longer carries on the business of the category in which it is registered. the Registrar may call upon it to submit reasons why its registration should not be withdrawn. Thereafter the Registrar can only act if the institution does not offer resistance and the only act he can perform is to withdraw the registration of the institution. The proposed sub-section requires an institution to furnish acceptable reasons to prevent action on the part of the Registrar. It also grants the Registrar the power. subject to appeal to the Minister, to transfer an institution which has changed the nature of its business to the appropriate category.
Sub-clause (6). This amendment concerns only the few institutions which enjoy exemptions under the Act owing to the fact that. when the principal Act came into operation in 1943, their deposit liabilities were less Hand have since always been less-than their capital and reserves. It amends the procedure to be followed when the former overtake the latter and the Act as a whole therefore becomes applicable to them.
C lause 8
This amendment will entail that the Registrar will have to publish the termination of a provisional registration or any change of name of a banking institution in the Government Gazelle.
C lause 9
See ltelause 411 above.
C lause 10
Proposed section 13: Returns. This new section consolidates the requirements of existing sections 13. 18 and 27 relating to the submission of statements by banking institutions to the Registrar. The following are the only changes in the existing requirements:
(a) All institutions will in future have to futnish their prescribed statements to the Registrar quarterly (proposed section 13 (1) (b)), and also furnish him with monthly statements (proposed section 13 (l) ((1)), Discount houses are exempted from the latter. In the past. monthly and quarterly statements were prescribed for commercial banks, but only quarterly statements for peoplels banks and loan banks anti half-yearly returns for deposit-rcceiving institutions.
(b) Of the statements of assets and liabilities which an institution submits each year. at least one must be certified as true and fair by its auditor (proposed section 13 (3)).
(c) The Registrar must publish each quarter aggregate statements for all the various categories of institutions (proposed section 13 (5)).

Proposed section 14 (1): Capital and Unimpaz'red Reserve Funds. Already discussed in paragraphs 45-48.
Proposed section 14 (3). Already discussed in paragraph 49.
Proposed section 14 (4) allows existing institutions a year to comply with the new requirements in respect of paid-up capital and unimpaired reserve funds.
Proposed section 15: Capital Requirement for Disr-nzmt Houses. Already discussed in paragraphs 74-78.
Proposml sention l6 (1): Minimum Balances will! the Reserve Bank. Already discussed in paragraphs 60-64.
Proposed section 17 (1): Liquid Assets. Already discussed in paragraphs 52-57.
Proposal section 17 (2). As in the case of the amended capital requirements (proposed section 14 (4)) the Committee deems it reasonable to allow institutions twelve months. and in exceptional cases at most 24 months. to comply with the new liquid asset requirements.
Proposed section 17 (3): Variable Liquidity Ratios. Already discussed in paragraphs 58 and 59.
Proposed section 18: Prescribed Investments. Already discussed in paragraphs 65 and 66.
Proposed section 19 merely replaces existing sections 14 (2) and 19 (2) and makes it clear for what periods an institution must maintain the minimum amounts of czmital. liquid assets. etc.. which are based on a particular statement.
Proposed seetirm 20: Covered local position. In the existing Act only commercial banks are required to maintain a covered local position. This proposed amendment makes this requirement applicable to all banking. institutions. Most of them in any event maintain such a position.
Pmpnsml sm'tion 21. Already discussed in paragraphs 67-73.
Proposed vcctimz 22: Discount Houses. Already discussed in paragraphs 74-78.
Proposed sa-Iion 23. The exemptions from certain sections of the Usury Act which at present appear in section 17, are extended to all categories of banking institutions.
Clause 11
The proposed amendment to section 29 will have the ellect that. as in the case of liquid assets. no part of an institutionls prescribed investments may be pledged or encumbered.
Clause 12
The new section proposes a simple manner for the determination of the value of a security for liquid asset purposes in substitution for the complicated provisions of existing section 30.
Clause 13
Proposed section 23bis is a re-enactment of paragraph (iii) of the proviso to existing section 4 (6). and proposed section 32fer of existing section 16.
Clause 14
Here and elsewhere the reference to 7a banking institution registered in terms of the Co-operative Societies Acti, is deleted. Existing section 6 (2) (c) requires a banking institutionito be a company. The only bankingy institution which was a co-operative society-- it already existed before the coming into operation of the principal Act_recently obtained registration under the Companies Act after special legislation made this possible.
C lause 15
Sub-clauws ((1) and (c). The sub-sections mentioned relate only to banking institutions registered in terms

of the Co-onerative Societies Act. They can, therefore.
be deleted. See 7clause 147 above.

Sub-cluuses (b) and (d)
(i) See itsub-Clauses (a) and (CV above.
(ii) All existing banking institutions are corporate bodies. In terms of section 6 (2) (0) (proposed section 4 (6) in Bill) all future ones should also be such. The reference to a banking institution 1twhich is a corporate body" can, therefore, be deleted everywhere.
Clause 16
Sub-clause (a). Section 38 (1) (g) empowers the Registrar to approve the appointment of an auditor. The purpose of this amendment is to put it beyond doubt that when circumstances demand such action, the Registrar may withdraw an approval preyiously given by him.
Sub-clausc (h). Section 38 (2) provides that when a banking inntitution fails to appoint an auditor. the Registrar shall do so in respect of it, but at a re-muneration lixetl by the Minister. It is unnecessary to burden the Minister with this detail: the amend-ment will entail that the Registrar will also fix the remtmsrition of an auditor so appointed.
Suh-r’luuw (c’). The proposed sub-section will save an institution the trouble of re-appointing the lirm and obtaining the approval of the Registrar whenever a new partner joins its auditing firm or a partner leaves the tirm.
Clause 17
Sub-clause ((1). Up to the present the Act has not determined a period within which an institution must submit its annual accounts. etc., to the Registrar: it merely had to be done simultaneously with the sub-mission to members. The proposed proviso now deter-mines a period of three months for the former.
Sub-cluusc (1)). See itclause 15 (sub-clauses (a) and (0))11 above.
Clauses 18 and 19
See paragraph (ii) under "clause 15 (sub-clauses (b) and ((1))44 above.
C lause 20
Sub-clause (a). See "clause 14" above.
Sub-clause (b). The effect of proposed section 44 (l)bis will be that where anyone wishes to apply to a court for the liquidation of a banking institution, the Registrar will receive prior notification of the application.
Sub-clause (C): Proposed section 44 (4).
The effect of the proposed sub-section (4) will be to prevent, in cases where the liquidation of a banking institution entails a call on shares, the placing of a given shareholder in a privileged position owing to the fact that he holds money on deposit with the imtitution.
Proposed section 44 (4lbis. The Committee considers it to be in the nuhlic interest that the Registrar should be consulted in the choice of a judicial manager or a liquidator of a bankingy institution.
Sub-c/auw ((1’). In a recent case doubt arose as to whether or not orders in connection with judicial management or liquidation made by courts in the Re-public have the same validity in South-West Africa. At iCitSi in so far as bankingy institutions are con-cerned. the proposed section 44 (7) will remove this uncertainty.
Clause 21
See liclztuse 14" above.
Clumc 22
See ticlause 1514 above:
Paragraph (ii).
Sub-clauses (b) and (d):

Clause 23

Apart from effecting consequential amendments, this clause Changes the basis on which the public pays for copies of documents which they obtain from the Registrar.

Clause 24

Only effects consequential amendments.

Clause 25

Will entail that, as is the case with the principal Act, amendments will also apply in South-West Africa and the Eastern Caprivi Zipfel.

Clause 26

Since the banking industry has to adapt itself continuously to changing circumstances, the Committee deems it desirable that the periodic revision of the Banking Act should be made compulsory.

Clause 27

The comprehensive amendment of the Act which is proposed, renders it necessary that the existing chapter headings be replaced by new ones.

Clause 28

Repeals certain sections of the South African Reserve Bank Act which are now included in proposed section 17 (3).

Clause 29

Short title and commencement.

CHAPTER 6

SPECIFIC AMENDMENTS TO THE BUILDING SOCIETIES ACT

The following explanatory notes refer to the specific amendments proposed in the accompanying draft Building Societies Amendment Bill.

Clause 1

The purpose of the proposed amendment is to determine unambiguously, as in the case of the other types of financial institutions, the powers of the Deputy Registrar.

Clause 2

In terms of the present provision a building society may not use a literal translation of its full registered name. It may translate only words appearing in its name other than those forming the distinctive part of the name. The proposed amendment will enable building societies to use. like banking institutions and insurers. literal translations of their registered names. Furthermore, a society will also be able to use an abbreviation of its name approved by the Registrar.

C lause 3

The present provision in the Act eliminates the operation of the two defences in question only in the case of loms obtained by a woman from a building society. The proposed amendment aims at covering also instances where a woman stands surety for any other borrower from a building society. i.e. all instances where the said defences can be used.

Clause 4

Suh-clcmse (a). With a view to simplitication it is suggested that the description of the deposits which a building society may make, be transferred from this section to section 24 read with the definitions of "liquid ussetsil and t’preseribed investmentsii in section 61.

Sub-c/mtse (b). The deleted provision has been incorporated in the proposed paragraph (6) of subsection (1).

Sub-clause (c)
(1) Since building societies are so stringently curtailed in regard to the security against which they may advance money, it is felt that in respect of loans to a societyis own employees a concessmn may be made in this regard and hence the power in the proposed paragraph (i)bis of sub-section (1).
(ii) Societies are already authorized to make donations out of their profits to educational organizations or institutions. It is, however, felt that societies can make a greater contribution to education if, in certain cases, instead of making donations, they grant loans to approved educational organizations or institutions at reduced rates of interest, even in cases where the organization or institution cannot offer the security required by section 24. It is suggested that societies be provided with the necessary power by the insertion of the proposed paragraph (i)rer of sub-section (1).
The principal function of the building society movement is to grant loans against the security of urban immovable property in order to enable members of the general public to become home-owners. These loans are made out of the savings of the public which the latter entrusts to societies in the form of either deposits or share capital.
The safeguarding of these savings is of the utmost importance. One of the means employed to safeguard these savings is insurance. A mortgage of immovable property offers but little security if the building thereon, which can at any time be destroyed totally by fire, is uninsured. The insurance of a hypothecated property against loss caused by fire, storm, etc., is, therefore, as important as the registration of the mortgage bond. The principle of safeguarding the trust funds entrusted to them by means of insurance has during the course of years been further extended by building societies to cover also the case where the breadwinner of a family dies while the debt on the dwelling-house has not yet been redeemed. Life insurance coupled with the mortgage liability can be taken out so that the balance owing on the loan is wiped out on the death of the breadwinner. This insurance, in particular that against damage to buildings, is so indispensable for the safeguarding of the trust funds entrusted to building societies, that it may be regarded as an integral part of the principal function of a building society, namely. the granting of mortgage loans. Consequently it is being contended that building societies ought to be permitted to provide the necessary insurance cover themselves in order to achieve more fully the aims of the movement.
Urgent representations were made to the Committee by some societies that a provision be introduced into the Act, authorizing societies themselves to establish an insurance company. It is claimed that the building societies can provide the relative insurance to the borrower more cheaply. The proposed paragraph (i) quater will enable building societies to establish an insurance company.
(iii)
Clause 5
Restrictions on the acceptance and repayment of

deposits
The deviations from the present provisions of the Act are in the main the following:
(a) the insertion of a prohibition on the acceptance of savings deposits from limited liability companies;
27
(b) the decrease of the largest amount which any building society may maintain on savings account for any one person from R10,000 to R6,000;
(C) the removal of the requirement that repayment of a iixed deposit must be ellected by way of monthly payments of a limited amount and the increase of maximum amounts that may be accepted on lixed deposit:
(d) the insertion of a prohibition on the repayment of a tixed deposit within twelve months from the acceptance thereof except in specitied exceptional cases;
(e) the prescription of a minimum rate of interest at which loans against the security of a lixed deposit may be granted.
The reasons for these proposed amendments have been discussed at length in chapter 4, particularly paragraphs 111-114. It will be noticed that in so far as savings deposits and the repayment of tixcd deposits are concerned, similar provisions are proposed for all banking institutions registered under the Banking Act. In this connection see the remarks in paragraphs 69-73, which also apply in the case of building societies. Whereas it is possible for a building society to commence business with a much smaller capital than that required in the case of a banking institution, it is suggested that a building society, the total assets of which do not exceed half a million rand may not maintain in savings account on behalf of any one person, more than two thousand rand as against six thousand rand in the case of the larger building societies and all banking institutions.
Clause 6
Sub-clause (a). The present provision which imposes the same restriction on monthly repayments in the case of loans as in the case of fixed deposits, must be deleted in order to bring the position in regard to loans into line with the alteration proposed in the case of fixed deposits.
Sub-clausc (b). The proposed amendment is necessary on account of the proposed amendment of section 23ter.
Clause 7
Minimmn liquid assets
The reasons for proposing that the minimum amount of liquid assets which building societies must maintain should amount to only 15, 10 and 5 per cent of their short, medium and long-term liabilities, respectively, while the corresponding ratios for all banking institutions registered under the Banking Act (excluding discount houses) will be nearly twice as high, namely 30, 20 and 5 per cent. have already been discussed in chapter 4. particularly in paragraphs 111-117.
As is presently the case. building societies will not be required to maintain any liquid assets against their indelinite period shares. Justification for this important concession is the proposed imposition of restrictions on the early repayment of such shares, as set forth in clause 10 (b) and (c) 01 the draft Building Society Amendment Bill and discussed in paragraph 113 (e) of this Report.
In accordance with the deiinition of "medium-term liability" in clause 19 (d), savings deposits will be treated as medium-term and not as short-term liabili-

ties. The reasons for this concession have already been furnished in paragraphs 67, 68 and 113 (c).
The alternative basis for the calculation of the amount of liquid assets which a society must maintain in respect of its hxed deposits, as contained in the proviso to section 23m (1) (u), aims at simplitication and consequential saving of labour without any weakening of the position. Building societies may not accept fixed deposits for periods of less than twelve months. It can reasonably be assumed that the acceptance of fixed deposits by an established society will be more or less evenly spread over time. If a society has accepted all

its flxed deposits for the minimum period of twelve months permitted by the Act, the position at a given moment will, therefore, in all probability be that one half of the total amount of its fixed deposits will mature in six months or more and accordingly fall within the long-term category of liabilities against which 5 per cent liquid assets must be maintained; five-twelfths will mature in from (me to six months and will, therefore, be medium-term liabilities against which 10 per cent liquid assets must be held; while the balance, namely one-twelfth, will be repayable within one month, i.e. short-term liabilities against which 15 per cent liquid assets must be held. The aggregate amount of liquid assets which the society will be required to maintain on this basis will, therefore, amount to 7-11/12 per cent of its total amount of fixed deposits. Where a socrety accepts portion of its tixed deposits for longer periods than the minimum of twelve monthsvewhich generally in tact is the casea-a relatively larger proportion of its total fixed deposits will fall within the long-term group of liabilities and the albremcntioned ratio of requtred liquid assets to total lixed deposits will drop below the above-quoted 7-11/12 per cent. The thltlul hgure for all societies as at 31st May, 1963, determined as a test, amounted to iust under 7 per cent. The proposed alternative formula of 73 per cent of the total amount of llXCtl deposits will, therefore, probably in general require a larger amount of liquid assets than that calculated on the basis 01’ short. medium and long-term liabilities.

Clause 8

I)I’Cb’t’l’i bed Invest/m’nm

The reasons for the introduction of this requirement have already been set out in paragraphs 65, 66 and 115 (d).

In contrast to the position as regards liquid assets, building societies are required to maintain prescribed investments also against their intletinite period shares. For that reason and partly also for the reasons furnished above in the case of liquid asset requirements, it is suggested that building societies maintain prescribed investments equivalent to 10 per cent only of their liabilities as against the 15 per cent in the case of banking institutions.

C luuse 9

Sub-rlause (a). As the types of assets which rank as liquid assets or prescribed investments and in which a building society is, therefore, compelled to invest, are already stipulated in the proposed definitions of those two types of assets in section 61, it is suggested that, in order to avoid unnecessary repetition, their enumeration in section 24 (1) be deleted.

The proposed new paragraph ((1’) of section 24 (l) arises from the authority granted by the proposed paragraph (i) qzlater of section 22 (1).

There are no sound reasons why a terminating building society should not deposit money also with a registered banking institution other than those mentioned in the definition of ltbank or banker in section 61 and on request of a banking institution such power has been incorporated in the proposed paragraph (6) of section 24 (l).

Sub-rlause (b). For the purposes of a restriction on the granting of large advances by building societies, so that they will contine themselves mainly to their primary function. namely the tinancing of the acquisition of ordinary dwelling-houses, R10,()00 was laid down in 1946 as the dividing line between normal advances for dwelling-house purposes and lllargell advances. As a result of the considerable increase since 1946. in the acquisition costs of dwelling-houses and of immovable

property generally, R10,000 as the aforesaid dividing line is today definitely unrealistic. After consideration of urgent representations by the building society movement, the Committee suggests that the dividing line be raised to R15,000. The Committee further suggests that all societies irrespective of size, be permitted to invest the same percentage of their total assets in ttlargell

advances, in contrast with the present provision in terms of which a society may, relative to its growth, invest an increasing percentage of its total assets in such advances. A maximum of 25 per cent of total assets, which is the present percentage for the largest societies, is suggested. The reasons for this proposal are flrstly that the total amount which a society may invest in large advances is always limited by its own size because the smaller the society. the smaller is the amount which represents the stated percentage of its total assets. Secondly, the requirement that a society may not invest in a single advance more than an amount equivalent to 10 per cent of its indefinite share capital and statutory reserve, and in any case not more than R400,000, ensures that also in the category of "large" advances there will be a spreading of risks.

The proposed change from an annual to a quarterly basis as regards the assets ligure for the purposes of this provision has in view relief to young fast-growing societies.

tS’ub-clause (e). As a result of the considerable increase during past years of the cost of living in general and in particular of property values and of costs of transfer of immovable property, it became continuously more dillieult tor the man in the street to raise the ditlerence between the maximum amount which a building society may advance, namely 75 per cent of the valuation of the property in the case of a reducible mortgage bond, and the purchase price of the property as well as the total cost of transfer. Consequently a number of schemes are in existence today under which persons can obtain assistance by way of collateral security which is furnished to the building society so that it may make a larger advance than the prescribed 75 per cent. However. there are still persons who cannot obtain any or sullicient assistance under the aforementioned schemes. In order that these people may also be assisted to some extent, the building society movement requested that the percentage advance be increased from 75 per cent to 80 per cent or more, or alternatively, that building societies be permitted to advance the prescribed percentage also of the cost of transfer. After consideration the Committee is not prepared to recommend an increase in the percentage which may be advanced, but feels that there is justification for permitting a building society to advance also portion of the cost of transfer. The dilference in the effect of the two alternative proposals is that an increase in the percentage which may be advanced will result in larger advances also in the case of the crectiun of buildings.

Sub-c’luusc (d). The remarks under sub-elause (6) above apply nmmtis mutandis.

SHb-c/ause (e). The restriction on advances on commercial and industrial properties has already been discussed in paragraph 113 ((2).

Clause 10

.S’Hb-clause 113 (d).

Sitb-z’lauses (b) and (c). The reasons for the proposed restrictions on the repayment of shares have already been discussed in chapter 4.

((1). Already discussed in paragraph

These new provisions are basic to the approach sug-

gested by the Committee in regard to building societies. The reasons why the alternative of introducing liquidity requirements in respect of these liabilities is considered to be unacceptable, have been discussed in paragraphs 103-110.

It will be observed that the restriction of 18 months and the requirement of 3 months notice will not apply in cases where shareholders have been notified of an intended reduction in the dividend rate in terms of sub-scction (6) of the proposed new section 2510’. This has the elfect that shareholders who are dissatisfied with the reduction in the dividend rate and are of opinion that they can make a better investment elsewhere. may obtain almOst immediate redemption of their shares if the society concerned agrees to redeem the same. It is

expected that in practice societies will, if at all possible. readily agree to such redemption. In the past it was not the unwillingness of societies to redeem shares that created problems for the monetary authorities. but rather their well-known willingness to repay such shares virtually on demand.

The Committee is of opinion that once the proposed amendments regarding building society shares are put into ellect, the funds which will tiow into such shares will consist almost entirely of genuine long-term personal savings. Under such circumstances the dividend rate on these shares will not bear any direct relationship to short-term money market rates and it can be assumed that the monetary authorities will not expect it to react immediately to every change in Bank Rate. In the event of a Bank Rate reduction, it would then be unreasonable for banking institutions to insist on a simultaneous reduction in the dividend rate of building society shares as a condition for the lowering of their own lending and short-term deposit rates. Building society shares will then clearly be out of the money market or ttbanking sectori, and the dividend rate paid on such shares will tend to be much more stable than short-term rates.

Sub-clause (d). Cases occur where the shareholder, after having made a few of the periodic contributions in respect Of a subscription share for some reason or other, ceases to make further payments. To maintain such an account, with perhaps only a few rand paid in, for an indefinite period can be more of a nuisance than of benefit to the building society. The authority contained in the proposed sub-section (17) will enable a society to get rid of such accounts.

As in the case of loans against fixed deposits-- already discussed aboverthe object of the provision contained in the proposed sub-section (18) is to prevent loans against shares being abused to circumvent the restrictions on the repayment of shares.

Clause 1 1

The present provisions of the section prescribe a twofold and complicated capital requirement. The etl’ect 0f the proposed amendments will be to simplify the capital requirement, which in view of the other proposed amendments is deemed justified.

C lause 12

Sub-clausc (a). The present wording of the sub-section is susceptible to more than one interpretation and the proposed amendment will state the intention unambiguously.

Sub-clause (b). The authority conferred by the proposed sub-section will enable a building society to reduce the dividend rate on shares already issued by it without following the cumbersome procedure of giving notice of repayment in accordance with paragraph (a) of section 25 (1), coupled with an offer of exchange for shares bearing a lower dividend rate.

game 13

The proposed provision is similar to an existing provision in the Banking Act. The necess1ty for such a provision is obvious.

Clause 14

The section debars, inter alia, an agent of a building society from becoming a director of the society. It is similarly necessary to prohibit a person in the employ of such an agent from becoming a director of the society, and hence the addition proposed.

Clause 15

The big building societies have ten thousands of members. If such a society has to furnish a proposed new set of rules, which might possibly still be rejected, to every member, the cost comes to a considerable

amount. The proposed amendment enables a socrety
to curtail expenses without depriving any member of
the right to obtain a copy of such rules.
29
C lame 16
The proposed amendment arises from the amendment
to section 24 (1) bis referred to under clause 9 (b)
above.
Clause 17
The proposed sub-section will spare a society the
trouble of making a fresh appointment and of obtain-
ing the Registraris approval whenever a change occurs
in the composition of its tirm of auditors.
blame 18
The Committee deems it in the public interest that
the Registrar should be consulted regarding the choice
of a judicial manager or liquidator of a building society.
Clause 19
Sub-clause (a). The Committee feels that as long as
a banking institution is still registered provisionally,
i.e_ is actually still on probation, building societies
should not make deposits with it. On the other hand,
it can see no reason why such deposits should not be
permitted with types of banking institutions other than
commercial banks, provided that such a bank is required
to maintain a reserve balance with the Reserve Bank;
in other words, provided that its short-term deposit
business is of sufficient volume.
Sul)-c.-’al.lsc’ (c): Definilion 0f liliquid assets". The
present Act does not contain a definition of this expres-
sion, while the specification of assets which rank as
liquid assets is dispersed over three sections of the
Act. The amendment further aims at bringing the defini-
tion of ttliquid assetsii for building societies as closely
as possible in line with that for banking institutions.
As in the case of banks, and for the same reasons-
indicated in paragraphs 50 and 51 of this Report_the
purpose of the proposed amendment is to narrow the
legal definition of liquid assets. Probably all societies
will have to supplement their liquid assets, in the pro-
posed new sense, to an appreciable extent in order to
meet the proposcd requirements, but the societies are
in agreement with the Committee that the adjustment
is necessary.
SHb-clauses (d) and (j). The concepts 11long-term
liabilityii, timedium-term liability, and tishort-term
liability" have already been discussed in paragraph 52.
The definitions are similar to those proposed for
banking institutions.
Sub-clause (g. The concept uprescribed invest-
inentsi, has been discussed in paragraphs 65 and 66.
Sub-clauses (h) and (i). The reasons for the intro-
duction of the definition of 2savings account,, and for
the amendment of the definition of tisavings deposit"
are to be found in the provisions of section 23 and have
been discussed in paragraphs 67, 68 and 113 (c).
C Iause 20
The principal Act already applies to South-West
Africa. The purpose of the proposed addition is, firstly,
to make it clear that, for purposes of the section, the
Eastern Caprivi Zipfel is regarded as part of the terri-
tory and. secondly, to apply future amendments of the
Act automatically to the territory.
Clause 21
Like the oanking industry, the building society indus-
try has to adapt itself to continuously changing circum-
stances. and the Committee therefore deems it desirable
that the periotli; revision of the Buiiding Societies Act
should be made compulsory.
C lause 22
The proposed amendment will bring the prescribed

fees more in line with those pertaining to banklng institutions.

APPFNDIX A
ORGANIZATIONS AND INSTITUTIONS WHICH MADE
WRI’I’TFVN REPRESENTATIONS TO THF. COMMITTEE
Accidcnt Imuruncc Council.
Accident Olhccs’ Association of Southern Africa.
Thc Association of Building Societies of South Africa.
The Association of Trust Companics in South Africa.
Burcluys Bunk D.C.O.
Bunmbclcggings-korpomsic van Suid-Al’riku
British Kutfrurizm Savings Bank Society.
Thu Cape of Good Hope Savings Bunk Society.
Thu Colonial Banking and Trust Company Limited.
Cmnmcrciul Banks (ioinl rcprcs’cnlutions).
The Council of Fh’c lmurzmcc Companics in South Africa.
The Duposit Banking (Turpomlihn of South Africa Limitqd.
Discount Houses (ioinl rcprcscnlulinns).
chcmlc Volkshclcggings Bcpcrk.
Finnncc Hansen Asmciulinn of South Africa.
The First Nutiunul City Bunk M New York (8A.) Limited.
Thc Guardian Savings Bunk Limited.
The Insurance Councils.
Thc Land and Agricultural Bank 01’ South Africa.
llumHmu-unic van die WintcrrcEnstmck.
lhhe l,il’c ()Hiccx’ Axsncintion of Southern Africa.
Mcrchml liunkx (joint rcprcscntalions).
’lhhc NJUUHZII Discount House of South Africa Limited.
chcrlundsc Bunk van Suid-Afriku Bcpcrkh
()m licrslc Volkxhunk.
’lhc Puurl Bnurd 01’ Exccuturs Limited.
Puhlic AcwnnlunlC und Auditorsh Board.
The chixlrur of (Rw-opcrutivc Sociclics.
Bepcrk.
30
Southern Cross Terminating Mutual Building Society.
The Standard Bank of South Africa Limited.
Dic Suid-Afrikaansc Landbou-unic.
Suid-Afrikaansc Spaar- cn Voorskotbank Beperk.
Trans-Drakcnsbcrg Bank Bcperk.
Die Trust Bank van Afrika Beperk.
Union Acceptanccs Limited.
United Municipal Executive of South Africa.
Die Vereniging van Bankinstellings Bepcrk.
Volkskas Bcpcrk.
ORGANIZATIONS. DEPUTATIONS AND INSTITUTIONS
WITH WHICH THE COMMITTEE CONDUCTED
DISCUSSIONS
The Association of Building Societies of South Africa.
British Kaffmrian Savings Bank Society.
The Cape of Good Hope Savings Bank Societyh
’lhc Colonial Banking and Trust Company Limited.
Commercial Banks.
Discount Houses.
Finance Houses Association of South Africa.
Long-Icrm insurers.
Merchant Banks.
The Paar! Board of Executors Limited.
The Registrar of Co-opcmtive Societies.
Shorl-tcrm Insurersh
Dic Suid-Afrikzmnse Landbou-unie.
Suid-Afrikuzmsc Spaur- cn Voorskotbank Beperk.
’lhrans-Drukcnsbcrg Bank Bepcrk.
Transvaal and Orange Free State Chamber of Mines.
Dic Vcrcniging van Bunkinstellings Beperk.

APPENDIX B
EXISTING LEGAL REQUIREMENTS FOR DEPOSIT-RECEIVING INSTITUTIONS IN SOUTH AFRICA

Commercial Banks
Peoplets Banks
Loan Banks
itDeposit-Receiving
Institutions"
Building Societies
Capital and
Unimpaired
Reserve Funds.
The paid-up capital and unimpaired reserve funds together must amount to not less than_
(i) either hundred thousand rand and in addition thereto ten thousand rand for each office, branch or agency in the Republic in excess of five, or
(ii) ten per cent of the total amount of its liaa bilities t0 the public payable in the Republic, whichever is the greater:
Provided that for the purposes of this paragraph a bank may deduct from its aforesaid liabilities an amount equal to the sum 0f_
(a) its credit balance with the Reserve Bank;
(b) its credit balance with the National Finance Corporation of South Africa;
((3) the amount of Reserve Bank notes which it holds;
((1) the amount outstanding on any loan made by it to a discount house approved by the Reserve Bank;
(e) the amount paid by it for the Treasury bills which it holds;
(f) the amount paid by it for any bills, issued by the Land and Agricultural Bank of South Africa, which it holds;
(g) the market value of any debentures, issued by the Land and Agricultural Bank of South Africa and quoted on a stock exchange in the Republic, which it holds;
(h) the amount of its advances granted to the Land and Agricultural Bank of South Africa;
(i) the market value of the stocks of the South African Government which it holds; and
(j) the amount paid by it for any bills of exchange held by it which have been accepted by any other commercial bank or by any acceptance house and which are eligible for discount by the Reserve Bank,
provided, in the case of any asset mentioned in sub-paragraph (e), (f), (g), (i), or (j), such asset is not pledged or otherwise encumbered.
The paid-up capital or guarantee deposits and unimpaired reserve funds together must amount to not less than ten per cent of its liabilities to its members or to the public;
provided that for this purpose a peopleis bank may deduct from its aforesaid liabilities an amount equal to its liquid assets.
The paid-up capital or guarantee deposits and unimpaired reserve funds together must amount to not less than ten per cent

of its liabilities to its members or to the public in the Republic; provided that for this purpose a loan bank may deduct from its aforesaid liabilities an amount equal to its liquid assets in the Republic.

The paid-up capital or guarantee deposits and unimpaired reserve funds together must amount to not less than ten per cent of its total liabilities to the public in the Republic; provided that for this purpose a deposit-receiving institution may deduct from its aforesaid liabilities an amount equal to its liquid assets in the Republic.

(i) The sum of the paid-up indefinite share capital and of its statutory reserve shall at no time be less than twenty-five per cent of the sum of its remaining paid-up share capital and of the deposits, loans and overdrafts it may have received but not yet repaid.

(ii) The paid-up share capital shall not at any time amount to less than two-fzfths of the total sum received by the society on deposit and loan or overdraft and not yet repaid.

(iii) Of the paid-up share capital referred to under (ii), not less than three-quarters shall have been obtained by the issue of shares for an indefinite period.

(iv) Subject to certain provisions, every permanent registered society shall in each year take from its profits an amount equal to at least ten per cent of its net profits in that year for the purpose of forming therewith a reserve fund.

If and so long as the reserve fund accumulated equals or exceeds ten per cent of the sum total of the societyis liabilities to depositors and in respect of loans and overdrafts received and the paid-up share capital of the society, it shall not be obligatory upon the society to apply any portion of its profits to the increase of that fund.

Reserve
Balance in
Reserve Bank.

Ten per cent of its demand liabilities payable inthe Republic, plus three per cent of its time liabilities payable in the Republic.

None

None

None

None

M
W
Liquid Assets
Commercial Banks
Thirty per cent of the total
amount of its liabilities to
the public payable in the
Republic.
(0
(ii)
(iii)
People’s Bank:
Thirty per cent of its deposits re-
payable on demand.
Fifteen per cent of its liabilities to its
members or to the public (other than
deposits repayable on demand) pay-
able within six months or subject to
less than six months’ notice before
becoming payable.
Five per cent of its liabilities to its
members or to the public payable
after six months or subject to not less
than six monthsi notice before be-
coming payable:
Provided that for this purpose a people’s
bank may deduct-
(a)
(b)
from the liabilities referred to in
paragraph (ii), the amount out-
standing on any loan made by such
bank against the security of savings
or fixed deposits included under that
paragraph, which it holds to the
credit of the borrower:
from the liabilities referred to in
paragraph (iii), the amount out-
standing on any loan made by such
bank against the security of savings
or fixed deposits included under that
paragraph, which it holds to the
credit of the borrower.
Loan Bank:
The same as for
peopleis banks, except
that "liabilities" refers
to ttliabilities payable
in the Republic".
iiDeposit-Receiving
Institutionsn
(i) Thirty per cent of its deposits
repayable on demand; and
(ii) twenty per cent of its deposits
payable within six months or
subject to less than six monthsi
notice before becoming payable:
and
(iii) ten per cent of its deposits pay-
able after six months or subject
to not less than six monthsi
notice before becoming payable.
Provided that for this purpose a
deposit-receiying institution may de-
duct_
(a) from the deposits referred to in
paragraph (ii), the amount out-
standing on any loan made by
such institution against the
security of savings or le’ed
deposits included under that

paragraph, which it holds to the credit of the borrower:
(b) from the deposits referred to in paragraph (iii), the amount outstanding on any loan made by such institution against the security of savings or fixed deposits included under that paragraph, which it holds to the credit of the borrower.

Building Societies

A society shall hold:
(a) in cash; or
(b) on deposit, not exceeding two years, with a bank approved by the Registrar, certain local authorities, the NBC. and approved discount houses: or
(c) in specined securities, mainly S.A. Government, Local Authority and Public Utility securities and Land Bank bills and debentures:
an amount not less than the sum of-
(i) Iliirzy per cent of the aggregate amount of its liabilities in respect ofe
(a) savings deposits;
(b) unsecured bank loans and overdrafts;
(5) bank loans and overdrafts not secured by specified securities;
(d) other loans, not repayable by regular instalments, in so far as such loans are repay able within one year from date;
(9) interest accrued on all loans and deposits:
(ii) twenty per cent of the aggregate amount of its liabilities in respect of_
(a) fixed deposits;
(b) fixed period subscription shares, issued for a period of not more than five years:
(6) loans repayable by regular instalments:
(:1) other loans, not repayable by regular instalments, in so far as such loans are repayable after one year from date but within not more than the years from date;
(iii) ten per cent of the aggregate amount of its liabilities in respect of-
(a) hxed period subscription shares, issued for a period of more than five years;
(b) fully paid-up fixed period shares;
(6) loans, other than any specified in paragraphs (i) and (ii) and repayable after more than tive years;
(d) guarantee deposits;
(iv) the full amount of dividends due by the society but not yet paid on fully paid-up shares, including any amount recommended by the directors for payment as dividend on such shares, but not yet confirmed by the members; and
(v) twenty-five per cent of advances granted but not paid out.

Commercial
Banks
Special None
provisions
regarding
deposits
People’s Banks
A Peoples Bank shall not, save with the written consent of
the Registrar, which may be in general terms, and subject to
such conditions as the Registrar may prescribe, in relation to
its total liabilities to the public as severally set out in the hrst
column hereunder, allow any one person to maintain a credit
balance on savings account in excess of the amount set out in
the second column hereunder or allow any person to hold
fixed deposits which exceed in the aggregate exclusive of
interest, ten times the amount set out in that column or which
fall due for payment in any one month in an amount which
exceeds, exclusive of interest, the amount set out in the third
column.
Maximum
amounts
repayable on
fixed deposits
to any person in
any one month
Total liabilities to the
public afa Peoples
Bank as at the close of
its last financial year
Maximum
sa vings
account
credits
Not R R R
exceedin g 200,000 200 400
,, 400,000 400 800
,, 800,000 600 1,200
,, 1,200,000 800 1,600
,, 2,000,000 1,000 2,000
,, 4,000,000 2,000 4,000
,, 10,000,000 4,000 6,000
Exceeding 10,000,000 6,000 8,000
Loan Banks
The same as for
Peoplehs Banks
0 Deposit-
Receiving
Institutions"
None
(1)
(2)
(3)
(4)
Building Societies
A registered society shall not accept deposits of money subject to
withdrawal by cheque, draft or order payable on demand.
Save with the written consent of the registrar, which may be in
general terms, and subject to such conditions as he may pre-
scribe, no society shall, in relation to its total assets as severally
set out in the first column hereunder, allow any one person to
maintain a credit balance on savings account in excess of the
amount set out in the second column hereunder, or allow any
person to hold fixed deposits which exceed in the aggregate,
exclusive of interest, twelve times the amount set out in the third
column hereunder, or which fall due for repayment in any one
month in an amount which exceeds, exclusive of interest, the
amount set out in the third column.
Maximum
monthly
repayments
10 any one

person on
fixed deposit
Maximum
savings
account
credits
Tolal assets of a society as at the
close of the last financial year
Under R200,000 R500
R200,000 and under R500,000 R1,000
R500,000 ,, ,, 112,000,000 R3,000
R2,000,000 ,, ,, R10,000,000 R5000
R10,000,000 ,, ,, R20,000,000 R7,000
R20,000,000 ,, ,, R40,000,000 R8,000
R40,000,000 and over R10,000
R1,000
R2000
R5,000
R7,000
R9.000
R10,000
R12,000
Savings deposits shall not be accepted by a registered society upon terms allowing withdrawal thereof upon shorter notice than--
(a) four days, where the amount withdrawn does not exceed ten rand;
(1)) seven days, where the amount withdrawn exceeds ten rand but does not exceed twenty rand;
(c) fourteen days, where the amount withdrawn exceeds twenty rand but does not exceed fifty rand;
(d) thirty days, where the amount withdrawn exceeds fifty rand:
Provided that the directors may in their discretion authorise savings deposits to be withdrawn before the expiry of the period of notice: Provided, further, that no notice of withdrawal shall run concurrently with a previous notice.
Fixed deposits shall be paid out on the due dates: Provided that the directors may in their discretion cause the same to be paid out before the due dates on the application of the depositors.

U)
U)

_____-__-

Special provisions regarding assets (ex-eluding liquid asset require-ments)	
Commercial Banks	None
Peoplek Banks	It is to be a condition ofevery loan which a peopleis bank grants (other than a loan against the security of savings or fixed deposits which it holds to the credit of the borrower) that the loan shall be re-payable in approxi-mately equal instal-ments at intervals of not more than one month each.
Loan "De osit-Receiving P Banks lnstitutionsii	Building Societies
The same as for the Act, Peopleis Banks ex- cept that a so-ttloans secured by suretiesii refers to Total (15501; of a sucit’ly as at the case of HS lust	None (1) Such portion of the funds of a registered society as is not held in cash or on deposit in accordance with the provisions of the Act, shall be invested in one or more of the following forms of security and in no other manner, that is to say- (a) in advances to members and others on the security of reducible or fixed term mortgages of urban immovable property situate within the Republic, subject to the following restrictions: (i) a society may not make an adx ance exceeding twenty thousand rand or ten per cent ofthe sum ofits indefinite share t’loansi, capital and stautory reserve, whichever is the greater, nor exceeding in any event four hundred thousand rand; (ii) save With the written consent of the Registrar the sum total of all advances on each of which there is owing to a society an aggregate sum in excess of ten thousand rand shall at no time exceed the percentage set out in the second column hereunder, in relation in each ease to the total assets of the society, as severally set out in the first column. Maximum percentage of advances on each of which Not exceeding Rl,000,UOU 7f 112000.000 12% R10.000.000 15 ., ,, R20,000,000 20 Exceeding R20,UOU,OUO 25
	(iii) Save with the written consent of the Registrar, the aggregate amount owing to a society in respect of advances secured by the mortgage of vacant land shall not exceed ten thousand rand or five per cent of ths sum of its indefinite share capital and statutory reserve, whichever is the greater, nor shall the amount owing to a society in respect of advances on vacant land situate in any one township exceed five thousand rand or one per cent of the sum of its indetinite share capital and statutory reserve, whichever is the greater; (iv) the aggregate amount of advances against the security of fixed term mortgages shall not exceed ten per cent of the total assets of the society. (b) in loans to depositors on the security oftheir deposits with the society and to members on the security of their shares in the societv; (c) in bills. bonds. certificates, debentures or stock issued or guaranteed by the South

African Government;
((1) in stock of any local authority in the Republic authorised by law to levy rates upon immovable property;
(e) (i) in debentures or stock of the Rand Water Board or the Electricity Supply Commission;
(ii) in bills issued by the Land and Agricultural Bank of South Africa or debentures, issued by that Bank, which
are quoted on a stock exchange in the Republic;
(iii) in any other negotiable security approved by the Registrar.
(2) A society shall not advance money on the security of immovable property Which is subject to a prior mortgage bond,
unless the prior mortgage bond is in favour of the society.
(3) A registered permanent society shall not, on the security of a reducible mortgage of immovable property advance more
than seventy-tive per cent of the value reasonably determined of the property hypothecated or the lease or licence ceded,
unless collateral security is given.
(4) A registered permanent society shall not on the security of a fixed term mortgage of immovable property advance more
than sixty-six and two thirds per cent of the value reasonably determined 0f the property hypothecated or the lease or
licence ceded, except where collateral security is given.
A reducible mortgage of immovable property shall provide for the repayment of the capital amount advanced-
(i) within a period of not more than thirty years where the capital amount advanced does not exceed hfteen thousand
rand and the mortgaged property is property on which a dwelling house has been or is to be erected; or
(ii) within a period of not more than twenty years in all other cases.
A fixed term mortgage of immovable property shall provide for the repayment of the capital amount advanced within a
period of not more than five years: Provided that the period within which) the capital amount is to be repaid may be
extended from time to time in the discretion of the society for further periods not exceeding five years.
(5) A registered permanent society may invest in oftice premises primarily required for the administration of its affairs an
amount not exceeding the percentage set out in the second column hereunder, in relation in each case to the sum of its
paid-up indefinite share capital and statutory reserve as set out in the first column:
Tom! paid-up indefinite xhure rapiml plus statutory reserve Maximum percentage
Not exceeding R20,000,000 20
,, ,, R100.000.000 15
,, ,, R200,000,000 12%
Exceeding R200.000.000 10
n u
n n
_____-____-__-____-_-
Special provisions regarding the opening of branches and agencies.
A commercial bank shall not carry on any business in the Republic through a person who is not its full-time servant, i.e. commercial banks are not to operate through agents.
None
None None None
W
34

3 5
GENERAL EXPLANATORY NOTE:
I 1 Words in bold type in square brackets indicate omissions proposed by Minister on introduction.
Words underlined with solid line indicate insertions proposed by Minister on introduction.
BILL
To amend the Banking Act, 1942.
BE IT ENACTED by the State President, the Senate and the House of Assembly of the Republic of South Africa, as follows:_
1. Section one of the Banking Act, 1942 (hereinafter referred to as the principal Act), is hereby amended-
(a) by the substitution in sub-section (1) for the definition of iibanking institutionii of the following definition:
mbankmg institutioni or iinstitutioni means a com- merelal bank or a discount house or a general bank or a hire-purchase bank or a merchant bank or a savings bank;i,;
(b) by the deletion in that sub-section of the definitions of iidemand liabilityii, tidirectorii and iiguarantee deposits,,, and the insertion in that sub-section in the stead of the said definitions of the following definitions:
mdiscount house, means a person whose business consists of discounting or buying and selling or investing in the securities referred to in sub-section (1) of section twenty-two and also of accepting, predominantly against the pledge of such securi- ties, loans repayable on demand or at short notice from the institutions referred to in sub- section (2) of the said section;
ico-operative societyi means a co-operative society or co-operative company registered under the laws relating to co-operative societies and co-operative companies;
igeneral banki means a person who carries on the business of accepting deposits, but does not include a commercial bank or a hire-purchase bank or a merchant bank or a savings bank;
thire-purchase banki means a person who carries on the business of accepting deposits and of whose other business the financing of hire-purchase transactions forms a substantial part;
land Banki means the Land and Agricultural Bank of South Africafi;
(c) by the substitution in that sub-section for the definition of tiliquid assetsi, 0f the following definition:
mliquid assetsi means the aggregate amount of_
(a) Reserve Bank notes and subsidiary coin;
(1)) credit balances with the Reserve Bank;
(0) deposits withdrawable on demand with the National Finance Corporation;
(d) deposits withdrawable on demand with a banking institution which is required to maintain a reserve balance with the Reserve Bank;
(6) loans to discount houses repayable on demand;
(f) Union treasury bills;
(g) stocks of the Government with a maturity to the latest redemption date of not more than three years;
(11) bills issued by the Land Bank and advances to the said bank which, at the option of the lender, are convertible into bills;
(1') debentures of the Land Bank with a maturity of not more than three years;
(j) acceptances of a banking institution which is required to maintain a reserve balance with the Reserve Bank, not being acceptances of the banking institution concerned itself;

(k) self-liquidating bills or promissory notes arising out of the movement of goods, With a maturity not exceeding one hundred and twenty days, or one hundred and eighty days in the case ofagrieultural bills, and which are eligible for discount by the Reserve Bank; and
(I) such other assets as the Registrar may approve for the purposes of this definitionfi;
(d) by the insertion in that sub-section after the definition of ttliquid assetsii 0f the following definitions:
mlong-term liability, in relation to any date, means a liability which is payable after the expiration of at least six months as from that date or which on that date is subject to at least six months notice before becoming payable;
tmedium-term liabilityt, in relation to any date, means a liability which is payable after the expiration of a period of not less than thirty days but less than six months as from that date, or which on that date is subject to not less than thirty days, but less than six months notice before becoming payable, and includes savings deposits;
interchant banki means a person carrying on a business ofwhieh the acceptance of bills which are eligible for discount by the Reserve Bank forms a substantial part, and who also accepts depositsfk
(e) by the substitution in that sub-section for the definition of "Ministerii of the following definition:
WMinister, means the Minister of Finaneefi;
(f) by the insertion in that sub-seetion after the definition of itMinisterii of the following definition:
mNational Finance Corporationi means the National Finance Corporation of South Africa established by section two of the National Finance Corpo-ration Act, 1949 (Act No. 33 of 1949) f;
(g) by the deletion in that sub-section of the definition of tipeoplets banktt;
(h) by the insertion in that sub-section after the definition of ttpersonit of the following definition:
mprescribe investmentsi means the aggregate amount of-
(a) liquid assets;
(b) deposits with any banking institution which is required to maintain a reserve balance with the Reserve Bank, other than deposits rank-ing as liquid assets;
(c) deposits with local authority within the Union;
(d) deposits with the National Finance Corpora-tion and loans to discount houses, other than deposits or loans ranking as liquid assets;
(e) stocks of the Government, other than those ranking as liquid assets;
(f) debentures or stock guaranteed by the Government;
(g) stocks of and loans to any local authority in the Union;
(11) debentures or stock of the Rand Water Board or the Electricity Supply Commission;
(i) debentures ofthe Land Bank, other than those ranking as liquid assets; and
(j) such other investments as the Registrar may approve for the purposes ofthis definitionft;
(i) by deletion in that sub-seetion of the definitions of ttloan bankH and tttime liabilityii and the insertion in that sub-seetion in the stead of those definitions of the following definitions:
u;
savings accounf means an account which a deposi-tor maintains with a banking institution and in which he may not keep a larger credit balance and

from which he may not without the consent of the institution make a withdrawal at shorter notice, in relation to the amount to be withdrawn, than is determined by the rules or articles of the institution;

isavings bank, means a person who carries on the business of accepting deposits and of whose other busmess the granting of loans against the security of fixed property or surety bonds forms a substantial part;
isavings depositi means a credit balance in a savings account;
tshort-term liability; in relation to any date, means a liability which is payable within thirty days as from that date or which on that date is subject to less than thirty daysi notice before becoming payable;
"Treasuryi means the Minister or any officer in the Department of Finance authorized by the Minister to perform any function assigned to the Treasury by this Actfi;
(j) by the substitution for sub-section (1)bis of the following sub-section:
ii(1)bis A person shall be deemed to be carrying on the business of accepting deposits of money for the purposes of this Act notwithstanding that such deposits are limited to fixed amounts or that certificates or other instruments are issued in respect of any such amounts providing for the repayment to the holder thereof either conditionally or unconditionally of the amounts ofthe deposits at speciiied or unspecified dates or for the payment of interest on the amounts deposited at specified intervals or otherwise, or that such certificates are transferable: Provided that the acceptance of moneys against debentures issued in (accordance with! compliance with the provisions of subsection (3) of section seventy-seven of the Companies Act, 1926 (Act No. 46 of 1926), (or any other law! shall not be deemed to be the business of accepting deposits of money for the purposes of this Actfk
(k) by the substitution for sub-section (2) of the following sub-sections:
ii(2) A person shall be deemed to be carrying on the business of accepting deposits for the purposes of this Acte-
(a) if in the opinion of the Registrar he accepts, as a regular feature of his business, deposits from the general public; or
(b) if he solicits or advertises for such deposits:
.Provided that for the purposes of this sub-section_
(i) employees shall also be deemed to constitute the general public in relation to the person by whom they are employed;
(ii) deposits shall be deemed to include loans entered into without security or against security which in the opinion of the Registrar is insufficient;
(iii) a person (including any co-operative society) shall not be deemed to be carrying on such business if he does not at any time hold deposits from more than twenty persons and does not at any time hold deposits amounting in the aggregate to more than five hundred thousand rand; and
(iv) a co-operative society shall not be deemed to be carrying on such business by reason only of the fact that it borrows money from its members in accordance with the provisions of subsection (2)bis.
(2)bis A co-operative society (hereinafter referred to as the society) may borrow money from its members on the following conditions, namely-
(a) that no loan from any one member shall amount to less than one hundred rand, and for the purposes of this paragraph every successive loan from any particular member shall be regarded as a separate loan;
(b) that a loan shall not be repaid within twelve

months after receipt;
(c) that the society shall in respect of each loan issue an acknowledgement of debt;
((1) that every loan shall be negotiated on one or other of the following conditions which shall be recorded in the relevant acknowledgement of debt, namely-

(i) that the member shall not have the right
to demand repayment, but that the soeiety
may after it has held the loan for not less
than twelve months, at any time repay such
loan upon giving not less than thirty days,
prior notice of its intention to repay such
loan; or
(ii) that the loan shall be repayable at a fixed
date to be mentioned in the acknowledge-
ment of debt, but that the board of directors
of the society shall have power to defer the
repayment if the circumstances of the society
as at that date render such deferment neces-
sary, subject to the condition that if the
decision of such board is not confirmed
at the first succeeding general meeting of the
society, the loan shall be repaid within
seven days of the date of such meetingP;
(l) by the substitution for sub-seetion (3) of the following
sub-section:
u(3) In calculating for the purposes of this Act,
the aggregate amount of the paid-up capital and un-
impaired reserve funds of any banking institution,
for the aggregate amount of the paid-up capital,
guarantee deposits and unimpaired reserve funds
of any such institution, as the case may beJ provision
shall be made to the satisfaction of the Registrar and
_____--_
0f the auditor of such institution for the following
_____
items and the said aggregate amount reduced ae-
eordingly, namely_
(a) depreciation of assets and bad or doubtful debts
(to be calculated at least once in each financial
year);
(1))0perating and accumulated losses, including
accumulated depreciation and bad debts not yet
written CIT;
(c) preliminaryexpenses, representing expenses relating
to organization or extension or the purchase
of business or goodwill, and including under-
writing commission;
(d) the value of any assets lodged or pledged to secure
liabilities incurred under any other law where
all the liabilities (including contingent liabilities)
so secured are not included in the calculation and
where the effect of such lodging or pledging is
that such assets are not available for the purpose
of meeting the liabilities of the institution to the
public under this Act;
(e) the amount of its investment in the shares of
;a_nother banking institution"; and
(m) by the deletion of paragraph (c) of subsection (4).
Substitution of 2. The following section is hereby substituted for section two
section 2 of Act ’ ’ .
38 Of 1942, as of the prineipal Act.
amended by 11Exempti0n8- 2. (1) This Act shall not apply to the Post
section 2 of Act thce Savings Bank or the Land or the Reserve Bank
ggcggAggthct or the Industrial Development Corporation of
25 of 1947 and South Africa, Limited or the National Finance
56cm" 23 0f ACt Corporation or the Public Debt Commissioners,
33 f 1949. . . . .
0 or to any local authority or butldmg soeiety or any
Bantu co-operative credit society registered under
any proclamation issued under Act No. 29 of 1897 of
the Cape of Good Hope or under the Bantu Ad-
ministration Act (Act No. 38 of 1927): Provided
that such exemption shall not apply to any savings
department or savings bank or similar deposit-
receiving institution established by or in connection

with any local authority.
(2) The provisions of Iparagraph (b) of sub-section (6) and 0f sub-section (6)bis of section fourJ sub-section (2) of section eleven, and sections Itwenty-eightl, fourteen, sixteen, seventeen, eighteen, twenty, twenty-one, twenty-nine, rlzz’rIy-two, thirty-four, t_hirtyfve, forty-six and forty-eight shall not apply in respect of a Ideposit-receiving institution!

general bank which is a board of executors or trust company (not being a private company within the meaning of section one hundred and four of the Companies Act, 1926, or any amendment of that section) licensed as such under the Licenses Con- sohdation Act, 1925, on or before the thirty-lirst day of December, 1938, if its deposit liabilities on the first day of July, 1943, did not in the aggregate exceed the sum of its paid-up capital and its un- linpaired reserve funds, so long as those deposit llabilities-do not at any time thereafter exceed the sum of its paid-up capital and its unimpaired reserve fundsfl

3. Section’three of the principal Act is hereby amended by the substitution lnlsub-section (2) for the word iisub-sectionii of the word liseetloni, and the insertion in that sub-section after the word 1tshallil of the words lisave as is otherwise pro- Vided 1n this Actfi

Amendment of section 1 of Act

4. The following sections are hereby substituted for sections f0ur,five and six of the principal Act:

"Registration and provisional registration of banking institutions.

4. (1) Any person who intends to carry on the business of any class of banking institution in the Union, may apply to the Registrar for permission to establish such a banking institution, and the Registrar shall grant such permission if the applicant satisfies him that the establishment of such institution will be in the public interest and, where the proposed business is that of a discount house, furnishes proofto him that the Reserve Bank will be prepared to recognize the applicant as a discount house.

(2) An applicant to whom the Registrar has granted permission in terms of sub-section (1) may within the period fixed by the Registrar apply to him in the form prescribed by regulation to be registered provisonally under this Act as a banking institution of the class in question, and shall submit in duplicate with its application-

(a) its memorandum and articles of association;

(b) a statement of the address of its head ofiice;

(c) a statement of the name and address of its chairman and of every director and of its chief executive officer; and

(d) full particulars of the business it proposes carrying on and of the manner in which it proposes carrying it on.

(3) The application and every document mentioned in sub-section (2) shall be signed by the chairman or the chief executive ofiicer 0f the applicant.

(4) If the Registrar is satisfied_

(a) that the business proposed to be carried on is that of a banking institution of the class in respect of which registration is desired;

(b) that the memorandum and articles of association of the applicant are not inconsistent with this Act and are not undesirable for any reason; and

(c) that the applicant does not propose to adopt undesirable methods of conducting business,

he shall, subject to the provisions of sub-sections (6) and (7), and after payment by the applicant of a registration fee of ten rand, register the applicant provisionally as a banking institution of the said

class.

(5) A banking institution which is registered provisionally for the first time after the commencement of the Banking Amendment Act, 1964, shall not accept a deposit or grant an advance until it has furnished proof to the Registrar that its paid-up capital and unimpaired reserve funds together amount to not less than the amount prescribed by section fourteen or_)?fteen, whichever is applicable.

(6) The Registrar shall not register an applicant provisionally unless the applicant is a public company incorporated and registered or deemed to have been incoporated and registered under the Companies Act, 1926 (Act No. 46 of 1926).

section 3 of Act 38 of 1942, as amended by 40 of 1959.

Substitution of sections 4, 5 and 6 of Act 38 of 1942.

Continu-
ation of re-
gistration
of existing
institutions.

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(7) Without prejudice to the generality of the powers conferred upon the Registrar by this section, he may in his discretion refuse to register an applicant provisionally if,

(a) the direct or indirect control over its affairs by virtue of shareholding, voting powers, power to appoint directors, or otherwise, may in the opinion of the Registrar react to the detriment of its depositors or other creditors; or

(b) adequate provision does not exist for the conduct of its affairs by a board of directors with a reasonable number of members or satisfactory provision is not made for a quorum of such board; or

(c) the directors or proposed chief officers, in the opinion ofthe Registrar, have not had sufficient experience of the management of a banking institution; or

(d) the applicant proposes to carry on business in a location as defined in the Bantu (Urban Areas) Consolidation Act, 1945 (Act No. 25 of 1945), and the Department of Bantu Administration and Development has recommended that it be not registered.

(8) The provisional registration of an applicant shall be for a period of twelve months and shall be subject to such conditions and limitations not inconsistent with this Act as the Registrar may consider necessary, but such registration may in the discretion of the Registrar from time to time be renewed, subject to the same or any other or further conditions and limitations, for periods not exceeding twelve months at a time: Provided n0 banking institution sha11 remain provisionally registered for an aggregate period exceeding five years.

(9) If a provisionally registered institution becomes fully qualified for registration at any time while it is provisionally registered, by reason of the fact that it has complied with any requirements imposed under sub-seetion (7), the Registrar shall, upon payment of a registration fee of ten rand, register such institution as a banking institution of the class to which it belongs.

(10) If the provisional registration of an institution expires and is not renewed or converted into registration, it shall_

(a) within a period determined by the Registrar repay all the deposits which it holds; and

(b) change its name and its memorandum and articles of association within the period and in the manner required by the Registrar.

(11) The Registrar shall issue in respect of every registration or provisional registration a certificate in a form prescribed by regulation.

(12) Any discount house which was in existence at the commencement of the Banking Amendment Act, 1964, shall be deemed to have been registered in terms of this section and shall be entitled on application to receive a certificate of registration from the Registrar accordingly.

5. (1) A banking institution which at the commencement of the Banking Amendment Act, 1964, is registered or provisionally registered as a deposit-reeeiving institution, :1 peoples bank or a loan bank, shall be deemed to have been registered or pro-

visionally registered in terms of section four as substituted by the said Act as a banking institution of the class defined in section one which is appropriate t0 the business carried on by it.

(2) For the purposes of sub-section (1) the Registrar shall, as soon as practicable after the commencement of the said Act, in respect of each such institution determine the class to which it belongs and in writing advise it of the class so determined.

(3) (a) Any such institution which disputes the correctness of the determination made in respect of it by the Registrar, may, within thirty days after receipt of notice of such determination, in writing lodge with the Registrar an objection to that determination.

Name of banking institution and change of name.

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(b) If no objection is so lodged, or if, after an objection has been so lodged, agreement is reached between the Registrar and the institution concerned as to the class to which it belongs, the Registrar shall issue to the institution concerned a certificate of registration in respect of a banking institution of the class to which it belongs as determined by the Registrar or, as the case may be, by agreement between himself and such institution.

(4) ((1) Where agreement cannot be reached between the Registrar and such institution as to the class to which any such institution belongs, the matter shall be submitted to the Minister to be dealt with as if it were an appeal under section three, and the Minister may thereupon confirm the Registraris determination or set it aside and himself determine the class to which such institution belongs.

(b) The Ministeris decision under paragraph (a) shall be final, and the Registrar shall as soon as practicable after receipt of such decision issue to the institution concerned a certificate of registration in accordance with that decision.

(5) Any certificate of registration required to be issued under this section shall be either a certificate of registration or a certificate ofprovisional registration, according to whether the institution concerned was registered or provisionally registered at the commencement of this section.

(6) Sub-section (2) of section eleven shall not during the period of twelve months beginning with the commencement of the Banking Amendment Act, 1964, apply in respect of any banking institution to which this section relates.

6. (1) A banking institution shall not be registered provisionally under a name_

(a) under which a banking institution has already been registered or provisionally registered; or

(b) which so nearly resembles the name of an institution already registered or provisionally registered that the one is likely to be mistaken for the other; or

(c) which in the opinion of the Registrar is likely to mislead the public.

(2) A banking institution shall not use or refer to itself by a name other than the name under which it is registered or provisionally registered or a literal translation thereof which has been approved by the Registrar, or use or refer to itself by an abbreviation, of that name unless the Registrar has approved it: Provided that with the consent of the Registrar a banking institution may, in conjunction with its registered name, use or refer to itself by the name ofa banking institution with which it has amalgamated or which it has absorbed or, in the case of a change of name, the name by which it was previously known.

(3) ((1) A banking institution shall not change its name without the written consent of the Registrar, and the provisions of sub-section (1) shall apply mulatis mutandis with reference to a change of the name of a banking institution,

(1)) The provisions of this sub-section shall not be construed as authorizing the change of any name without compliance with the requirements

of any other law relating to such a change of name.
(4) When a banking institution has changed its name, the Registrar shall at the request of the institution and on payment by it of the amount of five rand, change the name of the institution in his register of banking institutions and issue to the institution a certificate of such changefi

Amendment of
section 7 of Act
38 of 1942.
Insertion of
section Mix in
Act 38 of 1942.
Amendment of
section 9 of Act
38 of l942,
as amended by
section 4 ol’ Aet
34 of 1944.
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5. Section seven of the principal Act is hereby amendedw
(a) by the deletion of the words iiunder section four,five
or sixii in sub-seetion (I) and of the proviso to that
sub-seetion; and
(h) by the deletion in sub-section (2) ofthe words iiin fact".
6. The following section is hereby inserted in the principal
Act after section seven:
"Repayment 7/)is. (l) A person holding deposits which he has
urincgi’l obtained by carrying on the business of accepting
depomx’ deposits without being registered or provisionally
registered as required by this Act, shall repay such
deposits in accordance with the Registraris direc-
tions.
(2) Nothing in sub-seetion (1) shall relieve any
person from liability to criminal proceedings
arising out of any contravention of the provisions
ofthis Aetfi.
7. Section nine of the principal Act is hereby amended_
((1) by the substitution for sub-seetlon (l) of the followmg
subsection:
2(1) If any person makes a statement which ts
false and which he knows to be false, tn connection
with an application for (registration under section
four or six! permission to establish a banking institu-
tion or m connection With an application for registra-
tmn 0r provmonal registration or In connection With
the renewal (or extensionl of a provisional registra-
tion Iunder section five or six or under section eight!
or in reply to a direction in terms of section eight,
he shall be deemed to be guilty of fraud orfalsitas.";
(b) by the deletion in sub-seetion (2) 0f the words iiunder
section four, five or Six";
(6) by the addition to that sub-seetion 0f the following
paragraph, the existing sub-seetion becoming para-
graph ((1):
Kb) The Registrar may, with the approval of the
Minister, cancel the registration of a discount
house or suspend such registration on such
conditions as he may deem iit to impose, if the
Reserve Bank has refused to continue to grant
rediseount facilities to such discount house";
((1) by the substitution for sub-seetion (3) 0f the following
subsection:
ii(3) ((1) When a banking institution, in the opinion
of the Registrar, has ceased to carry on the
business of a banking institution of the class in
which it is registered or provisionally registered,
the Registrar shall by notice in writing call upon
that institution to show cause. within a period of
not less than thirty days stated in the notice, why
its registration or provisional registration shall
not be cancelled or, in the ease of an institution
continuing to carry on banking business, shall not
be converted into registration or provisional
registration as a banking institution of the
appropriate class.
(b) If the institution does not. within the period
mentioned in paragraph (a), show cause to the

satisfaction oli the Registrar, he shall cancel the registration ofthe institution or, in the ease of an institution continuing to carry on banking business, convert its registration into registration of a banking institution of the appropriate elass.

((’) A cancellation or conversion in terms ofparagraph (b) shall take etiieet one month after the date on which the Registrar has given written notice thereof to the institution concerned, unless within that period the institution appeals to the Minister in terms of section three against the Registraris deeisimL in which case the cancellation or con-version shall have no force or effect unless and until it has been confirmed by the Minister.

((1) The Minister may alter considering any appeal under paragraph (c) confirm the decision of the Registrar or set it aside and substitute any decision which in his opinion the Registrar ought to have given, and any such decision shall be final and shall be carried out in all respects as if it were the Registraris decision.

(e) When the registration or provisional registration of an institution has been converted into registration in another class in terms of this sub-seetion, the Registrar shall issue to the institution a certificate of such conversionfE
(e) by the substitution for sub-section (4) of the following sub-section:
W4)- Whenever it appears from any statement prescribed under this Act which has Iin terms of sub-section (1) of section eighteen, as applied by section twenty-sevenj been furnished to the Registrar by Ia deposit-receivingl Ell institution mentioned in sub-section (2) of section two, that the deposit liabilities of that institution exceed in the aggregate the sum of its paid-up capital and unimpaired reserve funds, the (registration of that institution! exemptions which the institution enjoyed in terms of that sub-section shall be deemed to have lapsed with effect from the date Ion which that statement was so furnished! 0f certification of the said statement and the institution shall be deemed to have been registered provisionally in terms of sectionfour for a period of twelve months as from that dateft and
(f) by the deletion of sub-section (5).
8. Section eleven of the principal Act is hereby amended by Amendment of the substitution in sub-section (1) for the words ttunder section section 11 of Act nine or tent, of the words ttor upon the expiry of a provisional 38 0f1942- registration or upon the change of the name of an institution".
9. Section twelve of the principal Act is hereby repealed. Reveal of section 12 of Act 38 of 1942, as amended by section 3 of Act 25 of 1947.
10. The following sections are hereby substituted for sections Substitution of thzrteen t0 menty-elglzt, incluswe, 0f the prinCIpal Act. Zicfigtsszііііngz.
tiRsrturns 13. (1) A banking institution shall furnish to the ggfgg Registrar in duplicate-
institutions (a) within a period of twenty-one days as from the gufgefender end of each month of the year, a return in a gistrar. form prescribed by regulation and certified as correct by its chief executive officer and its chief accounting officer in the Union, containing the information required by the Registrar in order to be able to determine whether the institution maintains the liquid assets, the prescribed investments and the reserve balance with the Reserve Bank required by this Act: Provided that such return shall not be required in the case of a discount house;
(1)) within a period of forty days as from the end of every calendar quarter, a statement in a form prescribed by regulation and certitied as aforesaid, of its assets and liabilities as at the close of the last business day of that quarter;
(c) together with the statement mentioned in paragraph (b), a return in a form prescribed by regulation and certified as aforesaid, containing the information required by the Registrar in order to be able to determine whether the institution maintains the paid-up capital and unimpaired reserve funds and the assets prescribed in section twenty required by this Act;
((1) simultaneously with the sending or submission of any statement of its atfairs or any notice, report or other document to its shareholders or members, a copy of every such statement, notice, report or other document and of any auditofs report sent or submitted with any such statement, certified in each case as a true copy by the said chief executive oHicer;

(e) within a period of thirty days as from the date of any meeting of its shareholders or members, a copy of the minutes of such meeting, certified as correct by the said chief executive otiicer; and

Minimum
capital and
reserves.
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(f) within such period as the Registrar may deter-
mine, any additional returns or information
which the Registrar may request the institution
in writing to furnish.
(2) The regulations referred to in paragraphs (a),
(b) and (c) may prescribe dilTerent forms for the
statements and returns to be furnished by various
classes 01" institutions.
(3) Of the statements furnished to the Registrar
by any banking institution in terms Ofparagraph (b)
of sub-section (l) in respect of the four quarters
in any calendar year, at least one shall also be
certilied as true and fair by the auditor of the
institution, and, if the Registrar so requires, any
other such statement submitted by a particular
institution in respect of any calendar year shall
likewise be so certihed.
(4) A banking institution shall at all times
display in a conspicuous place in every building in
the Union in which it carries on business, a copy of
its last statement of assets and liabilities compiled
in terms of paragraph (/7) ofsub-section (l).
(5) The Registrar shall compile from the state-
ments furnished to him in terms of paragraph (b)
of sub-seetion (l), quarterly composite statements
for the various classes of banking institutions, in
such form and containing such particulars as he
may deem tit, and publish such composite statements
in the Gazette.
l4. (1) A banking institution (other than a
discount house) shall, subject to the provisions of
sub-sections (3) and (4), maintain in the Union a
paid-up capital and unimpaired reserve funds
together amounting to not less than_
(a) two hundred thousand rand; or
(1)) six per cent ofthe amount ofits liabilities to the
public in the Union, other than liabilities under
acceptances, plus ten per cent of the latter
liabilities as shown in the last preceding
quarterly statement furnished to the Registrar
in terms of paragraph (b) of sub-seetion (1) of
section thirteen,
whichever is the greater: Provided that for the
purposes of the application of this sub-section-
(i) a banking institution may deduct from its
aforesaid liabilities, other than liabilities under
acceptances, an amount equal to the amount of
liquid assets it holds in excess of the amount
required by this Act; and
(ii) a commercial bank may deduct from its
aforesaid liabilities, other than liabilities under
acceptances, in addition to the amount referred
to in paragraph (i), an amount equal to fifty
per cent of the remittances in transit.
(2) For the purposes of the application of this
section to a commercial bank, a remittance in transit
shall mean the amount of a cheque drawn on one of
its branches in the Union. with which another
branch in the Union has credited a client but with
which the first-mentioned branch has not yet
debited a Client.
(3) Any such banking institution which at the
commencement of the Banking Amendment Act,
1964, is not complying with the requirements of
sub-section (1), shall, subject to the provisions of
sub-section (4), maintain in the Union, in relation
to its liabilities to the public in the Union (less the

deductions allowed under provisos (i) and (ii) to sub-section (1) and liabilities under acceptances), as shown in the last preceding quarterly statement furnished to the Registrar in terms of paragraph (b) of sub-section (1) of section thirteen, a paid-up capital and unimpaired reserve funds together amounting to not less than the amount determined as provided in the table set out hereunder, according to the amount of such liabilities, namely#

(a) the appropriate amount set out in the second column of that table; or

Capital
require-
ment for
discount
houses.
Minimum
reserve
balance.
Minimum
liquid
assets.
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(b) the appropriate percentage of the amount of the liabilities aforesaid, set out in the third column . ofthat table,
whtehever is the greater, together with an additional amount equal to ten per cent of its liabilities under acceptances.
TABLE
Liabilities t0 the public as shown Minimum Minimum
in last preceding quarterly .vmtmnmzr. amount. percentage.
R R
Not exceeding 1,000,000 _ 10
Not exeeeding 2,000,000 100,000 8
Exceeding 2,000,000 160,000 6
(4) Any such banking institution which at the commencement of the Banking Amendment Act, 1964, is not complying with the requirements of sub-seetion (1) or (3), shall comply with the latter sub-section within one year thereafter: Provided that as soon as the paid-up capital and unimpaired reserve funds of an institution referred to in sub-section (3) reach the amount of two hundred thousand rand, the said sub-section shall cease to apply in respect of such institution and thereafter sub-seetion (1) shall apply in respect thereof.
15. A discount house shall maintain in the Union a paid-up capital and unimpaired reserve funds together amounting to not less than-
(a) two hundred thousand rand; or
(b) two per cent of the amount of its liabilities to the public in the Union, as shown in the last preceding quarterly statement furnished by it to the Registrar in terms of paragraph (b) of sub-seetion (1) of section thirteen,
whichever is the greater.
16. A banking institution (other than a discount house) whose short-term liabilities to the public in the Union, other than liabilities under acceptances and loans from other banking institutions, as shown in the last preceding monthly return furnished by it to the Registrar in terms of paragraph (a) of sub-section (1) of section thirteen exceed the amount of five hundred thousand rand, shall maintain a reserve balance with the Reserve Bank amounting to not less than eight per cent of the said liabilities.
17. (1) A banking institution (other than a discount house) shall maintain in the Union liquid assets amounting to not less than the aggregate of_
(a) thirty per cent of its short-term liabilities to the public in the Union, other than liabilities under acceptances;
(b) twenty per cent of its medium-term liabilities to the public in the Union, other than liabilities under acceptances;
(c) five per cent of its long-term liabilities to the public in the Union; and
(d) ten per cent of its liabilities under acceptances, as shown in the last preceding monthly return furnished by it to the Registrar in terms ofparagraph (a) of sub-section (1) of section thirteen: Provided

that for the purposes of this sub-seetion-
(i) a commercial bank may effect the deduction referred to in proviso (ii) to sub-section (1) of seetionfourteen from the liabilities referred to in paragraph ((1) hereof; and
(ii) a banking institution may deduct from the liabilities referred to in paragraphs (a), (b) and (c) the amounts owing to it in respect of loans made by it against the security of fixed deposits included under the said paragraphs.
(2) The provisions of sub-seetion (1) shall in respect ofa banking institution existing at the date of commencement of the Banking Amendment Act, 1964, come into operation one year after the said date: Provided that-

(a) an institution which for reasons acceptable to the Registrar does not yet have, at the end of the said period of one year, the full amount of liquid assets required by the said sub-section, may apply to the Registrar for an extensmn of that period, and the Registrar may extend it in respect of Such institution by not more than twelve months; and
(h) during the said period of one year or any extension thereof, the institution shall at all times comply with the requirements relating to liquid assets which were applicable to it before the said commencement.
(3) ((1) Whenever the Reserve Bank deems it desirable in the national economic interest, it may with the consent of the Treasury from time to time determinc_
(i) that in respect of the institutions of a particular class the percentages mem-tioned in paragraphs (a) and (b) of sub-section (I) shall be increased to not more than forty and thirty respectively or decreased to not less than twenty and ten respectively; or
(ii) that every institution of a particular class shall maintain, in addition to the liquid assets required by sub-scction (l), sup-plementary liquid assets in the Union at least equal to percentages prescribed by the Reserve Bank, but not exceeding seventy per cent of the amount by which the short-tcrm liabilities to the public or eighty per cent of the amount by which the medium-term liabilities to the public payable by the institution in the Union (as shown in the last preceding monthly return furnished by it to the Registrar in terms of paragraph (a) of sub-section (1) of section thirteen) ex-ceed the amount of such liabilities as at a date determined by the Reserve Bank and stated by the Registrar in a notice in the Gazette.
(b) Whenever the Reserve Bank has made a determination in terms of paragraph (a), it shall inform the Registrar thereof in writing, and the Registrar shall as soon as practicable give written notice of the determination to every institution of the class to which the determination applies and cause the determina-tion to be published in the Gazette.
(c) Any such determination shall take effect-
(i) ifit provides fora decrease, immediately; or
(ii) if it provides for an increase, on the first date, in the case of any particular institution, after the expiration of thirty days as from the date of publication of the determination in the Gazette, on which its chief executive ofhcer and its chief accounting officer certify a monthly return in respect of the institution in terms of paragraph (a) of sub-section (1) of section thirteen.
((1) With the consent of the Treasury, the Reserve Bank may at any time vary an existing dc-terminalion by increasing or decreasing any percentage determined by it in terms of para-graph ((1’).
(e) The provisions of paragraphs (b) and (6) shall apply muralis mulamlis to any such variation.

(f) Notwithstanding anything contained in paragraph ((1), no banking institution shall be required to augment its liquid assets during any month of the year by an amount in excess of four per cent of the aggregate of its short-term and its medium-term liabilities as at the close 0fthe last working day ofthe preceding month.

Minimum 18. A banking institution (other than a discount
Prescr’bed house) shall maintain in the Union prescribed
Investments. -
investments. of an amount not less than fifteen
per cent of Its liabilities to the public, as shown in
the last preceding monthly return furnished by it
10 the Registrar in terms of paragraph (a) of sub-
section (1) of section thirteen.
Period for 19. A banking institution shall maintain any
gagggnancc minimum amount prescribed by or under section
scribed fourteen, fifteen, Sixteen, seventeen or eighteen at
minima. all times during the period from the date of certi-
fication under paragraph (a) or (c) of sub-section
(1) of section thirteen of the statement or return
by reference to which that amount is determined,
until the day preceding the date on which the
next succeeding such statement or return is so
certified.
Banking in- 20. (l) A banking institution shall maintain
lhlfitslluillgirhs- assets (other than claims) situate in the Union and
min a cover assets consisting of claims payable in the currency
ed domestic of the Union, of an aggregate value not less than
position. the sum of_
(a) the amount of its liabilities payable in the
currency of the Union; and
(b) the paid-up capital and unimpaired reserve
funds which it is required to maintain in terms
of section fourteen or (in the case of a discount
house) jifteen, as shown in the last preceding
quarterly statements furnished by it to the
Registrar in terms of paragraphs (b) and (c)
of sub-section (1) of section thirteen:
Provided that the Minister may exempt any banking
institution, at its request, from the preceding
provisions of this section to the extent and for the
period and on the conditions determined by him:
Provided further that a commercial bank shall
be exempt from the requirements of the said
provisions_
(i) for the purpose of meeting seasonal demands
which may arise out of the export trade of
the Union, up to an amount not exceeding
the amount set out in paragraph (b);
(ii) for the purpose of participating in loans
issued or guaranteed by the International
Bank for Reconstruction and Development, up
to an amount not exceeding five per cent of
the amount set out in paragraph (a).
(2) The liabilities of a banking institution which
are payable in the currency of the Union shall
be a prior charge (as against all other liabilities)
on the assets which it is required to maintain in
terms of sub-section (1).
RestrictiQnS 21. (l) A banking institution shall repay a fixed
0" depos’ts- deposit on due date and not earlier, except where
the dcpositor concerned has previously instructed
it in writing as to the manner in which such deposit
or any portion thereof is to be reinvested with the
institution.
(2) Where any institution accepts a deposit on
the condition that the deposit or any portion
thereof will be repayable only after notice of an
agreed period, the institution shall not repay the
deposit or any portion thereof at shorter notice.
(3) (a) A banking institution shall not accept
savings deposits from any company with
limited liability, except in the case of an as-
sociation licensed in terms of section twenty-
one of the Companies Act, 1926 (Act No. 46
of 1926).

, (b) The provisions of paragraph (a) shall not apply to savings accounts existing at the commencement of the Banking Amendment Act, 1964: Provided that no further amount shall be credited to such an account.
(4) (a) A banking institution shall not allow any one person to maintain with it a credit balance on savings account in excess of six thousand rand.

Limitation of transac-tions of discount houses.

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(b) Where at the commencement 0f_the Banking Amendment Act, 1964, a savmgs account shows a credit balance of more than six thousand rand, such balance shall not by reason of the provisions of paragraph (a) be required to be reduced to the said amount: Provided that-

(i) no further amount shall be credited to such account so long as it shows a credit balance exceeding the said amount; and

(ii) if the balance in such account is at any time reduced to six thousand rand or less, the limit prescribed by paragraph (a) shall also apply to it.

(5) A banking institution shall not grant a loan against the security ofa deposit which it or any other banking institution or any building society holds to the credit of the borrower or any other person, at a rate otiinterest which is not at least one per cent on the amount of such loan higher than the rate payable in respect of such deposit.

(6) Notwithstanding the provisions ofsub-sections (I) and (2), an institution may, on the application of the depositor, in its discretion repay before due date a fixed deposit or a deposit subject to notice--

(a) where such deposit forms part of the assets in an insolvent or deceased estate;

(b) wherethe depositor has been placed under cura-torship;

(c) where the depositor has been placed under judicial management or in liquidation;

(d) where the deposit is required by a pension fund to etTeet deferred pension payments;

(0) in the ease of a fixed deposit ceded to the in-stitution as collateral security;

(f) in any ease after the expiration of a period of twelve months from the date on which the deposit was made with it or was last reinvested, if the depositor has given it at least thirty days notice of withdrawal; or

(g) in such other eases as the Registrar may approve either generally or in any particular case.

(7) Where the limit prescribed by paragraph (a) of sub-seetion (4) is exceeded as a result of the amalgamation of two or more institutions or the transfer ofthe assets and liabilities ofany institution to another, the provisions of paragraph (b) of sub-seetion (4) shall mutatis mutandis apply as if the savings account in question had been in ex-istence at the commencement of the Banking Amendment Act, 1964.

22. (l) A discount house shall not discount, buy or invest in any securities other than bank acceptances. bank-endorsed bills, Union treasury bills, stocks of the Government with a maturity of three years or less, debentures of the Land Bank with a maturity ofthree years or less, bills issued by the said bank or other short-term securities or investments approved by the Registrar: Provided that_

(a) a discount house may discount, buy or invest in securities of a nature similar to the aforesaid securities or to the securities so approved, but its holding of securities of the said nature shall at no time constitute more than five per

cent of its total assets; and
(h) the Registrar may at any time instruct a discount house to cease discounting. buying or investing in any particular security acquired by it in terms of paragraph (a), or to dispose of its holdings of such security within a reasonable period.
(2) A discount house shall not eiTect a loan otherwise than against the pledge of securities referred to in sub-seetion (I), nor from any person other than a banking institution, a building society, a mining house, the Reserve Bank, the Land Bank, the Department of Finance or an institution approved by the Registrar: Providing that not more

than five per cent of its total loans may at any time consist of loans effected without the aforesaid pledge.

(3) A discount house may make demand deposits with the National Finance Corporation, another discount house or any other institution approved by the Registrar: Provided that the said deposits shall not at any time exceed in the aggregate the sum of its paid-up share capital and unimpaired reserve funds as shown in its last preceding quarterly statement.

Banking agguilgins Usury ACt’ fromgep 11instrument of debW tain provi- sions of Reserve Bank, the Land Bank, the National Usury ACt’ Finance Corporation or a banking institution.

23.(1) In sub-section (1) of section five of the Act No. 37 of 1926), the words shall not include a bill of exchange when such bill is executed or discounted by the

(2) The provisions of sub-section (1) of section seven and sections eight and ten of the said Act shall not apply to the Reserve Bank, the Land Bank, the National Finance Corporation or a banking institutionfi

11. Section twenty-nine 0f the principal Act is hereby amended by the insertion after the word ttassets9 where it occurs for the second time 0fthe words ttor the prescribed investment? g?tigligizof ACt O .

Amendment of section 30 of Act 9f secun’ 38 Of1942, as amended by section 18 of Act 40 of 1955.

12. The following section is hereby substituted for section thirty of the principal Act: Substitution of itValuation ties. - for the purposes of sections seventeen and eighteen a security shall be valued at its market value, as certified by the secretary of the Board of Public Debt Commissioners?

Insertion of sections 32bis and rer in Act 38 of 1942.

13. The following sections are hereby inserted in the principal Act after section thu’ty-twos ?Bankmg institutions shall not lssue bearer shares. may not issue bearer shares.

Commercial banks may not carry on any mt business in the Union through a person who is :grggegrlfte not its full-time servantfi agents.

Amendment of section 36 of Act 38 0f1942- 1939 (Act No. 29 of 1939), or a banking institution,, and of the

14. Section rhirIy-six of the principal Act is hereby amended by the deletion in sub-section (1) of the words 9registered or deemed to be registered under the Co-operative Societies Act, prov1so.

Amendment of section 37 of Act - ’ . 38 of 1942,

15. Section thirty-seven of the principal Act is hereby amended- (a) by the deletion of sub-section (2), as amen de d by (b) by the deletion in sub-section (3) of the words ttor under the said Act No. 29 of 19399 and the words 1twhich is a corporate bodyti; (0) by the deletion of sub-section (6); and (d) by the deletion in sub-section (7) of the words 9a banking institution registered or deemed to be registered under the said Act No. 29 of 1939 orii and the words (twhich is a corporate body?

Amendment of section 38 of Act - - ’ . 38 f 1942,

16. Section thirty-eight of the principal Act is hereby amended# (a) by the Insertion in paragraph (g) of sub-sectioneSI) amgn de d byas after the word ttappointmentii of the words or section 20 ofAct withdraw his prior approval of the appointment of 40 of 1955, any auditorii;

(b) by the substitution in sub-section (2) for the words

tithe Ministerii of the word uhimii; and
(c) by the substitution for sub-section (7) of the following sub-section: _
9(7) Where the auditor of a banking institution is a partnership the appointment of such auditor shall not lapse by reason of a change in the composition of the partnership, as long as not less than half the persons who were partners as at the date when the patnership was last appointed continue to be partners thereinP.

Amendment of
section 40 of Act
38 of 1942,
as amended by
section 21 of Act
40 of 1955.
Amendment of
section 41 of Act
38 01’ 1942.
Amendment of
section 43 of Act
38 of 1942.
Amendment of
section 44 of Act
38 of 1942,
as amended by
section 22 of Act
40 of 1955.
Amendment of
section 45 of Act
38 of 1942.
Amendment of
section 46 of Act
38 of 1942.
Amendment of
section 51 01’ Act
38 of 1942,
as amended by
section 24 of Act
40 of 1955.

50

17. Section forty of the principal Act is hereby amendeq_
(a) by the substitution for sub-section (1) of the followmg sub-section:
2(1) The provisions of sub-sections (1) and (2) of section ninety bis, sub-sections (1), (2) and (4) of section ninety ter and sub-sections (1) and (2) of section ninety-nine of the Companies Act, 1926 (Act No. 46 of 1926), shall, in so far as they can be applied, apply mutatis mulandis to every director, manager, secretary or other otiicer or auditor of a banking institution: Provided that the balance sheet,
___..___
profit and loss account and reports referred to m the said sub-sections shall be furnishe to the Registrar in duplicate within three months after the end of the
_____.__
tinancial year to which they relateW; and
(h) by the deletion of sub-seetion i3).
18. Seetionforlyvune of the principal Act is hereby amended by the deletion of the words 11which is a corporate body and".
19. SectionforIy-Ihree ofthe principal Act is hereby amended by the deletion of the words iiwhich is a corporate body?
20. Section furly-four of the principal Act is hereby amended-
(a) by the deletion in sub-section (1) of the words iiwhich IS a corporate body but which is not registered or deemed to be registered under the Co-operative Societies Act, 1939 (Act No. 29 of 1939f;
(b) by the insertion after sub-section (1) of the following sub-scction:
11(1)!)1’3 When the provisions of sub-seetion (1)bis of section one hundred and thirteen of the said Act 46 of 1926 are applied in connection with any banking institution, they shall be construed as if the words iwith the Registrar of Banks andi had been inserted before the words 1with the Masteri, the words Registrar of Banks or thei after the words 1and the, and the words Registrar of Banks or the before the word iMastcri where it appears for the last time";
(c) by the substitution for sub-scction (4) of the following

sub-sections:
11(4) In the liquidation of a banking institution a contributory shall not have a right of set-ofT in respect of a debt due to him by the institution.
(4)b1’s Notwithstanding the provisions of the Companies Act, 1926 (Act No. 46 of 1926), no person other than a person recommended by the Registrar shall be appointed by a Master of the Supreme Court as liquidator, provisional liquidator, judicial manager or provisional judicial manager of a banking institutionfi; and
(d) by the addition of the following sub-seetion:
11(7) An order of court made in the Union and relating to the judicial management or winding-up of a banking institution shall have the same effect in the Territory as it has in the Union, and any such order made in the Territory shall have the same effect in the Union as it has in the Territoryfi.
21. Section forty-five of the principal Act is hereby amended by the deletion of the words itor the Registrar of Co-operative Societies, as the case may be?
22. Sectionforty-six of the principal Act is hereby amended by the deletion of sub-section (2).
23. Seetionfzj/iy-one of the principal Act is hereby amended by the substitution for sub-sections (1), (2) and (2)bis of the following sub-sections:
11(1) On payment of a fee of (two shillings and sixpencel fifty cents, any person may inspect and make a copy of any document furnished to the Registrar by any one banking institution in terms of sub-seetion I(1)l_(_2_) of section four or sub-section (1) of section t/iirtcen Ior sub-section (1) of section ezghtcenl or section tlzirry-five or thirty-seven.

(2) The Registrar shall furnish any applicant therefor with a Icertifiedl photostatic or double-spaced typewritten copy of, or extract from, any such document as aforesaid, on payment by the applicant of a fee of Itwo shillings for every one hundred words or part of an uncompleted one hundred words! fifty cents for every single foolscap page or portion thereof of which the copy or extract consists.

(2)bis The Registrar shall furnish any applicant therefor, on payment of a fee of Itwo shillings and Sixpence! twenty-five cents, with a certified copy of any certificate of registration or provisional registration or any certificate of change of name issued by him?

24. Section nfty-two of the principal Act is hereby amended by the substltution in sub-section (5) for the words ttnineteen or twenty-eiglzti, of the words tisixteen, seventeen, eighteen 0r twenty". Amtwdmfrnt of section 52 0f Ad 2: 23:23:21 by section 25 of Act 40 of 1955.

25. Section fIfty-four bis of the principal Act is hereby amended with effect from the date of commencement thereof by the insertion in sub-section (1) after the word 1tActti where it occurs for the first time of the words 9and any amendment thereof? Amendment of section 54biS of Am 38 Of 1942, Esclginfgfbxct 6 of 1961.

26. The following section is hereby inserted in the principal Act after section ijIy-four bis: Insertion of section 54ter in Ad 38 0f1942t

"Periodic 54ter. Before lst January, 1971, and thereafter ngew 0f from time to time at intervals of not more than 1 ten years, the Minister shall appoint a committee to enquire into and report to him on amendments to this Act which, in the opinion of the committee, have become desirable by virtue of changed circum-stances or which the administration of the Act has shown to be desirablefi

27. The principal Act is hereby amended- Adjustment of

(a) by the deletion of the following, name1y_ certain super-

(i) the superscriptions 1Chapter 112 and ttCom- ggnpft’fgnfzm Au mercial Bankstt appearing immediately above 0 ’ section thirteen;

(ii) the superscriptions ttChapter HP and ttPeopleE Banktt appearing immediately above section eighteen;

(iii) the superscriptions 9Chapter IV11 and ttLoan Banksit appearing immediately above section twenty-six;

(iv) the superscriptions ttChapter V9 and ttDeposit-receiving Institutionstt appearing immediately above section twenty-seven; and

(v) the superscriptions uChapter V1,, and ttGeneral Provisionsi, appearing immediately above section twenty-nine; and

(b) by the insertion of the following, namely-

(i) the superscriptions ttChapter 1111 and ttRegis-trationtt immediately above section four;

(ii) the superscriptions ttChapter 1111i and ttReturnsi, immediately above section thirteen;

(iii) the superscriptions ttChapter IV" and 9Financial Requirementst, immediately above section four-teen; and

(iv) the superscriptions "Chapter V, and 1tGeneral Provisionsit immediately above section thirty-one.

28. Sections eight bis and eight ter of the South African N . 2 f144 h 8b’ and 8! of i;:l::i.Bank Act, 1944 (Act 0 9 0 9), are ereby as inserted by section 3’ of Act 45 of 1956 and section 4 of Act 5 of 1961. Repeal of sections Aclt529 of 1e9r44,

29. This Act shall be called the Banking Amendment Act, 1964, and shall come into operation on a date to be fixed by commencement. Short title and commencement.

the State President by proclamation in the Gazette.

GENERAL EXPLANATORY NOTE:
Amendment of
section 2 of
Act 62 of 1934,
as substituted by
section 2 of Act
77 of 1961.
Amendment of
section 5 of Act
62 of 1934,
as substituted by
section 6 of Act
77 of 1961.
Amendment of
section 21 of Act
62 of 1934,
as substituted by
section 22 of Act
77 of 1961.
Amendment of
section 22 of Act
62 of 1934,
as amended by
section 2 of Act
56 of 1937,
section 1 of Act
39 of 1941,
section 5 of Act
24 of 1942,
section 6 of Act
28 of 1943,
section 3 of Act
33 of 1946,
section 21 of Act
33 of 1949,
section 2 of Act
28 of 1955,
section 3 of Act
47 of 1960 and
section 23 of Act
77 of 1961.
1 Words in bold type in square brackets indicate omissions
proposed by Minister on introduction.
by Minister on introduction.
BILL
To amend the Building Societies Act, 1934.
BE IT ENACTED by the State President, the Senate and the
House of Assembly of the Republic of South Africa, as
follows:_
1. Section m0 of the Building Societies Act, 1934 (herein-
after referred to as the principal Act), is hereby amended by
the substitution for sub-section (2) 0f the following sub-section:
11(2) The Minister Ishalll may similarly appoint an
oliicer to be styled the deputy registrar of building societies
(to assist the registrar in carrying out his duties as aforesaid!
who may, subject to the control and directions of the
registrar, do anything which may lawfully be done by the
registrar?
2. Section hve of the principal Act is hereby amended by
the substitution for sub-seetion (5) of the following sub-section:
2(5) No society shall use or refer to itself by a name
other than the name under which it is registered or an
abbreviation thereof or a literal translation thereof into
the other othcial language of the Union approved by the
registrar, Iprovided that a literal translation into the other
omcial language of the Union of the words! but nothing
in this sub-seetion shall be construed as prohibiting the
use by any society in whose registered name the expression
building society, spermanentZ tterminatingt, tmutualu
1bouverenigingi, (permanentei, itydelikei or (onderlingei

(as may be contained in the registered name of a society, shall not be deemed to be a contravention of this sub-sectionl occurs, of a name which consists of its registered name modified by the substitution therein for the expression in question of the corresponding expression in the other official language of the Union as used in this Act?

3. Section twenIy-one of the principal Act is hereby amended by the substitution for sub-section (3) of the following sub-section:

2(3) Any married or unmarried woman who borrows money from any society or guarantees or stands surety for the debt of any person to any society shall be deemed to have renounced the benefits of the Senatusconsultum Ve/leiammz and the Aut/zentica si qua mulier, in so far as they would but for the renunciation have appliedft.

4. Section twenty-two of the principal Act is hereby amended-g

(a) by the substitution for paragraph (8) of sub-section (1) of the following paragraph:

tt(e) to hold cash and make deposits and investments as authorized by section twenty-fourf;

(b) by the deletion of paragraph (e)bis of that sub-section; and

(c) by the insertion after paragraph (i) of that sub-section of the following paragraphs:

tt(i)bis in theease of a permanent society, to grant loans to its employees for the purpose of defraying educational and medical expenses and for such other purposes as may have been approved by the registrar;

(i)ter notwithstanding anything contained in the rules of the soc1ety, to grant loans to any educa-tional organization or institution approved by the reglstrar;

Words underlined with solid line indicate insertions proposed

(i)quate;: to establish or join with other building
someties in establishing an insurance company
with limited liability, to be registered under the
Companies Act, 1926 (Act No. 46 of 1926), the
activities of which shall be confined to effecting
insurances_
(a) in respect of immovable property mortgaged
or to be mortgaged to a society; or
(b) to provide further security for the repayment
of any advance made by a society on the
security of a mortgage of immovable
property; or
(c) in respect of any recognized class of risk
against which a society in the conduct of its
business normally insures itself:
Provided that_
(i) no person other than a building society
shall be the benehcial owner of any share
in any such company; and
(ii) the memorandum and articles of association
of any such company, or any amendment
thereto, shall be subject to the prior approval
of the registrar and the registrar of in-
surancefi
5. The following section is hereby substituted for section Substitution of
twenty-tlzree of the principal Act: section 23 of Act
iiDepositS- 23. (1) A society shall not accept deposits of 62 Of19c31421b
money subject to withdrawal by cheque, draft or as a-men e y
sectlon 2 of Act
order payable on demand. 39 Of 1941,
(2) A society shall not accept savings deposits Section 60f Act
from any company with limited liability, except 249f19,;12,fA
in the case of an association licensed in terms of seetlon 0 Ct
. . 28 of 1943 ’ nd
sectlon twenry-one of the Companies Act, 1926 section 24 :f Act
(Act No. 46 of 1926). 77 of 1961.
(3) The provisions of sub-section (2) shall not
apply to savings accounts existing at the com-
mencement of the Building Societies Amendment
Act, 1964, but no further amount shall be credited
to any such account.
(4) A society shall not allow any one person to
maintain with it a credit balance on savings account
in excess of_
(a) two thousand rand if the societyts total assets
as at the close of the last preceding financial
year did not exceed hve hundred thousand
rand; or
(b) six thousand rand if the said assets at the close
of such financial year exceeded five hundred
thousand rand.
(5) Where the credit balance on a savings account
at the commencement of the Building Societies
Amendment Act, 1964, exceeds the limit prescribed
by sub-section (4), such balance shall not by reason
of the provisions ofthe said sub-section be required
to be reduced:
Provided that_
(i) no further amount shall be credited to such
account so long as it shows a credit balance
exceeding the said limit; and
(ii) if the balance in such account is at any time
reduced to below the said limit, such limit
shall also apply to it.
(6) Where the limit prescribed by sub-section (4)
is exceeded as a result of an amalgamation of two
or more societies or the transfer of assets and
liabilities of any society to another society, the
provisions of sub-section (5) shall mutatis mutandis
apply as if the savings account in question had

been in existence immediately before the commencement of the Building Societies Amendment Act, 1964.

(7) Save with the written consent of the registrar, which may be given either generally or specially, and subject to such conditions as he may prescribe, no society with total assets as set out in any item of the first column in the table hereunder, shall allow any one person to hold fixed deposits exceeding in the aggregate, exclusive of interest, the amount set out opposite that item in the second column of such table:

TABLE.
f
Total assets as at Maximum
the close of the last preceding aggregate/ixed
jinancial year. deposits.
Under R200,000 R15,000
R200,000 and under R500,000 R30,000
R500,000 and under R2,000,000 R60,000
R2,000,000 and under R10,000,000 R90,000
R10,000,000 and under R20,000,000 R120,000
R20,000,000 and over R150,000
(8) Where funds are deposited for account of a
bong nde trust, separate accounts may be opened
by the same trustee for different trusts, subject
in each individual case to the limits prescribed by
this section.
(9) A society shall repay a fixed deposit on
due date and not earlier, except where the depositor
concerned has previously instructed it in writing
as to the manner in which the deposit or any
portion thereof is to be re-invested with the society.
(10) Notwithstanding the provisions of sub-
section (9), a society may in its descretion on the
application of the depositor repay a fixed deposit
before due date-
(a) where the deposit forms part of the assets in
an insolvent or a deceased estate;
(17) where the depositor has been placed under
curatorship;
(c) where the depositor has been placed under
judicial management or in liquidation;
(d) where the deposit is required by a pension
fund to etTect deferred pension payments;
((1) in the case ofa fixed deposit ceded to the society
as collateral security;
(f) in any case after the expiration of a period of
twelve months from the date on which the
deposit was made with it or was last re-invested
with it if the depositor has given it at least
thirty days notice of withdrawal; or
(g) in such other cases as the registrar may approve
either generally or in any particular case.
(11) A society shall not grant a loan against the
security of a fixed deposit which it holds to the
credit of the borrower at a rate of interest which is
not at least one per cent on the amount of such
loan higher than the rate payable in respect of such
depositfi
Amendmentof 6. Section twcnty-tlzree bis of the principal Act is hereby
section 23bis amended-
of Act 6?: of . ’
1934,21$1nscrtcd (a) by the deletion of sub-section (2); and
by section 25 0f . . . .
Act 77 of 1961. (b) by the substitution for sub-section (4) of the followmg
sub-sect ion:
it(4) A society shall not pledge any assets as security
for loans or overdrafts unless its unencumbered
assets apart from assets which have been so pledged
amount to not less than the sum of_
(a) all its liabilities excluding indefinite shares and
reserves; and
(b) the amount of paid-up indefinite share capital and
statutory reserve which it is required to maintain
in terms of sub-seetion (l) of section twenty-five
hm".
Substitution of 7. The following section is hereby substituted for section
SCCtion 23!" 0f twcnt Libra) ter of the rinei al A ’
Act 62 of 1934, as J p P CL
inserted by section ?Minimum 231w. (l) (a) A permanent society shall maintain
25 of Act 77 WNW QSSCIS- in the Union in respect of its liabilities to the

0H)61- public (excluding shares for an indefinite
period issued by it), liquid assets amounting to
not less than the aggregate of_
(i) fifteen per cent of its short-term liabilities;

(ii) ten per cent of its medium-tenn liabilities;
and
(iii) five per cent of its long-term liabilities,
as shown in the last preceding monthly return
furnished to the registrar in terms ofsub-section
(l) of section forty-four: Provided that in
respect of its liabilities in the form of fixed
deposits a society may, instead of an amount
calculated in accordance with the foregoing
provisions of this paragraph maintain liquid
assets equal to seven and one-half per cent of
the aggregate amount of all such deposits.
(b) The provisions of paragraph (a) shall in respect
of a society existing at the date of commence-
ment of the Building Societies Amendment
Act, 1964, come into operation one year after
the said date: Provided that_
(i) a society which at the end of the said
period of one year for reasons acceptable
to the registrar, does not hold the full
amount of liquid assets prescribed by
paragraph (a), may apply to the registrar
for an extension of that period and the
registrar may extend it in respect of such
society by not more than twelve months;
and
(ii) the society shall during the said period of
one year and any extension thereof at all
times comply with the requirements relating
to liquid assets which were applicable to
it prior to the said commencement.
(2) The liabilities of a society as calculated for
the purposes of sub-section (1) may be reduced by_
(a) the amount owing on loans made against the
security of deposits or shares in accordance
with paragraph (b) of sub-section (1) of section
twenIy-four; and
(b) the amount of advances made by the State to
the society under any State-assisted housing
scheme.
(3) A society shall not pledge or otherwise
encumber any liquid assets held for the purposes
of this section.
(4) For the purposes of this section a security
shall be valued at its market value as certified by
the secretary of the board of public debt com-
missionersfi
8. The following section is hereby inserted in the principal
Act after section twenty-rhrce fer:
11Minimum
prescribed
investments.
23quater. (1) A permanent society shall maintain
prescribed investments to an amount not less than
ten per cent of its liabilities to the public inclus1ve
of all Classes of shares issued by it but excluding the
amount of advances granted but not yet paid out,
as shown in the last preceding monthly return
furnished by it to the registrar in terms ofsub-section
(1) of section forty-four.
(2) The provisions of sub-sections (3) and (4) of
section twenty-three ter shall mutatis mutandis apply
in regard to such investments".
Insertion of
section 23quater
in Act 62 of 1934.
9. Section twenty-four of the principal Act is hereby Amendment of
amended-
(a) by the substitution for sub-section (1) of the following
sub-section:

society as is not held in Icash or on deposit in accord-
ance with the provisions of paragraph (e) 01’ sub
9(1) Such portion of the funds of a registered
section 24 of
Act 62 of 1934, as
amended by
section 3 of
Act 39 of 1941,
section 7 of
Act 24 of 1942,
section 8 of Act
-section 28 of 1943, section
(1) of section twenty-twol the form of assets ranking 4 of Act 33 of
. ._-_._.___
as liquid assets or prescribed investments or used for
1946, section 21
of Act 33 of
any purpose mentioned in paragraph (i) bis or (i)ter 1949, section 3 of
of sub-section (1) of section twenty-two, shall, subject
_____
Act 28 of 1955,
section 4 of Act 47
of 1960, section

26 of Act 77 of
1961 and section
2 of Act 69
of 1963.
56
to the provisions of this Act, be invested in one or
more of the following forms of security and in no
other manner, that is to say#
(a) subject to the provisions ofthis section, in advances
0r readvances to members and others on the
security of reducible or fixed term mortgage of
urban immovable property situate within the
Union;
(h) in loans to depositors on the security of their
deposits with the society and to members on the
security of their shares in the somety;
I(c) in bills, bonds, certificates, debentures or stock
issued or guaranteed by the Government of the
Union;l
I(e)bis1 (r) in stock olithe National Finance Corpora-
tion (of South Africa established by section two
of the National Finance Corporation Act, 19491;
((11) in stock of any local authority in the Union
authorized by law to levy rates upon immovable
propertyd
(d) in shares of any insurance company established
in terms of paragraph (i)qualcr of sub-seetion (1)
of section Iwenly-Iwo;
I(e) (i) in debentures or stock of the Rand Water
Board or the Electricity Supply Commission;
(ii) in bills issued by the Land and Agricultural
Bank of South Africa or debentures, issued
by that Bank, which are quoted on a stock
exchange in the Union;l
I(f)1 (o) in the case of a terminating society, on
deposit with registered permanent societies or
banking institutions registered otherwise that:
provnstonally under the Banking Act, 1942;
__._____
((9) (iii)! (f) in any other (negotiable! security
approved by the registrarfi;
(h) by the substitution for paragraph (/7) of sub-section
(1)1)125’ of the following paragraph:
Nb) The sum total of all advances on each of which
there is owing to a society an aggregate sum in
excess of Ifive thousand pounds shall at no time
exceed the percentage set out in the second column
hereunder, in relation in each case to the total
assets of the society, as severally set out in the
first column:
M aximum percen-
T otal assets of society as rage of advances on
at the close of its last each of which there
preceding financial year. is owing over h5,000-
Not exceeding $00,000 7%
Not exceeding 551,000,000 12%
Not exceeding $25,000,000 15
Not exceeding $210,000,000 20
Exceeding $210,000,000 25
1
litteen thousand rand shall at no time exceed an
amount equivalent to twenty-five per cent of the
total assets of the society as at the Close of the
last preceding calendar quarter;"
W
a
i
(c) by the substitution for sub-section (3) 0f the following
sub-sect ion:
h(3) A registered permanent society shall not on
the security of a reducible mortgage of immovable

property advance more than seventy-tive per cent of the value reasonably determined of the property hypothecated or the lease or licence ceded and of the costs of transfer of the said property in so far as such costs do not exceed four per cent of the purchase price of such property: Provided that if collateral security is furnished it may advance an amount-

(a) not exceeding the value so determined of the
said property, lease or licence; and
(b) not exceeding the sum of-
(i) seventy-five per cent of the value so deter-
mined of the said property, lease or licence
and the said transfer costs; plus
(ii) the value of the collateral security calculated
_ as provided in sub-seetion (5):
Prov1ded further that in the case of property which
was mortgaged t0 the society and which has been
purchased by it owing to the default of the debtor or
which has been sold in execution or upon insolvency
or under authority of the debtor granted subsequent to
hls default under a mortgage bond, a society may,
notwithstanding the provisions of this sub-section,
lend to a purchaser on the security of a reducible
mortgage, an amount not exceeding the amount due
to the society by the previous owner at the time of
purchase or sale, as the case may be, and previously
secured by the mortgage of the said property, plus
the aggregate amount of costs and preferent charges
incurred by the society in respect of_
(i) legal proceedings instituted by it against such
owner for the recovery of any of the moneys
due under the mortgage bond resulting from
default on the part of such owner;
(ii) obtaining transfer of the property into its name;
and
(iii) essential repairs or the installation of sewerage,
light or water, or other essential services which
it may be legally required to provide at the
instance of a local authority or similar bodyft;
(d) by the substitution for sub-section (4) of the following
sub-section 2
W4) A registered permanent society shall not, on
the security of a fixed term mortgage of immovable
property advance more than sixty-six and two-thirds
per cent of the value reasonably determined of the
property hypothecated or the lease or licence ceded
together with the costs of transfer of the said property
_____.___--
in so far as such costs do not exceed four per cent of
the purchase price of such property: Provided that if
.____-____
collateral security is furnished, it may advance an
amount_
(a) not exceeding the value so determined of the said
property, lease or licence; and
(b) not exceeding the sum of-
(i) sixty-six and two-thirds per cent of the value
so determined of the said property, lease or
licence and the said transfer costs: plus
__--___
(ii) the value of the collateral security calculated
as provided in sub-section (5):
Provided further that the aggregate amount of
such advances shall at no time exceed ten per
cent of the total assets of the society as at the
close of its last financial year: Provided further
that Ia! no society (which has been registered
but whose-Tirst financial year-end has not yet
arrived! shall Inotl advance money on the
security of a fixed tertn mortgage of immovable
property until after the expiry of twelve months
from the date upon which it was registeredfk and
(e) by the addition of the following sub-sections:
"(8) A society shall not during any financial year
grant advances or readvances upon the security of
the mortgage of immovable property which is or is
to be used for business purposes, to an amount

exceeding in the aggregate five per cent of the total amount of advances upon the security of the mortgage of immovable property granted by the society during that year.

(9) For the purposes of this section-

(a) the use of immovable property for the purposes of any building of which more than fifty per

Amendment of
section 25 of
Act 62 of 1934,
as amended by
section 3 of
Act 56 of 1937,
section 9 of
Act 24 of 1942,
section 10 of
Act 28 of 1943
and section 30
of Act 77 of 1961.

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cent of the hoor area is used for residential purposes or purposes incidental thereto shall not be deemed to constitute use of such immovable property for business purposes; and

(b) the use of any building for purposes of an hotel or a boarding house or similar business shall not be deemed to constitute use for residential purposesfi

10. Section twenty-fzve of the principal Act is hereby amended_

(a) by the substitution for sub-section (1) of the following sub-section: .

H(l) A registered socrety shall not issue any shares other than_

(0) Shares for an indefinite period, which shall be paid-up shares and of which the shareholder shall not be entitled at any time to demand redemption and which the society shall, subject to the provisions of this section, be entitled to redeem after six months notice to the shareholder;

(b) fixed period shares, which shall be_

(i) paid-up shares issued for periods of not less than five years;

(ii) subscription shares calculated to mature after the expiry of a period of not less than three years,

and of which the shareholder shall not be entitled to demand redemption before the period of issue has expired or the share has matured, as the case may be, and which the society shall not be entitled to redeem before the period of issue has expired or the share has matured, as the case may be:

Provided that in regard to the issue of such shares the limitations prescribed Ias to fixed deposits! in sub-section 7 of section twenty-three shall mutatis mutandis apply: Provided further that no society shall on or after the date of commencement of the Building Societies Amendment Act, 1964, issue a subscription share to any limited liability company other than an association licensed in terms of section fwenty-on ofthe Companies Act, 1926 (Act No. 46 of 1926113

(b) by the insertion after sub-section (1) of the following sub-section:

1t(1)bis A society shall not give notice ofits intention to redeem any indefinite share before the expiration of a period of one year from the date of issue of that share.,';

(c) by the substitution for sub-section (9) of the following sub-section:

7(9) Notwithstanding anything contained in this section the registered owner of any share in a society may upon giving three months notice obtain redemp-tion of that share if the society then agrees to redeem it: Provided that no such share shall be redeemed before the expiration of a period of eighteen months from the date of acquisition of that share by that shareholder: Provided further that the period of

eighteen months and the requirement in regard to notice shall not apply_
(a) in the case of an insolvent or deceased estate of a registered owner;
(b) where the registered owner has been notified of the intended reduction of the dividend rate in terms of sub-section (6) of section twenry-five ter and he applies for redemption during the period of notice mentioned in the said sub-section;
(6) where a shareholder has been placed under curatorship;
(d) where the shareholder has been placed under JudlClal management or in liquidation;
(e) in the case of a share ceded to the society as collateral security; or
(f) in such other cases as the registrar may approve elther generally or in any particular casefi; and

(d) by the addition of the following sub-sections:
9(17) Notwithstanding the provisions of paragraph (b) of sub-section (1) the board of a society may in its discretion and in the manner and under the circumstances set out in the rules of the society, repay before the date of maturity the aggregate amount of the periodical contributions made in respect of a subscription share.
(18) A society shah not grant a loan against the secimty of any share issued by it at a rate of interest which is not at least one per cent on the amount of such loan higher than the rate of dividend payable on such sharefi

11. Section twenty-jive bis of the principal Act is hereby amended- Amendment of section 25bis of Act 62 of 1934, 21,8 inserted by section 31 of Act 77 of 1961-

(a) by the substitution for sub-section (1) of the following SUb-Section:
t) _ ’ . _
(1) A permanent soc1ety shall maintaln a paid-up indetinite share capital and statutory reserve fund together amounting to not less than twenty-five per cent of the sum of its remaining paid-up share capital and of the deposits, loans and overdrafts it may have received but not yet repaid, as shown in the last preceding monthly return furnished by it to the registrar in terms of sub-section (1) of section forty-fourfi;
(b) by the deletion of sub-section (2);
(c) by the substitution in subsection (3) for the expression ttsub-sections (1) and (2),, of the expression tisub-section (1)9;
(d) by the deletion of sub-section (4); and
(e) by the deletion of sub-section (6).

12. Section twentyfvc fer of the principal Act is hereby amendede- Amendment of section 251er of Act 62 of 1934, a_S Inserted by section 31 of Act 77 of1961.

(a) by the substitution for sub-section (3) of the following sub-section:
u(3) Where a society has issued a share prior to the commencement of this section subject to conditions whereby the limits referred to in sub-section (2) may be exceeded, such conditions shall lapse upon the expiry of a period of ten years from the thirty-first day of August, 1959, or upon the death of the person who was the beneficial owner of such share Ibefore that date! on the thirtieth day of August, 1959, whichever Ievent shall occur first! is the earlier datefi;
(b) by the addition of the following sub-section:
9(6) Where a society has, in terms of its rules, at the time of issue of any indefinite or fixed period share fixed the rate of dividend payable in respect of that share, the society shall, notwithstanding the terms on which the share has been issued, have the right from time to time to reduce the fixed rate of dividend so payable after giving the shareholder not less than one monthis written notice of the intended reductionfi

13. The following section is hereby inserted in the principal Act after section tuentyfi in Act 62 of 1934. Insertion of ’ ’ - ve ter: section 25quarer

"PeriOd for mamtammg 25quater. A permanent society shall maintain any minimum amount prescribed by section twenty-pr-eswbed three fer, twenty-three quater or tu’e/zty-five bis at minima. . . . .
all times during the perlod from the date of certification in terms of sub-section (1) of section forty-four of the monthly return by reference to which that amount is determined, until the day preceding the date on which the next succeeding monthly return

is so certitiedfi
14. Section twenty-seven ter of the principal Act is hereby Amendment of
amended by the addition at the end of paragraph (f) of sub- section 27ter of
section (1) of the words ttor any person in the employ of such $9314gggnserted
an agent? by sectionl34 of
Act 77_of 1961.

Amendment of
section 29 of
Act 62 of 1934,
as amended by
section 11 of
Act 24 of 1942,
section 15 of
Act 28 of 1943
and section 36
01 Act 77 01 1961.
Amendment 01
section 31) 01
Act (1201. 1934,
as substituted by
seetinn 37 of
Act 77 01. 1961.
Amendment of
seetion 31 01
Act (12 01’ 1934,
as substituted
by seetiun 31%
01 Act 77 01 I961.
Insertion of
section 401w
in Act 62 of 1934.
Amendment 01’
sectinn (11 01
Act 62 111’ 1934,
as amended by
seetinn 4 111
Aet 56 01 1937,
section 24 01
Act 24 011 1942,
section 26 01
Act 28 111’ 1943,
section 11) 01’
Act 33 111 1946,
seeti1m4 01
Act 28 011955
and section 66
of Act 77 011961.
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15. Section Iwerny-niue ofthe principai Act is hereby amended by the substitution For sub-section (5) of the following sub-section:
9(5) Notice ofannual and special general meetings ofa society shall be given to 1111 members, the registrar and the auditors of the society in the form and manner prescribed by the rules, and shall specify the day, hour and place and the objects 01 the meeting, and if any alteration, rescission or addition to the rules is intended to be proposed shall contain a copy of every such alteration, rescission or addition: Provided that in the case of the intended adoption of a new set of rules it shall be sutiieient compliance with the foregoing provisions of this sub-scetion and with any provision in the rules 01" a society ifthe notice of the meeting contains a statement to the eiTeet that copies of the proposed new rules are available for inspection at every braneh omee and agency 01" the society and available to members on requestfi.
l6. Seetien l/iirly 01 the principal Act is hereby amended by the substitution for paragraph (d) of sub-seetion (4) of the following paragraph:
11(11) the number and the aggregate amount 012111 advances made pursuant to the provisions of paragraph (a)
()lisub-seetion (1) otiseetion lit’o/Ily-four, to be classified separately as follows, in terms Of the amount owing to the society, name1y_-
(i) not exceeding Ilive thousand pounds! fifteen thousand rand;
(ii) exceeding Hive thousand pounds! Fifteen thousand

rand but not exceeding (ten thousand pounds!
twenty thousand rand;
(iii) exceeding Iten thousand pounds! twenty thousand
rand but not exceeding (twenty thousand pounds!
m thousand rand;
(iv) exceeding (twenty
thousand randfi.
thousand pounds! forty
17. Section l/Iirtytuono 01 the principal Act is hereby amended
by the insertion after sub-seetion (9) otithe following sub-seetion:
11(9)!)is Where the auditor 01a society is a partnership
the appointment of such auditor shall not lapse by reason
of a change in the composition of the partnership as long
as not less than half the persons who were partners as at
the date when the partnership was last appointed continue
to be partners thereinfi
18. The follewing section is hereby inserted in the principal
Act after seetionfnrty his:
11APDOinI- 401cm Notwithstanding the provisions of the
liiitlietiiir Companies Act. 1926 (Act No. 46 of 1926). as
immigcr applied by sections I/zirl_1’-siex’ and forty of this
and Act, no person other than :1 person recommended
liquidillor. by the registrar shall be appointed by a Master of
the Supreme Court as judicial manager, provisional
judietal manager. liquidator or provisional liquidator
01a butlding soeietyfi.
19. Section A’i,Yf_1’-0II()011110 principal Act is hereby amended-
((1) by the substitution time the deiinition of 9bank or
bankerii 01’ the following definition:
mbanki or thankeri means a (commercial bank
registered or provisionally registered as such!
banking institution which is registered Otherwise
than provisionally under the Banking Act, 1942
(Act No. 38 01’ 1942), and which is required to
balance with the Reserve
maintain a
Bunkz";
(h) by the insertion alter the detinitinn of tttiirector" of
the lbllowingy detinition:
mdiseount housea means an institution registered or
deemed to be registered as a discount house
under the Banking Act, 1942 (Act No. 38 0f
1942);ii;
(1’) by the insertion after the definition of 9indefinite
share capitalii 0f the following dehnitions:
mLand Banki means the Land and Agricultural
Bank 011 South Africa;
TCSCI’VC

iliquid assetsi means the aggregate amount ofe
(a) Reserve Bank Notes and subsidiary coin;
(b) deposits, withdrawable on demand, with a bank;
(c) deposits, withdrawabie on demand, with the National Finance Corporation;
(d)loans to discount houses, repayable on demand;
(9) Union Treasury bills;
(f) stocks of the Government with a maturity, to the latest redemption date, of not more than three years;
(g) bills issued by the Land Bank;
(h) debentures of the Land Bank with a maturity of not more than three years; and
(i) such other assets as the registrar may approve for the purposes of this definitionfi;
(d) by the insertion after the definition of iiliquidatorii of the following definitions:
mlong-term liability, in relation to any date, means a liability which is payable after the expiration of at least six months as from that date or which on that date is subject to at least six monthsi notice before becoming payable;
imedium-term liability, in relation to any date, means a liability which is payable after the expiration of a period of not less than thirty days but less than six months as from that date, or which on that date is subject to not less than thirty daysi but less than six monthsi notice before becoming payable, but includes_
(a) the aggregate net amount a society is committed to pay out in respect of advances granted;
(b) the aggregate amount of cash deposited with a society in terms of sub-paragraph (iii) of paragraph (d) of sub-section (1) of section twenty-two; and
(c) savings depositsfi;
(e) by the substitution for the dehnition of iiMinisteri, of the following definition:
mMinistef means the Minister of Financefi;
(f) by the insertion after the definition of iimortgage of urban immovable propertyi, ofthe following definition:
mNational Finance Corporationi means the National Finance Corporation of South Africa established by section two of the National Finance Corporation Act, 1949 (Act No. 33 of 1949);,,;
(g) by the insertion after the definition of iiprescribed formii of the following definition:
mprescribed investmentsi means the aggregate amount of#
(a) liquid assets; .
(b) deposits with a bank other than those ranking as liquid assets; . . ’
(c) deposits with a local authority Within the Union; _ _
(d) deposits with the National Finance Corporation and loans to discount houses other than deposits or loans ranking as liquid assets;
(e) stocks of the Government other than those ranking as liquid assets;
(f) debentures or stock guaranteed by the Government; ’ -
(g) stocks of and loans to any local authority 1n the Union;
(11) debentures or stock of the Rand Water Board or the Electricity Supply Commissmn;
(i) debentures of the Land Bank other than those ranking as liquid assets; and

(j) such other investments as theyregistriar may
approve for the purposes of this definitlon; ;
(h) by the insertion after the definition of iiregulationii of
the following definition: . _
ii isavings acco unti means an account which a (iepOSItor
maintains with a building society and in which
he may not keep a larger credit balance and from
which he may not, save with the consent of the

society, make a withdrawal at shorter notice, in relation to the amount to be withdrawn, than is determined by the rules of the society;";

(i) by the substitution for the definition of ttsavings deposiW of the following definition:

msavings dcpositt means a credit balance in a savings accountf; and

(j) by the insertion after the definition of itsliareholderii 0f the following definition:

mshort-term liability, in relation to any date, means a liability which is payable within thirty days as from that date or which on that date is subject to less than thirty days notice before becoming payable;".

Inseftion 0f 20. (1) The following section is hereby inserted in the princi-?cc"0" 62m pal Act after section siny-Iwa:

m Act 62 of1934. .. . _ .

_Applieu- 62lns. This Act and any amendment thereof, gonllllOWVI whensoever it may be or may have been enacted, th'iw: % shall apply also in the territory of South-West Africa, including the Eastern Caprivi Zipfel referred to in section three of the South-West Africa Affairs Amendment Act, 1951 (Act No. 55 0f1951).".

(2) Sub-section (1) shall be deemed to have come into operation on the date of commencement of the Building Societies Amendment Act, 1946 (Act No. 33 of 1946).

Insertion 0f 21. The following section is hereby inserted in the principal .Secmm 631m Act after section sixty-l/zree:

in Act 62 of 1934. u . _ .

Periodic 631713. Before lst January, 1971, and thereafter "mew or from time to time at intervals of not more than ten Act. . . . . years, the Minister shall appomt a committee to enquire into and report to him on amendments to this Act which in the opinion ofthe committee, have become desirable by virtue ofchanged circumstances or which the administration ofthe Act has shown to be desirable?

Substitution of 22. The following schedule is hereby substituted for the the First Schedule First Schedule of the principal Act:

to Act 62 of 1934, as amended by section 68 of Act 77 of 1961.

"FIRST SCHEDULE.

Prescribed Fees.

For the certificate of registration ofa society . .	R10-00
For the certificate of provisional registration of a society	R10-00
For the certificate of alteration of rules	Rl-OO
For the certiflcate of registration of a change of name . .	R5-00
For the certificate of registration of notice of an amalgamation or transfer of assets and liabilities	RleOO
For a copy ofany ofthe aforementioned certificates	R0-25
For every document required to be authenticated by the registrar, and not chargeable with any other fee	Rl-OO
For every inspection of documents (whether one or more) referred to in seetionfiftyfve of the Act, relating to one and the same society . .	R0-50
For any photostatie or double-spaced type-written copy or extract made by the registrar from any of the documents referred to in sectionfifly-five of the Act	R0-50 per single foolscap page or portion of a foolseap page.

For the examination of every copy certified as a true copy of a document in the custody of the registrar when the copy so certified is not made by the registrar (in addition to the fee for the signature of the registrar) .. .. . . RleOO

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No fee is payable for any document or copy of a document supplied to a public department.

_ The registrar may dispense with the fee in cases where he 15 satisfied that the inspection, copy or extract in questlon IS desued for the purpose of furthering some public interest?

23. This Act shall be called the Building Societies Amend- ment Act, 1964, and shall come into operation on a date to be fixed by the State President by Proclamation in the Gazette. Short title and commencement.

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