

## CHAPTER III

### CORPORATE GOVERNANCE

#### 39. Process of corporate governance

(1) The board of directors of a bank is ultimately responsible for ensuring that an adequate and effective process of corporate governance, which is consistent with the nature, complexity and risk inherent in the bank's on-balance sheet and off-balance sheet activities and that responds to changes in the bank's environment and conditions, is established and maintained, provided that the board of directors may appoint supporting committees to assist it with its responsibilities.

(2) The process of corporate governance referred to in subregulation (1) includes the maintenance of effective risk management and capital management by a bank.

(3) The conduct of the business of a bank entails the ongoing management of risks, which may arise from the bank's on-balance sheet or off-balance sheet activities and which may include, among others, the following types of risk:

- (a) capital risk;
- (b) compliance risk;
- (c) concentration risk;
- (d) counterparty risk;
- (e) country risk and transfer risk;
- (f) credit risk, and in particular risks arising from impaired or problem assets and the bank's related impairments, provisions or reserves;
- (g) currency risk;
- (h) detection and prevention of criminal activities;
- (i) equity risk arising from positions held in the bank's banking book;
- (j) interest-rate risk;
- (k) liquidity risk;
- (l) market risk (position risk) in respect of positions held in the bank's trading book;
- (m) operational risk;
- (n) reputational risk;

- (o) risk arising from exposure to a related person;
- (p) risk arising from the outsourcing of material tasks or functions;
- (q) risk arising from all relevant payment and settlement services, processes or systems;
- (r) risk relating to procyclicality;
- (s) risks arising from or related to inappropriate compensation practices for directors and executive officers;
- (t) risks related to securitisation or resecuritisation structures;
- (u) risks related to stress testing;
- (v) risks related to the inappropriate valuation of instruments, assets or liabilities;
- (w) solvency risk;
- (x) strategic risk;
- (y) technological risk;
- (z) translation risk;
- (aa) any other risk regarded as material by the bank.

(4) In order to achieve the objective relating to the maintenance of effective risk management and capital management envisaged in subregulation (2), every bank shall have in place comprehensive risk-management processes, practices and procedures, and board-approved policies-

- (a) to identify;
- (b) to measure;
- (c) to monitor;
- (d) to control;
- (e) to appropriately price;
- (f) to appropriately mitigate; and
- (g) to appropriately communicate or report,

among other things, the risks referred to in subregulation (3).

(5) As a minimum, the risk management processes, practices, procedures and policies referred to in subregulation (4)-

- (a) shall be adequate for the size and nature of the activities of the bank, including the bank's activities relating to risk mitigation, trading and exposure to counterparty credit risk, and shall periodically be adjusted in the light of the changing risk profile or financial strength of the bank, financial innovation or external market developments;
- (b) shall be duly aligned with, and, where appropriate, provide specific guidance for the successful implementation of and the continued adherence to, the business strategy, goals and objectives, and the risk appetite or tolerance for risk, of the bank;
- (c) shall duly specify relevant limits and allocated capital relating to the bank's various risk exposures;
- (d) shall be sufficiently robust-
  - (i) to determine and monitor the total indebtedness of any person to whom the bank granted credit;
  - (ii) to ensure that the bank raises appropriate and timely credit impairments and maintains adequate allowances or reserves for potential losses in respect of its loans or advances;
  - (iii) to identify and manage material interrelationships between the bank's relevant risk exposures;
  - (iv) to ensure the bank's continued compliance with the relevant documented set of internal policies, controls and procedures;
  - (v) to ensure that the bank captures the economic substance and not merely the legal form of the bank's various exposures to risk;
  - (vi) to ensure that the bank conducts sufficiently robust and independent due diligence in respect of the bank's respective investment in or exposure to instruments, products or markets, and that the bank, for example, does not merely or solely rely on an external credit rating when investing in a particular product or instrument;
  - (vii) to ensure that the bank regularly conducts appropriate stress-testing or scenario analysis;
  - (viii) to ensure that the bank maintains sufficient liquidity and capital adequacy buffers to remain solvent during prolonged periods of financial market stress and illiquidity;

- (ix) to clearly delineate accountability and all relevant lines of authority across the bank's various business units, lines or activities, and ensure that a clear separation exists between all relevant business units, lines or activities, and any relevant risk or control function;
  - (x) to ensure that, prior to its initiation, all relevant risk management, control and business units or lines appropriately review and assess proposed new activities, investment in new instruments or the introduction of new products, to ensure that the bank will be able to continuously manage and control the relevant activity, investment or product;
  - (xi) to ensure that the bank is able to appropriately aggregate or consolidate all relevant risks or exposure to risk;
  - (xii) to ensure ongoing, accurate, appropriate and timely communication or reporting of the bank's relevant risk exposures and any material deviation from approved policies, processes or procedures to the senior management and the board of directors;
  - (xiii) to ensure that the bank's board of directors and senior management receive timely and appropriate information regarding the condition of the bank's respective asset portfolios, including matters related to the relevant classification of credit exposure, the level of impairment or provisioning, and major problem assets;
  - (xiv) to enable the proactive management of all relevant risks;
  - (xv) to ensure that any breach of an internal limit is duly escalated and addressed;
  - (xvi) to timeously detect potential criminal activities and prevent undue exposure to criminal activities;
  - (xvii) to ensure proper oversight of any relevant outsourced function.
- (e) shall in the case of the bank's exposure to counterparty credit risk-
- (i) duly take into account the market risk, liquidity risk, legal risk and operational risk normally associated with counterparty credit risk;
  - (ii) ensure that the bank-
    - (A) duly takes into account the creditworthiness of all relevant counterparties;
    - (B) duly takes into account any relevant settlement and pre-settlement risk;

- (C) continuously monitors the utilisation of credit lines;
  - (D) measures its current exposure gross and net of collateral in all relevant cases, including in the case of margin lending;
  - (E) manages all relevant risk exposures at a counterparty and bank-wide level;
- (f) shall in the case of risk mitigation, including matters related to collateral and margin agreements with counterparties, be sufficiently robust to ensure that the bank continuously-
- (i) devotes sufficient resources to the orderly operation of margin agreements with OTC derivative and securities financing counterparties, as measured by, among other things, the timeliness and accuracy of the bank's outgoing calls and response time to incoming calls;
  - (ii) controls, monitors and reports-
    - (A) all relevant risk exposures related to margin agreements, such as the volatility and liquidity of the securities exchanged as collateral;
    - (B) any potential concentration risk to particular counterparties or types of collateral;
    - (C) the reuse of both cash and non-cash collateral, including the potential liquidity shortfalls resulting from the reuse of collateral received from counterparties, and
    - (D) all relevant matters related to the surrendering of rights on collateral posted to counterparties;
- (g) shall be sufficiently robust to timeously identify material concentrations in any one of the risk exposures specified in subregulation (3), including concentrations relating to or arising from-
- (i) an individual or single counterparty, borrower or person;
  - (ii) a group of related or connected counterparties, borrowers or persons;
  - (iii) credit exposures in respect of counterparties or persons in the same industry, economic sector or geographic region;
  - (iv) credit exposures to counterparties or persons, the financial performance of which is dependent on the same activity or commodity;
  - (v) indirect credit exposures arising from the bank's risk mitigation activities such as exposure to a single collateral type or a single credit protection provider;

- (vi) interest-rate risk in the bank's banking book;
  - (vii) liquidity risk;
  - (viii) funding sources;
  - (ix) trading exposure or risk, including interest-rate risk and price risk;
  - (x) equity positions held in the bank's banking book;
  - (xi) specific assets or instruments held in either the banking book or trading book, including structured products;
  - (xii) off-balance-sheet exposures, including guarantees, liquidity lines or other commitments;
  - (xiii) correlation between any of the aforesaid risks, counterparties, instruments, assets, liabilities or commitments.
- (h) shall in the case of country risk and transfer risk be sufficiently robust-
- (i) to identify and monitor exposures on an individual country basis in addition to an end-borrower or end-counterparty basis;
  - (ii) to ensure that country exposures are accurately monitored and reported in the bank's information systems, risk management systems and internal control systems;
  - (iii) to continuously ensure adherence to the bank's established country exposure limits, and any other relevant limit that may be specified by the bank or Registrar;
  - (iv) to monitor and evaluate developments in country risk and in transfer risk, and apply appropriate countermeasures;
  - (v) to raise appropriate provision for loss against country risk and transfer risk in addition to any relevant required loan-specific provision or impairment;
- (i) shall in the case of liquidity risk be sufficiently robust to ensure that-
- (i) the bank conducts comprehensive cash flow forecasting;
  - (ii) the bank duly specifies, implements and maintains appropriate limits in respect of its respective funding sources, including all relevant products, counterparties and markets;
  - (iii) the bank conducts robust liquidity scenario stress testing, including stress tests in respect of such bank specific or sector specific scenarios as may be specified in writing by the Registrar;

- (iv) the bank develops and maintains robust and multifaceted contingency funding plans;
- (v) the bank maintains a sufficient cushion of liquid assets to meet contingent liquidity needs;
- (j) shall in the case of the bank's intraday liquidity positions be sufficiently robust to ensure that-
  - (i) the bank actively manages its intraday liquidity positions and risks, for example, to meet payment and settlement obligations on a timely basis under both normal and stressed conditions, and as a result contributes to the smooth functioning of all relevant payment and settlement systems;
  - (ii) the bank has the ability-
    - (A) to measure expected daily gross liquidity inflows and outflows, anticipate the intraday timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day;
    - (B) to monitor intraday liquidity positions against expected activities and available resources in respect of matters such as relevant balances, remaining intraday credit capacity and available collateral;
    - (C) to acquire sufficient intraday funding to meet its intraday objectives;
    - (D) to manage and mobilise any required collateral to obtain the necessary intraday funds;
    - (E) to appropriately-
      - (i) manage the timing of its liquidity outflows in line with its intraday objectives; and
      - (ii) deal with unexpected disruptions to its intraday liquidity flows;
- (k) shall in relevant cases include prudent contingency plans specifying, for example, how the bank will respond to funding, capital and other pressures that may arise when access to securitisation markets is reduced, including matters related to the valuation of all relevant instruments or positions held;
- (l) shall include sound compensation processes, practices and procedures, and board-approved compensation policies, which compensation processes, practices, procedures and policies-
  - (i) shall be linked to longer-term capital preservation, and the financial strength of the bank.

This means, *inter alia*-

- (A) that variable compensation payments, for example, shall be appropriately deferred and payment shall not be finalised over short periods whilst risks are realised over long periods; and
- (B) that the mix of cash, equity and other forms of compensation shall be duly aligned with the bank's exposure to risk.
- (ii) shall incorporate and promote appropriate risk-adjusted performance measures, that is, compensation shall acknowledge all relevant risks so that remuneration is balanced between the profit earned and the degree of risk assumed in order to generate the profit;
- (iii) shall not be unduly linked, for example, to short-term accounting profit generation;
- (iv) shall ensure that staff engaged in the relevant financial and risk control areas have appropriate authority and are compensated in a manner that is independent of the business areas they oversee, and commensurate with their function in the bank;
- (v) shall promote adequate disclosure to stakeholders, that is, the bank shall disclose clear, comprehensive and timely information regarding the bank's compensation practices-
  - (A) to facilitate constructive engagement with all relevant stakeholders, including shareholders;
  - (B) to enable stakeholders to evaluate the quality of support for the bank's strategy, objectives and risk appetite;
- (m) shall be subject to adequate internal controls and appropriate internal audit coverage;
- (n) shall ensure appropriate board and senior management oversight and involvement;
- (o) shall include adequate internal controls to produce any data or information which might be required on a consolidated basis;
- (p) shall be duly documented;
- (q) shall be subject to regular monitoring and review, and relevant testing, to ensure that they remain relevant and current.



## (6) As a minimum-

- (a) the board of directors and senior management of a bank-
  - (i) shall possess sufficiently detailed knowledge of all the major business lines of the bank to ensure that the policies, processes, procedures, controls and risk monitoring systems envisaged in subregulations (4) and (5) are appropriate and effective;
  - (ii) shall have sufficient expertise to understand the various instruments, markets and activities in which the bank conducts business, including capital market activities such as securitisation and the related off-balance sheet-activities, and the associated risks;
  - (iii) shall ensure that the bank has in place management information systems-
    - (A) that facilitate the proactive management of risk;
    - (B) that enable the senior management of the bank to duly manage and appropriately mitigate the bank's relevant risk exposures, including the various risk exposures arising from any securitisation or resecuritisation structure;
    - (C) able to provide regular, accurate and timely information regarding matters such as the bank's aggregate risk profile, as well as the main assumptions used for risk aggregation;
    - (D) adaptable and responsive to changes in the bank's underlying risk assumptions;
    - (E) sufficiently flexible to generate relevant forward-looking scenario analyses that capture the board and senior management's interpretation of evolving market conditions and stressed conditions;
    - (F) capable of capturing and bringing to the attention of senior management and the board of directors any breach in a specified internal, regulatory or other statutory limit;
    - (G) that make provision for any relevant initial and ongoing validation;
  - (iv) shall ensure that the monitoring and the reporting of individual and aggregate exposure(s) to related persons are subject to an independent credit review process;
  - (v) shall remain informed about the aforesaid risks and changes thereto as financial markets, risk management practices and the bank's activities evolve;

- (vi) shall ensure that accountability and lines of authority are clearly delineated;
- (vii) shall ensure adequate segregation of duties to promote sound governance and effective risk management in the bank, and avoid conflict of interests;
- (viii) shall ensure that, before embarking on new activities, investing in new instruments or introducing products new to the bank-
  - (A) the potential changes in the bank's exposure to risk arising from the aforesaid new instruments, products or activities have been duly identified, considered and reviewed; and
  - (B) the bank's infrastructure, policies, processes, procedures and internal controls necessary to manage the related risks are duly updated and in place;
- (ix) shall duly consider the possible difficulty related to the valuation of new products, and how the products might perform in a stressed economic environment;
- (b) the senior management of a bank-
  - (i) shall ensure that the risks to which the bank is exposed are appropriately managed;
  - (ii) shall set capital targets commensurate with the bank's risk profile and control environment;
  - (iii) shall implement robust and effective risk management and internal control processes;
  - (iv) shall develop and maintain-
    - (A) an appropriate strategy that ensures that the bank maintains adequate capital based on the nature, complexity and risk inherent in the bank's on-balance sheet and off-balance sheet activities, including the bank's activities relating to risk mitigation;
    - (B) an internal capital adequacy assessment process that responds to changes in the business cycle within which the bank conducts business;
  - (v) shall, with respect to new or complex products or activities, understand the underlying assumptions regarding business models, valuation and risk management practices, and shall duly evaluate the bank's potential risk exposure should the aforesaid assumptions fail;

- (vi) shall, on a periodic basis, conduct relevant stress tests, particularly in respect of the bank's main risk exposures, in order to identify events or changes in market conditions that may have an adverse impact on the bank.

(7) When a bank wishes to adopt the IRB approach for the measurement of the bank's exposure to credit risk as envisaged in regulation 23(10), the board of directors or a designated committee thereof, that is, a subcommittee of the board of directors, and the relevant senior management of the bank, shall approve all material aspects of the bank's rating and risk estimation processes, provided that-

- (a) the board of directors and any board-appointed committee-
  - (i) shall possess-
    - (A) a general understanding of the bank's risk rating system;
    - (B) a detailed comprehension of the relevant risk-management reports submitted to the board or board-appointed committee;
  - (ii) shall ensure that the bank establishes and maintains an independent credit risk control unit, which credit risk control unit-
    - (A) shall be responsible for-
      - (i) the design or selection, implementation and performance of the bank's internal rating systems;
      - (ii) the testing and monitoring of internal risk grades;
      - (iii) the production and analysis of summary reports from the bank's rating system, which reports shall include-
        - (aa) historical data in respect of exposures that defaulted, sorted according to the rating of the exposure at the time of default and one year prior to default;
        - (bb) migration analyses in respect of risk grades;
        - (cc) trends in respect of key rating criteria;
      - (iv) the implementation of procedures to verify that rating definitions are consistently applied across all relevant departments and geographical areas;

- (v) the review and documentation of any changes to the rating process, criteria or rating parameters, including the reasons for such changes;
  - (vi) the review of the rating criteria in order to ensure that the criteria remain predictive of risk.
- (B) shall be functionally independent from the personnel and management functions or business units or lines responsible for the origination of credit exposures;
- (C) shall be headed by a person who reports directly to the chief executive officer and the bank's board of directors, provided that, subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, when a bank has appointed an independent Chief Risk Officer (CRO), as part of the bank's governance structure, who reports directly to the chief executive officer of the bank and the bank's board of directors, the head of the credit risk control unit may report directly to the said CRO;
- (D) shall bring to the attention of the senior management and the board of directors of the bank matters such as credit risk concentrations or any violations of specified risk or appetite limits;
- (E) shall actively participate in the development, selection, implementation and validation of the bank's rating models.
- (iii) shall ensure that the bank's rating systems and processes are subject to regular review, but no less frequently than once a year, by the internal audit department or an equally independent function, which independent review-
  - (A) shall include-
    - (i) the operations of the credit function;
    - (ii) the estimates of all relevant risk components such as PD ratios, LGD ratios and EAD amounts;
    - (iii) the bank's compliance with all relevant minimum requirements;
  - (B) shall be duly documented.

- (b) the relevant senior management of the bank-
  - (i) shall possess-
    - (A) a detailed understanding of the rating system's design and operation;
    - (B) a detailed comprehension of the risk reports generated by the risk system, including information relating to-
      - (i) the relevant internal ratings;
      - (ii) the bank's risk profile based on risk grades;
      - (iii) risk migration across risk grades;
      - (iv) the relevant risk estimates of the relevant parameters per risk grade;
      - (v) a comparison between realised and expected PD ratios, LGD ratios and EAD amounts,

provided that the frequency of reporting may vary based on the significance and type of information and the level of the recipient.
  - (ii) shall provide notice to the board of directors or a committee appointed by the board of material changes or exceptions from the established policies;
  - (iii) shall approve material differences between established procedure and actual practice;
  - (iv) shall, on an ongoing basis, ensure that the rating system operates in an effective manner;
  - (v) shall meet regularly with the relevant staff in the credit risk control unit in order to discuss-
    - (A) the performance of the rating process;
    - (B) areas that may need improvement;
    - (C) the status of previously identified deficiencies.

(8) As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall obtain the prior written approval of the Registrar and shall in addition to the relevant requirements specified in these Regulations comply with such conditions as may be specified in writing by the Registrar;
- (b) shall have in place an independent risk control unit, which risk control unit-
  - (i) shall be responsible for the design and implementation of the bank's risk management system;
  - (ii) shall produce and analyse daily reports on the output of the bank's risk measurement model, including an evaluation of the relationship between measures of risk exposure and counterparty and trading limits;
  - (iii) shall be independent from all relevant line business units;
  - (iv) shall report directly to the senior management of the bank;
  - (v) shall conduct regular backtesting, that is, an ex-post comparison of the risk measure generated by the bank's EPE model against the bank's actual exposure to counterparty credit risk;
  - (vi) shall conduct the initial and ongoing validation of the internal model;
  - (vii) shall control the integrity relating to input data;
  - (viii) shall validate prices supplied by business units;
  - (ix) shall be adequately staffed;
  - (x) shall be closely integrated into the day-to-day credit risk management process of the bank, that is, the work of the unit shall form an integral part of the process of planning, monitoring and controlling the bank's credit and overall risk profile.
- (c) shall have in place a collateral management unit, which collateral management unit-
  - (i) shall be responsible for calculating and making margin calls, managing margin call disputes and reporting levels of independent amounts, initial margins and variation margins accurately, on a daily basis;
  - (ii) shall control the integrity of the data used to make margin calls, and ensure that it is consistent and frequently reconciled with all relevant sources of data within the bank;

- (iii) shall continuously track and report-
  - (A) the extent and reuse of cash and non-cash collateral and the rights that the bank gives away to its respective counterparties for posted collateral;
  - (B) concentration to individual counterparties or collateral asset classes accepted by the bank;
- (iv) shall have sufficient resources-
  - (A) to ensure that the unit effectively discharges its duties, as measured by matters such as the timeliness and accuracy of outgoing calls and response time to incoming calls;
  - (B) to process calls and disputes in a timely manner, even in the case of a severe market crisis;
  - (C) to enable the bank to limit its number of large disputes caused by trade volumes;
- (v) shall produce and maintain appropriate collateral management information that is regularly reported to the senior management of the bank, which internal reports, as a minimum, shall include information regarding-
  - (A) the type of cash and non-cash collateral received and posted;
  - (B) the categories of collateral assets reused, and the terms of such reuse, including instrument, credit quality and maturity;
  - (C) the size, ageing and cause for margin call disputes; and
  - (D) any relevant trends in the aforesaid information;
- (d) shall-
  - (i) ensure the active involvement and oversight of the bank's board of directors and senior management in the bank's risk control processes;
  - (ii) regard risk control, including credit and counterparty credit risk control, as an essential aspect of the bank's business;
  - (iii) devote adequate resources to the bank's risk control and collateral management units;
  - (iv) ensure that reports prepared by the independent risk control unit and the collateral management unit are reviewed by a level of senior management with sufficient authority to enforce both reductions of individual exposures to a particular counterparty and reductions in the bank's overall counterparty risk exposure;

- (v) ensure that the senior management of the bank is aware of the limitations and assumptions made in respect of the said internal model and the impact that such limitations and assumptions may have on the output of the model;
- (vi) ensure that the bank's model validation process and its review process are independent of the model developers;
- (vii) ensure that transactions are assigned to the appropriate netting set within the bank's model for the calculation or estimation of expected positive exposure relating to a particular counterparty;
- (viii) ensure that all relevant policies, processes and procedures, including all relevant policies, processes and procedures related to cash management, duly account for the liquidity risks associated with potential incoming margin calls in the context of exchanges of variation margin or other margin types, such as initial or independent margin, under adverse market shocks, potential incoming calls for the return of excess collateral posted by counterparties, and calls resulting from a potential downgrade of its own public rating;
- (ix) duly define-
  - (A) how representative counterparty portfolios are constructed for the purposes of validating its EPE model and its risk measures;
  - (B) criteria with which to assess the relevant EPE models and the models that input into the calculation of EPE;
- (x) ensure that the nature and horizon of collateral reuse is consistent with the bank's liquidity needs and does not jeopardise the bank's ability to post or return collateral in a timely manner;
- (xi) in the case of-
  - (A) exposures with a rising risk profile after one year, regularly compare the bank's estimate of EPE over one year with the EPE over the life of the said exposure;
  - (B) exposures with a maturity of less than one year, regularly compare the replacement cost or current exposure and the realised exposure profile;
- (xii) store sufficient data relating to the bank's counterparty exposure in order to conduct robust stress-testing and backtesting;
- (xiii) ensure that the bank has in place robust internal policies and procedures to verify that in respect of each exposure in respect of which-



- (A) the bank wishes to apply netting, prior to including the relevant transaction in a netting set, the transaction is covered by a legally enforceable netting contract that complies with the relevant requirements specified in these Regulations;
  - (B) the bank wishes to make use of collateral to mitigate the bank's exposure to counterparty credit risk, prior to recognising the effect of the said collateral in the calculation of the bank's exposure to counterparty credit risk, the collateral complies with the relevant requirements specified in these Regulations.
- (e) shall have in place a robust model for the estimation of expected positive exposure, that is, a robust EPE model, which model-
  - (i) shall be closely integrated into the risk management processes of the bank and the output of which model shall be an integral part of the process of planning, monitoring and controlling the bank's exposure to counterparty credit risk;
  - (ii) shall be used in conjunction with internal trading and exposure limits in a manner that is consistent over time and that is well understood by the relevant traders, the credit function, the senior management and all relevant line and support functions of the bank;
  - (iii) shall for purposes of measuring counterparty exposure forecast over a sufficiently long time horizon interest rates, foreign exchange rates, equity prices, commodities, and other market risk factors, the performance of which forecasting model relating to market risk factors shall be validated over a sufficiently long time horizon;
  - (iv) shall capture and include transaction-specific information in order-
    - (A) to aggregate counterparty exposures at the level of a particular netting set;
    - (B) to duly capture the effect of margining, that is, the model shall take into account the current amount of margining and margining that will be exchanged between relevant counterparties in the future;
  - (v) shall in the case of exposures with a long-term maturity duly capture the potential rising risk profile of the said exposure;
  - (vi) shall duly account for-
    - (A) the nature of margin agreements, that is, unilateral or bilateral agreements;
    - (B) the frequency of margin calls;

- (C) the margin period of risk;
  - (D) the minimum threshold of unmargined exposure the bank is willing to accept;
  - (E) the minimum transfer amount.
- (vii) shall either model the mark-to-market change in the value of collateral posted or ensure the bank's continued compliance with the relevant requirements relating to collateral, specified in regulations 23(7)(b) and 23(12)(b);
  - (viii) shall comply with the relevant further operational requirements specified in subregulation (12) below.
- (f) shall have in place a robust process in respect of model validation, which model validation process-
    - (i) shall include appropriate backtesting in respect of representative counterparty portfolios and netting sets that complies with the relevant qualitative requirements specified in paragraph (g) below-
      - (A) which backtesting shall include a sufficient number of actual and hypothetical representative counterparty portfolios and netting sets;
      - (B) which representative portfolios and netting sets shall be selected based on their sensitivity to the material risk factors and correlations to which the bank is exposed;
    - (C) during which process of backtesting-
      - (i) starting at a particular historical date, the bank shall use its internal model to forecast each portfolio's probability distribution of exposure at various time horizons;
      - (ii) using historical data on movements in market risk factors, the bank shall compute the exposures that would have occurred in respect of each portfolio at each time horizon assuming no change in the composition of the relevant portfolio;
      - (iii) the bank shall compare the realised exposures with the model's forecast distribution at the various relevant time horizons;
      - (iv) the bank shall repeat the process in respect of several historical dates that cover a wide range of market conditions such as rising rates, falling rates, quiet markets and volatile markets;
      - (v) the bank shall obtain and duly document the explanations for significant differences between the realised exposures and the model's forecast distribution.

- (ii) shall comply with the requirements regarding initial validation and on-going periodic review of the bank's internal model and the risk measures generated by it, as specified in paragraph (n) below,

Provided that, when validating its EPE models and its risk measures that produce forecast distributions, the bank's validation shall assess more than a single statistic of the model distribution.

- (g) shall have in place a robust process of backtesting, that is, an ex-post comparison of the relevant risk measures generated by the model against realised risk measures,
  - (i) which backtesting-
    - (A) shall be conducted at regular intervals;
    - (B) shall include comparing hypothetical changes based on static positions with realised measures;
  - (ii) which process of backtesting shall comply with the relevant requirements specified in paragraph (n) below;
  - (iii) which risk measures shall not only relate to Effective EPE, the risk measure used to derive minimum required capital and reserve funds, but also to the other risk measures used in the calculation of Effective EPE, such as the exposure distribution at a series of future dates, the positive exposure distribution at a series of future dates, the market risk factors used to derive those exposures and the values of the constituent trades of a portfolio;
- (h) shall have in place a comprehensive and rigorous process or programme of stress-testing-
  - (i) the results of which stress-testing-
    - (A) shall be integrated into regular reporting to the senior management of the bank;
    - (B) shall be used in the bank's internal assessment of capital adequacy;
    - (C) shall be compared against the bank's measure of expected positive exposure and the related impact on the bank's capital adequacy;
    - (D) shall be duly reflected in the bank's policies and counterparty limits set by management and the bank's board of directors;
  - (ii) which stress-testing process or programme-
    - (A) may form part of the bank's bank-wide stress testing process;

- (B) shall include the identification of possible events or future changes in economic conditions that may have an unfavourable effect on the bank's credit exposures, and an assessment of the bank's ability to withstand such changes, which events or economic conditions may include-
    - (i) economic or industry downturns;
    - (ii) market-place events; or
    - (iii) decreased liquidity conditions.
  - (C) shall include the stress testing of the bank's counterparty exposures, including a process of jointly stressing relevant market and credit risk factors;
- (iii) which stress-testing process or programme shall be sufficiently robust-
- (A) to ensure complete trade capture and exposure aggregation across all relevant forms of counterparty credit exposure, including counterparty risk arising from OTC derivative transactions, at the counterparty-specific level, in a sufficient time frame to conduct regular stress testing;
  - (B) to at least once a month, for all relevant counterparties, produce exposure stress testing of principal market risk factors, that is, for example, interest rates, foreign exchange, equities, credit spreads, and commodity prices, in order to proactively identify, and, when necessary, reduce undue concentrations to specific directional sensitivities;
  - (C) to at least once a quarter-
    - (i) apply multifactor stress testing scenarios and assess material non-directional risks, that is, for example, yield curve exposure and basis risks, which multiple-factor stress tests shall, as a minimum, aim to address scenarios in which-
      - (aa) severe economic or market events have occurred;
      - (bb) broad market liquidity has decreased significantly; and
      - (cc) the market impact of liquidating positions of a large financial intermediary;
    - (ii) conduct stress tests, applying stressed conditions to the joint movement of exposures and counterparty creditworthiness, since stressed market movements have an impact not only on counterparty exposures, but also on the credit quality of counterparties;

- (D) to perform exposure stress testing, including single factor, multifactor and material non-directional risks, and joint stressing of exposure and creditworthiness at the counterparty-specific level, counterparty group level, that is, for example, industry and regional level, and aggregate bank-wide counterparty credit exposure levels;
  - (E) to capture the largest counterparty-level impacts across the portfolio, material concentrations within segments of the portfolio, that is, for example, within the same industry or region, and relevant portfolio and counterparty specific trends;
  - (F) to ensure that the severity of factor shocks is consistent with the purpose of the stress test, that is, when the bank, for example, evaluates solvency under stress, factor shocks shall be severe enough to capture historical extreme market environments and/or extreme but plausible stressed market conditions;
  - (G) to ensure that the bank appropriately evaluates the impact of the aforesaid shocks on matters such as qualifying capital, capital requirements and earnings;
  - (H) to ensure that for the purpose of day-to-day portfolio monitoring, hedging, and management of concentrations, the bank also considers scenarios of lesser severity and higher probability;
  - (I) to ensure that the bank conducts relevant reverse stress tests to identify extreme, but plausible, scenarios that could result in significant adverse outcomes;
- (iv) during which process of stress-testing the bank shall consider-
- (A) concentration risk, including concentration risk in respect of a single counterparty or a group of related counterparties;
  - (B) any risk of correlation between market risk and credit risk, including situations in which a large movement in market prices, for example, may result in a particular counterparty exposure becoming a large exposure or cause a material deterioration in the credit quality of the said counterparty, or both;
  - (C) the risk that liquidating a counterparty position may have a material impact on the market;
  - (D) the impact on the bank's own positions of movements in market prices, which impact shall be integrated into the bank's assessment of counterparty risk.

Provided that when the bank's stress-tests reveal particular vulnerability to a particular set of circumstances, the bank shall take appropriate and prompt action in order to manage and control the relevant risks, which action may include hedging against a particular outcome, reducing the size of the bank's exposures or increasing the amount of capital and reserve funds.

- (i) shall have in place a routine for ensuring the bank's continued compliance with a documented set of internal policies, controls and procedures concerning the operation of the bank's risk measurement system;
- (j) shall duly document-
  - (i) the process for initial and on-going validation of the bank's internal model to a level of detail that would enable a third party to recreate the relevant analysis;
  - (ii) the calculation of the respective risk measures generated by the models to a level of detail that would allow a third party to re-create the said risk measures;
  - (iii) the bank's risk measurement system, for example, by maintaining an updated risk management manual that describes the basic principles of the risk management system and that provides an explanation of the empirical techniques used to measure the bank's exposure to counterparty risk,

which documentation, among other things, shall clearly set out the frequency with which backtesting analysis and any other on-going validation will be conducted, how the validation is conducted with respect to data flows and portfolios and the analyses that are used;

- (k) shall conduct an appropriate independent review of the bank's risk measurement system, for example, as part of the bank's internal auditing process, which review-
  - (i) shall include the activities of the relevant business units, the independent risk control unit and the bank's overall risk management process;
  - (ii) shall be conducted at regular intervals but not less frequently than once a year;
  - (iii) as a minimum, shall include-
    - (A) the adequacy of documentation relating to the bank's risk management policies, system and processes;
    - (B) the organisation of the risk control unit;
    - (C) the organisation of the collateral management unit;

- (D) the integration of risk measures into the bank's ongoing risk management processes and systems;
  - (E) the approval process relating to all relevant risk pricing models and valuation systems, including counterparty credit risk models used in the calculation of counterparty credit risk exposure used by front office and back office personnel;
  - (F) the validation of any significant changes made in respect of the bank's risk measurement process;
  - (G) the scope of counterparty credit risk and relevant market risk factors captured by the risk measurement model;
  - (H) the integrity of the management information system;
  - (I) the accuracy and completeness of relevant credit and market variables and data;
  - (J) the accurate reflection of relevant legal terms in collateral and netting agreements in the respective measurements of the bank's exposure to risk;
  - (K) the verification of the consistency, timeliness and reliability of data sources used to operate the internal model, including the independence of the said data sources;
  - (L) the accuracy and appropriateness of volatility and correlation assumptions;
  - (M) the accuracy of valuation and risk transformation calculations;
  - (N) the verification of the model's accuracy through frequent backtesting as set out in these Regulations;
- (l) shall have in place a written policy that clearly describes the process by which unacceptable performance of the bank's model will be determined and remedied;
  - (m) shall ensure that on-going validation of counterparty credit risk models, including backtesting, is reviewed periodically by senior management with sufficient authority to decide the course of action that will be taken to duly address weaknesses in the bank's models;
  - (n) shall ensure that, as part of the bank's initial and on-going validation of its internal model and the related risk measures-
    - (i) the most recent performance of the bank's EPE model and the relevant risk measures are duly assessed;

- (ii) the bank conducts backtesting using historical data on movements in market risk factors prior to the bank's application to the Registrar for approval of the bank's internal model, which backtesting shall consider a number of distinct prediction time horizons out to at least one year, over a range of various start or initialisation dates, and covering a wide range of market conditions;
- (iii) the bank's backtesting includes the performance of the EPE model and the model's relevant risk measures as well as the market risk factor predictions that support EPE, provided that, for collateralised trades, the prediction time horizons considered shall include those reflecting typical margin periods of risk applied in collateralised or margined trading, and include time horizons of at least one year;
- (iv) pricing models used to calculate counterparty credit risk exposure for a given scenario of future shocks to market risk factors are appropriately tested, which pricing models-
  - (A) may be different from the pricing models used to calculate market risk over a short horizon;
  - (B) shall in the case of options duly account for the nonlinearity of option value with respect to market risk factors;
  - (C) shall be regularly tested against appropriate independent benchmarks;
- (v) the bank verifies that transactions are assigned to the appropriate netting set within the model;
- (vi) static, historical backtesting on representative counterparty portfolios forms part of the bank's validation process;
- (vii) the bank conducts, at such intervals as may be directed in writing by the Registrar, backtesting on a sufficient number of representative counterparty portfolios, provided that-
  - (A) the representative portfolios shall be chosen based on their sensitivity to the material risk factors and correlations to which the bank is exposed;
  - (B) the backtesting conducted by the bank shall be designed to test the key assumptions of the bank's EPE model and the relevant risk measures, that is, for example, the modelled relationship between tenors of the same risk factor, and the modelled relationships between risk factors;
  - (C) the bank's backtesting programme shall be sufficiently robust to identify poor performance in the bank's EPE model's risk measures;



- (D) the bank shall report to the Registrar significant differences between realised exposures and the bank's forecast distribution;
- (viii) the bank validates its EPE model and all relevant risk measures out to time horizons commensurate with the maturity of trades for which exposure is calculated using the internal modelling method;
- (ix) the frequency with which the parameters of the bank's EPE model are updated is assessed;
- (x) in respect of a measure or metric for which the bank obtained prior approval of the Registrar to measure counterparty exposure, which measure shall be more conservative than the specified metric used to calculate EAD for every counterparty, that is, more conservative than alpha times Effective EPE, the bank shall regularly validate that the said measure or metric is sufficiently conservative;
- (xi) the bank includes all relevant counterparties for which the models are used;
- (xii) the bank assesses whether or not the bank level and netting set exposure calculations of EPE are appropriate;
- (o) shall comply with the relevant further operational requirements specified in subregulations (9) to (12) below.

(9) *Counterparty credit risk: operational requirements relating to the use test*

As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall demonstrate to the satisfaction of the Registrar that the distribution of exposures generated by the bank's internal model and used by the bank to calculate its effective expected positive exposure is closely integrated into the day-to-day counterparty credit risk management process of the bank, that is-
  - (i) the output of the internal model shall play an essential role in the credit approval, counterparty credit risk management, internal capital allocations and governance processes of the bank;
  - (ii) the internal model used by the bank to generate the distribution of exposures shall form part of a counterparty risk management framework that includes the identification, measurement, management, approval and internal reporting of counterparty risk, which framework shall include the aggregation of credit exposures to the same counterparty and the allocation of economic capital;
  - (iii) peak exposure from the distribution is used by the bank, for example, to determine counterparty credit limits;

- (iv) expected positive exposure is used by the bank, for example, for internal allocation of capital.
- (b) shall have a credible track record in the use of an internal model that generate a distribution of exposures to counterparty credit risk, that is, the bank shall demonstrate to the satisfaction of the Registrar that for at least one year prior to the bank's application for approval to use the internal model method the bank has implemented a model-
  - (i) that calculates the distributions of exposures upon which the bank's EPE calculation is based;
  - (ii) that broadly meets the minimum requirements specified in subregulation (8) above.
- (c) shall have in place an independent risk control unit that complies with the relevant requirements specified in subregulation (8)(b) above;
- (d) shall have in place a collateral management unit that complies with the relevant requirements specified in subregulation (8)(c) above;
- (e) shall demonstrate to the satisfaction of the Registrar-
  - (i) that in addition to EPE which is a measure of future exposure, the bank measures and manages current exposure, gross and net of collateral held;
  - (ii) that the bank is able to measure counterparty exposure out to the life of all relevant contracts in a netting set and not just to a one year horizon, that is, the bank, for example, has procedures in place to identify and control the risks relating to counterparties in respect of which exposure rises beyond the one-year horizon;
  - (iii) that the bank is able to monitor and control the bank's exposure to counterparty credit risk;
  - (iv) that any forecasted increase in exposure beyond a one-year horizon constitutes an input into the bank's internal economic capital model.
- (f) shall implement a time profile of forecasting horizons that duly reflects the time structure of future cash flows and the maturity of the contracts that expose the bank to counterparty credit risk, provided that-
  - (i) although the bank may not be required to estimate or report expected exposure on a daily basis, the bank shall have the system capability to estimate expected exposure or EE daily when necessary;
  - (ii) based on materiality and the composition of the bank's exposure, the bank, for example, may compute EE on a daily basis for the first ten days, once a week out to one month, once a month out to eighteen months or once a quarter out to five years and beyond five years.

(10) *Counterparty credit risk: operational requirements relating to stress testing*

As a minimum, the senior management of a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall ensure that the bank has in place a robust stress-testing process, which stress-testing process, amongst other things, shall comply with the relevant minimum requirements specified in subregulation (8)(h) above;
- (b) shall take a lead role in the integration of stress testing into the risk management framework and risk culture of the bank;
- (c) shall ensure that the results of-
  - (i) the stress testing process are meaningful and proactively used to manage counterparty credit risk;
  - (ii) stress testing for significant exposures are compared to board-approved standards that express the bank's risk appetite and elevated for discussion and action when excessive or material concentrated risks are present.

(11) *Counterparty credit risk: operational requirements relating to the identification of wrong-way risk*

As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk shall have in place policies, processes and procedures to identify, monitor and control exposure to or cases of material-

- (a) general wrong-way risk, that is, when the probability of default of a counterparty is positively correlated with general market risk factors, provided that, as a minimum, the bank shall-
  - (i) identify all relevant exposures that give rise to a greater degree of general wrong-way risk;
  - (ii) develop and conduct relevant stress testing and scenario analyses to identify risk factors that are positively correlated with counterparty credit worthiness, which testing shall include and duly address the possibility of severe shocks occurring when relationships between risk factors have changed;
  - (iii) continuously monitor general wrong-way risk-
    - (A) by product;
    - (B) by region;
    - (C) by industry, or

(D) by such other categories that may be relevant to the bank's business;

- (iv) regularly report to senior management and the appropriate committee of the Board relevant information related to wrong-way risks, and the steps taken to duly manage the related risk;

and

- (b) specific wrong-way risk, that is, when future exposure relating to a specific counterparty is highly correlated with the counterparty's probability of default, which situation may arise when a company, for example, write put options in respect of its own stock,

which policies, processes and procedures shall be adequate to monitor and control the relevant risk from the inception of the transaction as well as during the life of the said contract.

*(12) Counterparty credit risk: further operational requirements relating to internal controls and the integrity of the bank's modelling process*

As a minimum, a bank that wishes to adopt the internal model method for the measurement of the bank's exposure to counterparty credit risk-

- (a) shall have in place a robust internal model that calculates, amongst other things, expected positive exposure or EPE-
  - (i) which model shall reflect transaction terms and specifications in a timely, complete and conservative manner-
    - (A) which terms may include-
      - (i) the notional amounts of contracts;
      - (ii) the maturity of transactions, contracts or agreements;
      - (iii) any relevant reference asset;
      - (iv) any collateral threshold amount;
      - (v) any relevant margining arrangement or agreement;
      - (vi) any relevant netting arrangement or agreement;
    - (B) which terms and specifications shall reside in a secure database that is subject to formal and periodic audit;
    - (C) the transmission of which transaction terms and specifications to the bank's internal model shall be subject to internal audit;

- (ii) which EPE model and any modifications made to the model shall be subject to a robust internal model validation process, which model validation process-
    - (A) shall be duly articulated in the bank's policies and procedures;
    - (B) shall specify the type of testing required in order to ensure model integrity;
    - (C) shall identify conditions under which assumptions made may be violated, resulting in an understatement of EPE;
    - (D) shall include a review of the comprehensiveness of the bank's EPE model, including whether or not the EPE model sufficiently covers all products that may have a material impact on the bank's exposure to counterparty risk;
    - (E) shall comply with the additional requirements specified in subregulation (8)(e).
  - (b) shall ensure that-
    - (i) when the model that is used to calculate, among other things, Effective EPE is calibrated using historic market data, the bank uses current market data to calculate current exposures, and at least three years of historical data is used to estimate parameters of the model, provided that-
      - (A) the bank may use market implied data to estimate parameters of the model; and
      - (B) in all cases, relevant data shall be updated quarterly or more frequently if warranted by market conditions;
    - (ii) when calculating the Effective EPE using a stress calibration, the bank also calibrates Effective EPE using-
      - (A) three years of data that include a period of stress to the credit default spreads of the bank's counterparties; or
      - (B) market implied data from a suitable period of stress,
- Provided that, in order to assess the adequacy and effectiveness of the aforesaid stress calibration,
- (i) the bank shall demonstrate to the satisfaction of and in a manner and time interval determined in writing by the Registrar, which shall be no less frequently than quarterly, that the stress period coincides with a period of increased CDS or other credit spreads, such as loan or corporate bond spreads, for a representative selection of the bank's counterparties with traded credit spreads, provided that when the bank does not

have adequate credit spread data for a counterparty, the bank shall map each relevant counterparty to specific credit spread data based on relevant region, internal rating and business types;

- (ii) the exposure model for all relevant counterparties shall use data, either historic or implied, that includes the data from the stressed credit period, and the bank shall use such data in a manner consistent with the method used for the calibration of the Effective EPE model for/ to current data;
- (iii) the bank shall create several benchmark portfolios that are vulnerable to the same main risk factors to which the bank is exposed, provided that the exposure to the said benchmark portfolios shall be calculated using-
  - (aa) current positions at current market prices, stressed volatilities, stressed correlations and other relevant stressed exposure model inputs from the 3-year stress period; and
  - (bb) current positions at end of stress period market prices, stressed volatilities, stressed correlations and other relevant stressed exposure model inputs from the 3-year stress period,
- (iv) the Registrar may request the bank to adjust the stress calibration if the exposures of the said benchmark portfolios deviate substantially;
- (c) shall have in place a robust process for the recognition of any netting arrangement or agreement, which netting arrangement or agreement-
  - (i) shall be subject to signoff by legal staff of the bank in order to verify the legal enforceability of the relevant netting arrangement or agreement;
  - (ii) shall be captured into the relevant database by an independent unit.
- (d) shall have in place a formal reconciliation process between the bank's internal model and its source data systems in order to verify on an ongoing basis that transaction terms and specifications are duly reflected in the bank's calculation of EPE.

(13) As a minimum, and without derogating from the relevant requirements specified in regulations 3 and 14 of these Regulations, a bank that invests or trades in instruments, contracts or positions that are measured at fair value shall implement robust governance structures and control processes as part of its risk-management framework for the prudent valuation of the said instruments, contracts or positions, which structures, control processes and risk-management framework shall include the key elements specified below:

(a) *Structures, processes, systems and controls*

A bank shall establish and maintain adequate structures, processes, systems and controls in respect of instruments, contracts or positions measured at fair value, which structures, processes, systems and controls-

- (i) shall explicitly cover the role of the board of directors and the senior management of the bank;
- (ii) shall ensure that the board receives regular reports from senior management regarding matters related to the valuation oversight and valuation model performance that were brought to the attention of the senior management for resolution, and all significant changes to valuation policies;
- (iii) shall ensure the robust production, assignment and verification of all relevant valuations;
- (iv) shall be sufficiently robust-
  - (A) to ensure and promote the quality, integrity and reliability of all relevant input that affects the valuation of instruments, contracts or positions, in respect of which input the bank shall duly consider-
    - (i) the frequency and availability of the relevant prices or quotes;
    - (ii) whether or not the relevant prices represent actual regularly occurring transactions on an arm's length basis;
    - (iii) the breadth of the distribution of the data and whether it is generally available to all relevant participants in the market;
    - (iv) the timeliness of the information relative to the frequency of valuations;
    - (v) the number of independent sources that produce the relevant quotes or prices;
    - (vi) whether or not the relevant quotes or prices are supported by actual transactions;
    - (vii) the maturity of the market; and
    - (viii) the similarity between the instrument, contract or position sold in a transaction and the instrument, contract or position held by the bank;

- (B) to appropriately consider and apply all relevant international standards or guidance that may affect the valuation of instruments, contracts or positions, including all relevant financial or accounting standards or statements;
  - (C) to ultimately ensure that the bank's valuation estimates provide the bank's board of directors, senior management and the Registrar with sufficient certainty that the said valuation estimates are prudent and reliable;
- (v) shall ensure that all relevant new product approval processes include all internal stakeholders relevant to risk measurement, risk control, and the assignment and verification of valuations;
- (vi) shall ensure that the bank's control processes for the measurement and reporting of valuations are consistently applied-
  - (A) across the bank;
  - (B) across similar instruments or risks; and
  - (C) across all relevant business lines;
- (vii) shall be duly integrated with other risk management structures, policies, procedures, processes and systems, such as credit analysis, within the bank;
- (viii) shall be based on duly documented policies and procedures for the process of valuation, which documented policies and procedures, among other things-
  - (A) shall ensure that all relevant approvals of valuation methodologies are duly documented;
  - (B) shall duly specify the range of acceptable practices for the initial pricing, marking-to-market or model, valuation adjustments and periodic independent revaluation;
  - (C) shall include duly defined responsibilities of the various areas involved in the determination of valuations;
  - (D) shall include the sources of market information to be used and the review of their appropriateness;
  - (E) shall include appropriate guidelines for the use of unobservable inputs, reflecting the bank's assumptions of what market participants may use when pricing the relevant position;
  - (F) shall include the frequency of independent valuation;
  - (G) shall include the timing of closing prices;



- (H) shall include all relevant matters related to verification.
- (ix) shall ensure that the performance of the bank's relevant models is subject to robust testing and review, particularly under stressed conditions, in order to ensure that the board of directors and senior management of the bank understand any potential limitations of the models;
- (x) shall ensure that the bank has in place-
  - (A) adequate capacity to determine or establish and verify all relevant valuations, particularly during periods of stress;
  - (B) a board-approved external reporting or disclosure policy-
    - (i) that complies with the relevant requirements specified in regulation 43;
    - (ii) that ensures that the bank provides timely, relevant and reliable information;
    - (iii) that ensures that the bank provides meaningful information relating to-
      - (aa) the bank's respective modelling techniques and the instruments to which they apply;
      - (bb) the sensitivity of fair values to modelling inputs and assumptions;
      - (cc) the impact of stress scenarios on valuations;
    - (iv) that promotes transparency;
    - (v) that is subject to regular review to ensure that the information disclosed continues to be relevant and current;
  - (C) documented policies and procedures for the process of valuation, including procedures for adjusting valuations, end-of-the-month and ad hoc verification procedures;
- (xi) shall be subject to clear and independent reporting lines, that is, independent from the front office, which reporting line ultimately shall be to an executive director of the bank;
- (xii) shall be subject to internal audit.

(b) *Valuation methodologies*(i) *Marking to market*

Based on readily available close out prices, which close out prices shall be sourced independently, a bank shall mark to market all positions accounted for at fair value as often as possible, but not less frequently than at the close of business of every day or when the closing price of a particular position or market is published, provided that-

- (A) unless the bank is a significant market maker in a particular instrument or position, and the bank is in a position to close positions out at mid-market prices, the bank shall use the more prudent side of bid/offer prices;
- (B) when estimating fair value the bank shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs;
- (C) when observable inputs or transactions are deemed by the bank not to be relevant, such as in a forced liquidation or distressed sale situation, or transactions may not be observable, such as when markets are inactive, the bank shall duly consider any observable data in accordance with its board-approved policies, in order to determine the extent to which such inputs should be regarded as determinative.

(ii) *Marking to model*

Only when a bank is unable to mark to market positions accounted for at fair value, the bank may use a mark-to-model approach, that is, valuations that are benchmarked, extrapolated or otherwise calculated from a market input, provided that-

- (A) the senior management of the bank shall be aware of the elements of the trading book or other instruments, contracts or positions that are accounted for at fair value and that are subject to mark-to-model valuations, and shall understand the uncertainty that may exist in the reporting of the risk or performance of the bank;
- (B) the bank-
  - (i) shall demonstrate to the satisfaction of the Registrar that its mark-to-model approach is prudent;
  - (ii) shall source market input as frequently as possible;
  - (iii) shall use generally accepted valuation methodologies relating to particular products as frequently as possible;

- (iv) shall have in place formal change control procedures and a secure copy of the model, which copy of the model shall be maintained and periodically used to check all relevant valuations;
- (C) when the model was developed internally by the bank, the model-
  - (i) shall be based on appropriate assumptions, which assumptions shall be assessed by duly qualified persons who shall be independent from the development process;
  - (ii) shall be approved independently from the front office;
  - (iii) shall be independently tested.
- (D) the model shall be subject to periodic review to determine the accuracy of its performance, including an analysis of profit and loss against the risk factors and a comparison of actual close out values to model outputs.

(iii) *Independent price verification*

By way of independent price verification, a bank shall regularly but not less frequently than once a month, verify market prices and model inputs for accuracy, which independent price verification in respect of market prices or model inputs-

- (A) shall be performed by a unit independent from the dealing room;
- (B) shall be used-
  - (i) to identify any errors or biases in pricing;
  - (ii) to eliminate any inaccurate adjustments to valuations.

(c) *Valuation adjustment*

Due to, for example, the uncertainty associated with liquidity in markets, instruments or products accounted for at fair value, that may result in a bank being unable to sell or hedge the said instruments, products or positions in a desired short period of time, a bank shall establish and maintain procedures for considering relevant valuation adjustments, as part of the bank's risk management framework and mark-to-market or mark-to-model procedure, provided that-

- (i) as a minimum, the bank shall duly consider-
  - (A) valuation adjustments to instruments, products or positions that may be subject to reduced liquidity;

- (B) relevant close-out prices for concentrated positions and/or stale positions;
- (C) all relevant factors when determining the appropriateness of valuation adjustments or reserves for less liquid positions, including, for example-
  - (i) the time required to hedge out the position or risks associated with the position;
  - (ii) the average volatility of bid/offer spreads;
  - (iii) the availability of independent market quotes;
  - (iv) the number and identity of market makers;
  - (v) the average and volatility of trading volumes, including trading volumes during periods of market stress;
  - (vi) market concentrations;
  - (vii) the aging of positions;
  - (viii) the extent to which valuation relies on marking-to-model, and the impact of model risk;
- (D) the valuation adjustments or reserves specified below:
  - (i) unearned credit spreads;
  - (ii) closeout costs;
  - (iii) operational risks;
  - (iv) early termination;
  - (v) investing and funding costs;
  - (vi) future administrative costs; and
  - (vii) where appropriate, model risk;

- (ii) for complex products, including securitization or resecuritisation exposures and n-th-to-default credit derivative instruments, the bank shall explicitly and continuously assess the need for any relevant valuation adjustment to reflect at least two forms of model risk, namely
  - (A) the model risk associated with using a possibly incorrect valuation methodology; and
  - (B) the risk associated with using unobservable and possibly incorrect calibration parameters in the bank's valuation model.
- (iii) the bank shall ensure that any relevant adjustment to the current valuation of less liquid positions is duly reflected in the bank's common equity tier 1 capital and reserve funds, which adjustment may exceed the valuation adjustments made under any relevant financial reporting standard issued from time to time.

(14) A bank that wishes-

- (a) to adopt the internal model market-based approach for the measurement of the bank's exposure arising from equity instruments held in the bank's banking book-
  - (i) shall have in place board approved policies, procedures and controls in order to ensure the integrity of the model and the modelling process used to measure the bank's exposure to risk, which board approved policies, procedures and controls shall be adequate-
    - (A) to ensure a complete integration of the internal model into the bank's overall management information systems, particularly in respect of the ongoing management of the bank's banking book equity portfolio, including a complete integration in order-
      - (i) to determine investment hurdle rates;
      - (ii) to evaluate alternative investments;
      - (iii) to measure and assess the performance of the bank's equity portfolio, including the risk-adjusted performance;
      - (iv) to allocate economic capital to equity positions;
      - (v) to evaluate the bank's capital adequacy,

provided that the bank shall by way of, for example, investment committee minutes, demonstrate to the satisfaction of the Registrar that output from the internal model plays an essential role in the bank's investment management process.

- (B) to ensure that the bank's internal model has good predictive power and will not produce materially incorrect capital requirements;
- (C) to establish a rigorous statistical process, including out-of-time and out-of-sample performance tests, in order to validate the bank's selection of explanatory variables;
- (D) to ensure that all elements of the internal modelling process, including systems, procedures and control functions, are subject to adequate periodic independent review, which independent review, as a minimum-
  - (i) shall assess the approval process relating to any revision of the model;
  - (ii) shall validate any proxies and mapping techniques used by the bank;
  - (iii) shall assess the accuracy, completeness and appropriateness of model input and output;
  - (iv) shall ensure that the model remains relevant based on the bank's equity portfolio and external conditions;
  - (v) shall be adequate to detect and limit potential model weaknesses;
  - (vi) shall be based on well established model review standards;
  - (vii) may be conducted as part of the bank's internal or external audit programmes by an independent risk control unit or an external third party;
- (E) to monitor investment limits and risk exposures;
- (F) to ensure that the unit(s) responsible for the design and application of the model is functionally independent from the unit(s) responsible for the management of individual investments;
- (G) to ensure that the persons responsible for any aspect of the modelling process are adequately qualified;

- (ii) shall have in place a robust system in order to validate the accuracy and the consistency of the bank's internal model and the modelling process, including the input and the output of the model, which robust system and validation process-
  - (A) shall be adequate-
    - (i) to assess the performance of the bank's internal model and modelling processes in a consistent and meaningful manner;
    - (ii) by way of backtesting, to regularly compare actual realised and unrealised gains and losses with modelled estimates;
    - (iii) to demonstrate that the bank's actual returns are within the expected range for the portfolio and individual holdings;
    - (iv) to backtest volatility estimates and the appropriateness of proxies used in the model;
  - (B) shall make use of external data sources, which external data sources-
    - (i) shall be appropriate for the bank's equity portfolio;
    - (ii) shall be updated on a regular basis;
    - (iii) shall cover a relevant observation period;
  - (C) shall be based on-
    - (i) sufficiently long data histories, which data histories-
      - (aa) shall include a range of economic conditions;
      - (bb) shall preferably include one or more complete business cycles;
    - (ii) appropriate databases of actual returns and modelled estimates;
    - (iii) methods and data that are consistent through time.
- (iii) shall duly document all material elements of the bank's internal model and modelling process, which documentation-
  - (A) shall include matters relating to the design and the operational details of the internal model;

- (B) shall provide a detailed outline of the theory, assumptions and/or mathematical and empirical basis of the parameters, variables, and data source(s) used;
- (C) shall clearly indicate the circumstances under which the model does not work effectively;
- (D) shall include the methods and data used in any comparison between actual realised and unrealised gains and losses, and modelled estimates;
- (E) shall clearly indicate the use of explicit and assumptions relating to implicit correlations, which correlations shall be supported by empirical analysis;
- (F) shall be updated on a regular basis, but not less frequently than once a year;
- (G) shall comprehensively deal with any changes in respect of the internal model, the estimation method, data, data sources and periods covered;
- (H) shall be adequate to demonstrate the bank's compliance with the prescribed minimum quantitative and qualitative requirements envisaged in regulation 23(11)(b)(vii);
- (I) shall duly address matters relating to-
  - (i) the application of the model to different segments of the portfolio;
  - (ii) estimation methodologies;
  - (iii) the responsibilities of persons involved in the modelling process;
  - (iv) the model approval and model review processes;
  - (v) the rationale for the bank's choice of a particular methodology;
  - (vi) the history of major changes in the model over time;
  - (vii) any changes made to the modelling process subsequent to supervisory review;



- (viii) proxies, mapping techniques or processes used by the bank during the modelling process, including all relevant and material factors relating to-
    - (aa) business lines;
    - (bb) balance sheet characteristics;
    - (cc) geographic location;
    - (dd) company age;
    - (ee) industry sector and subsector;
    - (ff) operating characteristics;
- (iv) shall in all cases in which the bank maps individual positions to proxies, market indices or risk factors-
  - (A) ensure that the said mapping is plausible, intuitive, appropriate and conceptually sound;
  - (B) perform rigorous analysis in order to demonstrate to the satisfaction of the Registrar that the said proxies and mappings are relevant based on historical economic and market conditions and the bank's underlying portfolio;
  - (C) demonstrate that the said proxies are robust estimates of the potential risk of the bank's underlying exposure.
- (v) shall have in place a rigorous and comprehensive stress-testing programme in respect of the bank's internal model and estimation procedures, which stress-testing process-
  - (A) shall include hypothetical or historical scenarios in order to reflect worst-case losses in respect of the bank's equity positions;
  - (B) shall provide comprehensive information relating to the effect of tail events beyond the level of confidence specified in respect of the internal model approach.
- (b) to adopt the internal models approach for the measurement of the bank's exposure to market risk arising, *inter alia*, from positions held in the bank's trading book-
  - (i) shall have in place an independent risk control unit, which risk control unit-
    - (A) shall be responsible for the design and implementation of the bank's risk management system;

- (B) shall produce and analyse daily reports on the output of the bank's risk measurement model, including an evaluation of the relationship between measures of risk exposure and trading limits;
- (C) shall be functionally independent from all relevant business trading units;
- (D) shall report directly to the senior management of the bank;
- (E) shall conduct regular backtesting, that is, an ex-post comparison of the risk measure generated by the bank's model against actual daily changes in portfolio value over longer periods of time, as well as hypothetical changes based on static positions;
- (F) shall conduct the initial and ongoing validation of the internal model, which validation process shall be conducted in accordance with the relevant requirements specified in subparagraph (ix) below;
- (G) shall control the integrity relating to input data;
- (H) shall validate prices supplied by business units;
- (I) shall be adequately staffed;
- (ii) shall ensure the active involvement and oversight of the bank's board of directors and senior management in the bank's risk control processes;
- (iii) shall regard risk control as an essential aspect of the bank's business;
- (iv) shall devote adequate resources to the bank's risk control unit and risk control processes;
- (v) shall ensure that the daily reports prepared by the independent risk control unit are reviewed by a level of senior management with sufficient authority to enforce both reductions of positions taken by individual traders and reductions in the bank's overall risk exposure;
- (vi) shall ensure that the senior management of the bank is aware of the limitations and assumptions made in respect of the said internal model and the impact that such limitations and assumptions may have on the output of the model;
- (vii) shall have in place a robust risk measurement model, which model-
  - (A) shall be closely integrated into the day-to-day risk management processes of the reporting bank and the output of which model shall form an integral part of the process of planning, monitoring and controlling the bank's exposure to market risk;

- (B) shall be used in conjunction with internal trading and exposure limits in a manner that is consistent over time and that is well understood by traders and the senior management and relevant line functions of the reporting bank;
- (viii) shall have in place a routine and rigorous process or programme of stress testing, the results of which stress testing-
  - (A) shall be duly documented;
  - (B) shall periodically be reviewed by the senior management of the bank;
  - (C) shall be used in the bank's internal assessment of capital adequacy;
  - (D) shall be duly reflected in the bank's policies and limits set by management and the bank's board of directors;
  - (E) as a minimum, where appropriate, shall demonstrate to the satisfaction of the Registrar that the bank's stress testing process factored in:
    - (i) illiquidity/gapping of prices;
    - (ii) concentrated positions (in relation to market turnover);
    - (iii) one-way markets;
    - (iv) non-linear products and deep out-of-the money positions;
    - (v) events and jumps-to-defaults;
    - (vi) significant shifts in correlations; and
    - (vii) other risks that may not be captured appropriately in VaR, such as recovery rate uncertainty, implied correlations, or skew risk;
  - (F) shall demonstrate to the satisfaction of the Registrar that the bank has sufficient capital and reserve funds to not only meet the relevant specified minimum required amount of capital and reserve funds, but also to withstand a range of severe but plausible market shocks,

Provided that when the bank's stress tests reveal particular vulnerability to a particular set of circumstances, the bank shall take appropriate and prompt action in order to manage and control the relevant risks, which action may include hedging against a particular outcome, reducing the size of the bank's exposures or increasing the amount of capital and reserve funds.

- (ix) shall have in place robust processes in order to ensure adequate validation of the bank's relevant models by suitably qualified persons independent from the development process, which validation-
  - (A) shall ensure that all relevant and material risks are duly captured;
  - (B) as a minimum, shall be conducted-
    - (i) when the model is initially developed;
    - (ii) when any significant changes are made to the model;
    - (iii) on a periodic basis but especially when significant structural changes in the market or in the composition of the bank's portfolio took place, which changes might result in the model no longer being adequate;
  - (C) shall in appropriate cases ensure compliance with the relevant requirements relating to specific risk, specified in regulation 28(8);
  - (D) shall not be limited to backtesting;
  - (E) as a minimum, shall include-
    - (i) tests to demonstrate that any assumptions made within the internal model are appropriate and do not underestimate risk, including relevant tests relating to-
      - (aa) the assumption of a normal distribution;
      - (bb) the use of the square root of time to scale from a one day holding period to a ten day holding period;
      - (cc) the use of extrapolation or interpolation techniques;
      - (dd) the bank's pricing models;
    - (ii) tests during which hypothetical changes in portfolio value is used when end-of-day positions remain unchanged, which tests therefore shall exclude fees, commissions, bid-ask spreads, net interest income and intra-day trading;
    - (iii) tests conducted for periods longer than what is otherwise required in the bank's process of backtesting, which longer time period may improve the power of the backtesting process, provided that a longer time period may not be desirable when the bank's VaR model or market conditions have changed to an extent that makes historical data irrelevant or less relevant;

- (iv) tests based on confidence intervals other than the 99 per cent interval required in respect of quantitative standards specified in regulation 28(8)(e);
- (v) the use of hypothetical portfolios in order to ensure that the bank's model is able to account for particular structural features that may arise such as-
  - (aa) when data histories for a particular instrument do not meet the quantitative standards specified in regulation 28(8) and the bank has to map positions to proxies, in which case the bank shall ensure that the proxies produce conservative results under relevant market scenarios;
  - (bb) ensuring that material basis risks are duly captured, which may include mismatches between long and short positions by maturity or by issuer;
  - (cc) ensuring that the model captures concentration risk that may arise from an undiversified portfolio.
- (x) shall have in place a routine for ensuring the bank's continued compliance with a documented set of internal policies, controls and procedures concerning the operation of the bank's risk measurement system;
- (xi) shall duly document the bank's risk measurement system, for example, by maintaining an updated risk management manual that describes the basic principles of the risk management system and provides an explanation of the empirical techniques used to measure the bank's exposure to market risk;
- (xii) shall conduct an appropriate independent review of the bank's risk measurement system, for example, as part of the bank's internal auditing process, which review-
  - (A) shall include the activities of the relevant business trading units, the independent risk control unit and the bank's overall risk management process;
  - (B) shall be conducted at regular intervals but not less frequently than once a year;

(C) as a minimum, shall include-

- (i) the adequacy of documentation relating to the bank's risk management policies, system and processes;
- (ii) the organisation of the risk control unit;
- (iii) the integration of market risk measures into daily risk management;
- (iv) the approval process relating to all relevant risk pricing models and valuation systems used by front and back-office personnel;
- (v) the validation of any significant changes made in respect of the bank's risk measurement process;
- (vi) the scope of market risk and market risk factors captured by the risk measurement model;
- (vii) the integrity of the bank's management information system;
- (viii) the accuracy and completeness of relevant market variables and position data;
- (ix) the verification of the consistency, timeliness and reliability of data sources used to operate the internal model, including the independence of the said data sources;
- (x) the accuracy and appropriateness of volatility and correlation assumptions;
- (xi) the accuracy of valuation and risk transformation calculations;
- (xii) the verification of the model's accuracy through frequent backtesting.

- (c) to adopt an internal approach and incremental risk capital (IRC) model for the measurement of the bank's exposure to incremental default and migration risks arising from instruments or positions subject to specific interest rate risk, other than securitisation or resecuritisation exposures and n-th-to-default credit derivative instruments, held in the bank's trading book, shall have in place a robust validation process, which validation process-
  - (i) shall apply the validation principles specified in regulations 39(8), 39(14)(a) and 39(14)(b) when designing, testing and maintaining the bank's IRC models, including-
    - (A) the evaluation of conceptual soundness;
    - (B) ongoing monitoring that includes process verification and benchmarking; and
    - (C) outcomes analysis;
  - (ii) shall ensure that-
    - (A) liquidity horizons reflect actual practice and experience during periods of both systematic and idiosyncratic stresses;
    - (B) the bank's IRC model for measuring default and migration risks over the liquidity horizon takes into account objective data over the relevant horizon and includes a comparison of risk estimates for a rebalanced portfolio with that of a portfolio with fixed positions;
    - (C) correlation assumptions are supported by analysis of objective data in a conceptually sound framework.

When a bank uses a multi-period model to compute incremental risk, the bank shall evaluate the implied annual correlations to ensure they are reasonable and in line with observed annual correlations.

    - (D) the bank's modelling approach for correlations is appropriate for the bank's portfolio, including the choice and weights of systematic risk factors;
  - (iii) shall include relevant stress tests, sensitivity analyses and scenario analyses, to assess its qualitative and quantitative reasonableness, particularly with regard to the model's treatment of concentrations;
  - (iv) shall be an ongoing process that makes provision for the Registrar and the bank to jointly determine the exact set of validation procedures to be employed, that is, tests, for example, shall not be limited to the range of events experienced historically.

Provided that the bank shall duly document its modelling approach in order to ensure that the correlation and other modelling assumptions, for example, are available and transparent.

(15) As a minimum, a bank that wishes to adopt the advanced measurement approach for the calculation of the bank's capital requirement relating to operational risk-

- (a) shall have in place an independent operational risk management function, which operational risk management function shall be responsible for-
  - (i) the development of-
    - (A) policies and procedures relating to operational risk management and control, including policies to address areas of non-compliance, which policies ultimately shall be approved by the bank's board of directors;
    - (B) strategies to identify, measure, monitor and control or mitigate the bank's exposure to operational risk.
  - (ii) the design and implementation of-
    - (A) a methodology for the measurement of the bank's exposure to operational risk;
    - (B) the bank's operational risk management framework;
    - (C) a risk-reporting system relating to operational risk;
- (b) shall have in place an internal operational risk measurement system-
  - (i) which operational risk measurement system-
    - (A) shall be closely integrated into the day-to-day risk management processes of the bank;
    - (B) shall be subject to regular validation and independent review, which validation and independent review shall include verification that the internal validation processes are operating in a satisfactory manner and that data flows and processes associated with the risk measurement system are transparent and accessible;
  - (ii) the output of which system shall form an integral part of the process to monitor and control the bank's exposure to operational risk, including internal capital allocation and risk analysis;



- (c) shall have in place techniques-
  - (i) to allocate capital to major business units, which allocation shall be based on operational risk;
  - (ii) to create incentives to improve the management of operational risk throughout the bank;
- (d) shall on a regular basis report its exposure to operational risk, including material losses suffered in respect of operational risk, to the management of the bank's business units, the senior management of the bank and the bank's board of directors;
- (e) shall have in place adequate measures to take appropriate action, including in cases of non-compliance with internal policies, controls and procedures;
- (f) shall duly document the bank's operational risk management system;
- (g) shall have in place a process to ensure compliance with the bank's documented set of internal policies, controls and procedures concerning the operational risk management system;
- (h) shall have in place a robust operational risk management process, which operational risk management process shall be subject to regular review by the bank's internal and/or external auditors, which review shall include the activities of-
  - (i) the relevant business units;
  - (ii) the independent operational risk management function.

(16) Based on and without derogating from the requirements specified in subregulations (1) to (15) above, a bank's policies, processes and procedures relating to governance, effective risk management, adequate capital and internal controls shall contain the key features specified below:

(a) *Board and senior management oversight*

Since a sound governance and risk management process provides the basis for ensuring, among other things, that a bank continuously maintains adequate capital and liquidity, the board of directors of a bank-

- (i) shall set the bank's tolerance for risk, that is, the board of directors shall, among other things, duly define and approve the bank's risk appetite;

- (ii) shall ensure that effective governance is in place in respect of the bank's compensation or remuneration policies, processes, practices and procedures, and in particular the board of directors-
  - (A) shall actively oversee the design and operation of the bank's compensation or remuneration policies, processes, practices and procedures;
  - (B) shall duly monitor and review the bank's policies, processes, practices and procedures in order to ensure that the said policies, processes, practices and procedures operate as intended;
  - (C) shall ensure that staff engaged in financial and risk control-
    - (i) are independent;
    - (ii) have appropriate authority; and
    - (iii) are compensated in a manner that is independent of the relevant business areas they oversee, and commensurate with the key function that they fulfil;
- (iii) shall ensure that the bank's compensation or remuneration policies, processes, practices and procedures are duly aligned with the board approved tolerance for risk or risk appetite, and in particular the board of directors shall ensure that-
  - (A) compensation in the bank is duly adjusted for all relevant and material types of risk;
  - (B) all compensation outcomes are symmetric with the relevant and related risk outcome;
  - (C) all relevant compensation payout schedules are duly sensitive to the relevant and related time horizon of risk;
  - (D) the relevant mix or composition of cash payment, equity or other form of compensation is consistent with the relevant and related risk exposure;
  - (E) the aforesaid policies, processes, practices, procedures and compensation outcomes duly consider the risk and reward related to all relevant transactions concluded by executive directors or executive officers;
  - (F) the aforesaid policies, processes, practices and procedures support and promote the bank's other policies, processes, practices and procedures related to sound corporate governance and effective risk management;

- (G) the aforesaid policies, processes, practices and procedures protect and promote the long-term safety and soundness of the bank;
  - (H) the aforesaid policies, processes, practices and procedures include adequate controls and are subject to appropriate audit;
  - (I) the bank's policies, processes, practices and procedures comply with such further requirements as may be specified in writing by the Registrar;
- (iv) shall ensure that, based on, among other things, the bank's capital needs, the bank's anticipated capital expenditure and the bank's desired level of capital, the annually approved variable component of compensation does not unduly limit or restrict the ability of the bank to appropriately strengthen the capital base;
- (v) shall ensure that the senior management of the bank-
- (A) establishes a risk framework in order to assess and appropriately manage the various risk exposures of the bank;
  - (B) develops a system to relate the bank's risk exposures to the bank's capital and reserve funds, that is, every bank shall have in place a robust internal capital adequacy assessment process (ICAAP), as part of the bank's overall risk management framework and processes, which ICAAP-
    - (i) shall in addition to the relevant requirements specified in this sub-item (B), continuously comply with the requirements specified in paragraph (b) below;
    - (ii) shall ensure that the bank maintains qualifying capital and reserve funds adequate to continuously support the nature and extent of the bank's relevant risk exposures;
    - (iii) shall incorporate sufficiently robust stress-testing to complement and validate the bank's quantitative and qualitative measures related to its risk management framework, policies, processes or practices, and shall provide the board of directors and senior management with sufficiently robust information to better understand the bank's various exposures to risk and the potential interrelatedness of the said risks under stressed conditions, including the potential interrelatedness between liquidity risk and capital adequacy;
    - (iv) shall incorporate measures to ensure that the bank builds and maintains sufficient capital buffers during benign periods to ensure that the bank will be able to subsequently withstand severe and prolonged market downturns;

- (v) shall be sufficiently robust-
  - (aa) to examine future capital resources and capital requirements under adverse scenarios;
  - (bb) to ensure that the bank maintains an appropriate amount of capital for concentration risk;
  - (cc) to continuously analyse the bank's issued capital instruments and their potential performance during periods of stress, including their ability to absorb losses and support the bank's ongoing business operations;
  - (dd) to accommodate changes in the bank's strategy or risk appetite, and volatility in market conditions over time;
- (vi) shall incorporate such further requirements as may be specified in writing by the Registrar;
- (C) establishes a method to monitor the bank's compliance with internal policies;
- (D) effectively communicates all relevant policies and procedures throughout the bank;
- (E) duly defines the bank's stress testing objectives and scenarios-
  - (i) the results of which stress tests shall be duly considered during the bank's strategic decision making process and when the board of directors specifies the bank's risk tolerance or appetite levels;
  - (ii) which stress testing shall in relevant cases duly consider-
    - (aa) the potential risks and exposures associated with pipeline and warehoused exposures that may emerge when the bank is unable to access the securitisation market due to either bank specific or market stresses;
    - (bb) reputational risk scenarios;
    - (cc) scenarios in respect of which the bank, for example, assesses the size and the soundness of securitisation vehicles relative to the bank's own financial, liquidity and capital positions, including an assessment of all relevant covenants and triggers;

- (F) duly discusses and understands the results of the bank's stress tests and scenario analysis;
- (vi) shall adopt and support strong internal controls;
- (vii) shall ensure that the bank has in place appropriate written policies and procedures;
- (viii) shall ensure that the bank has in place an appropriate strategic plan, which strategic plan, as a minimum, shall duly outline-
  - (A) the bank's capital needs;
  - (B) the bank's anticipated capital expenditure;
  - (C) the bank's desired level of capital.
- (ix) shall ensure that the bank has in place an appropriate policy relating to public disclosure, which policy, as a minimum, shall ensure the bank's continued compliance with the requirements specified in regulation 43.

(b) *Sound capital assessment*

Without derogating from the relevant requirements specified in paragraph (a) above, as a minimum, a bank shall have in place a sound capital assessment process, which capital assessment process-

- (i) shall include board approved policies and procedures designed to ensure that the bank identifies, measures, and reports all material risk exposures;
- (ii) shall include all material risk exposures incurred by the bank, including the risks specifically referred to in subregulation (3);

Although a bank may not be able to accurately measure all risk exposures, the bank shall develop and implement an appropriate framework and process to estimate the key elements of the bank's material risk exposures.

- (iii) shall relate the bank's capital and reserve funds to the level of risk incurred by the bank;
- (iv) based on the bank's strategic focus and business plan, shall clearly state the bank's objectives in respect of capital adequacy and risk exposure;
- (v) shall incorporate rigorous, forward-looking stress testing that identifies possible events or changes in market conditions that could adversely impact the bank, the results of which stress testing shall be considered when the bank evaluates the adequacy of its capital buffer;

- (vi) shall promote the integrity of the bank's overall risk-management process by way of internal controls and appropriate internal and external reviews and audit.

(c) *Monitoring and reporting*

- (i) As a minimum, a bank shall establish and maintain an adequate system-
  - (A) to monitor, communicate and report the bank's exposures to risk in a timely manner and at an appropriate level;
  - (B) to assess the impact of the bank's changing risk profile on the bank's capital position.
- (ii) The board of directors of a bank or a board-appointed committee shall receive regular reports, which reports shall be sufficiently detailed to allow the said board of directors or board-appointed committee-
  - (A) to evaluate and understand the level and trend of material risk exposures and the impact of the risk exposures on the bank's capital adequacy;
  - (B) to determine whether the bank maintains sufficient capital against the various risk exposures and complies with the bank's established objectives relating to capital adequacy;
  - (C) to make timely adjustments to the bank's strategic plan.
- (iii) The senior management of a bank shall receive regular reports, which reports shall be sufficiently detailed to allow the senior management of the bank-
  - (A) to consider the matters specified in subparagraph (ii) above;
  - (B) to evaluate and understand the sensitivity and reasonableness of key assumptions used in the capital measurement system;
  - (C) to assess the bank's future capital requirements based on the bank's reported risk profile.

(d) *Internal control review*

- (i) A bank shall establish and maintain an appropriate internal control structure in order to monitor the bank's continued compliance with internal policies and procedures.

- (ii) As a minimum, a bank shall conduct periodic reviews of its risk management processes, which periodic reviews-
  - (A) shall be adequate to ensure-
    - (i) the integrity, accuracy, and reasonableness of the processes;
    - (ii) the appropriateness of the bank's capital assessment process based on the nature, scope and complexity of the bank's activities;
    - (iii) the timely identification of any concentration risk;
    - (iv) the accuracy and completeness of any data inputs into the bank's capital assessment process;
    - (v) the reasonableness and validity of any scenarios used in the capital assessment process;
    - (vi) that the bank conducts appropriate stress testing;
  - (B) shall ensure the appropriate involvement of internal and external audit.

(17) On an ongoing basis, the overall effectiveness of the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy shall be monitored, amongst other things, by the bank's board of directors.

(18) The board of directors of a bank or a committee appointed by the board for such purpose-

- (a) shall at least once a year assess and document whether the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy implemented by the bank successfully achieve the objectives specified by the board;
- (b) shall at the request of the Registrar provide the Registrar with a copy of the report compiled by the board of directors or committee in respect of the adequacy of the processes relating to corporate governance, risk management, capital management and capital adequacy.

(19) In addition to the reports referred to in regulations 40(4) and 46, the external auditors of a bank shall annually review the process followed by the board of directors in assessing the corporate governance arrangements, including the management of risk and capital, and the assessment of capital adequacy, and report to the Registrar whether any matters have come to their attention to suggest that they do not concur with the findings reported by the board of directors, provided that when the auditors do not concur with the findings of the board of directors, they shall provide reasons therefor.

(20) The provisions of subregulations (1) to (19), insofar as they are relevant, shall *mutatis mutandis* apply to any controlling company.

#### **40. Guidelines relating to conduct of directors**

(1) Every director of a bank or controlling company shall acquire a basic knowledge and understanding of the conduct of the business of a bank and of the laws and customs that govern the activities of such institutions. Although not every member of the board of directors of a bank or controlling company is required to be fully conversant with all aspects of the conduct of the business of a bank, the competence of every director of a bank shall be commensurable with the nature and scale of the business conducted by that bank and, in the case of a director of a controlling company, as a minimum, shall be commensurable with the nature and scale of the business conducted by the banks in the group.

(2) All directors and executive officers of a bank or controlling company shall perform their functions with diligence and care and with such a degree of competence as can reasonably be expected from persons holding similar appointment and carrying out similar functions as are carried out by the relevant director or executive officer, provided that none of the provisions or requirements contained or specified in these Regulations, including this regulation 40, shall be construed as derogating from any other relevant provision or requirement relating to directors and executive officers that may be contained or specified in any other relevant law or code of conduct.

(3) In view of the fact that the primary source of funds administered and utilised by a bank in the conduct of its business is deposits loaned to it by the general public, it shall be the duty of every director and executive officer of a bank to ensure that risks that are of necessity taken by such a bank in the conduct of its business are prudently managed.

(4) The-

(a) directors of a bank shall annually report to the Registrar whether or not:

(i) the bank's internal controls-

(A) provide reasonable assurance as to the integrity and reliability of the bank's financial statements; and

(B) safeguard, verify and maintain accountability of the bank's assets;

(ii) the internal controls are based on established policies and procedures and are implemented by trained, skilled personnel, whose duties are duly segregated;

(iii) adherence to the implemented internal controls is continuously monitored by the bank;

(iv) all bank employees are required to maintain high ethical standards, thereby ensuring that the bank's business practices are conducted in a manner that is above reproach;



- (v) the bank implemented and continuously maintained compensation policies, processes and practices that, as a minimum, comply with the requirements specified in regulation 39(16)(a);
  - (vi) anything came to their attention to indicate that any material malfunction, as defined and documented by the board of directors, which definition shall be submitted to the Registrar, in the functioning of the aforementioned controls, procedures and systems has occurred during the period under review.
- (b) directors of a bank shall annually report to the Registrar that there is no reason to believe that the bank will not be a going concern in the year ahead, and should there be reason to believe so, such reason shall be disclosed and explained.
  - (c) directors of a bank shall submit the reports on the internal controls and going-concern aspect of the bank within 120 days after the financial year-end of the bank.
  - (d) external auditors of a bank shall annually report to the Registrar whether or not they concur with the reports mentioned in paragraphs (a) and (b) above, provided that when the external auditors do not concur with such reports, they shall provide reasons therefor.
- (5) The provisions of subregulation (4) shall *mutatis mutandis* apply to any controlling company.
  - (6) For the purposes of this regulation, "director" includes an alternate director.

#### **41. Composition of the board of directors of a bank or controlling company**

- (1) The chairperson of the board of directors of a bank shall not be an employee of-
  - (a) the bank;
  - (b) any of the subsidiaries of the bank;
  - (c) the controlling company of the bank; or
  - (d) any subsidiary of the controlling company.
- (2) The chairperson of the board of directors of a bank shall not be a member of the audit committee of-
  - (a) the bank; or
  - (b) the controlling company of the bank.

- (3) The chairperson of the board of directors of a controlling company shall not be an employee of-
  - (a) the controlling company; or
  - (b) any bank in respect of which that company is registered as a controlling company.
- (4) The chairperson of the board of directors of a controlling company shall not be a member of the audit committee of-
  - (a) the controlling company; or
  - (b) any bank in respect of which that company is registered as a controlling company.
- (5) Except when the Registrar, in view of special circumstances pertaining to a particular bank, grants consent to a deviation from the provisions of this regulation in respect of that particular bank, at least two of the members of the board of directors of a bank shall be persons who are employees of that bank.

**42. Statement relating to attributes of serving or prospective directors or executive officers**

- (1) A duly completed statement and declaration in the form of a form BA 020, as prescribed in regulation 53, shall be submitted to the Registrar by the chairperson of the board, or the chairperson's duly appointed representative, or, in the case of a new bank, by the auditor, in respect of-
  - (a) every person who for the first time accepts an appointment as a director or an executive officer of a bank or a controlling company at least 30 days prior to the appointment becoming effective; and
  - (b) every person who previously served as a director or executive officer of a bank or controlling company but subsequently resigned as such and is being reappointed as a director or executive officer of a bank or controlling company after a period of more than twelve months since the date of resignation at least 30 days prior to the appointment becoming effective; and
  - (c) any serving director or executive officer of a bank or controlling company, at the request of the Registrar, in terms of section 1(1A)(c) of the Act.
- (2) For the purposes of this regulation, "related party" means any person (whether natural or juristic) over the business of which the director or executive officer can exercise a significant influence and which business undertakes business with the relevant bank or controlling company to an extent that could materially influence the asset base, profitability or risk profile of the said bank or controlling company.

When insufficient space is provided, please attach a separate sheet.

**STATEMENT BY INDIVIDUALS WHO ARE HOLDING, OR ARE PROPOSING TO HOLD,  
THE OFFICE OF A DIRECTOR OR EXECUTIVE OFFICER OF A BANK OR CONTROLLING  
COMPANY**

(Confidential and not available for inspection by the public)

1. Name of institution in connection with which this questionnaire is being completed ("the institution"):  
.....
2. Your surname:  
.....
3. Your full forename(s):  
.....
4. Former surname(s) and or forename(s) by which you may have been known:  
.....
5. Please state in which capacity you are completing this questionnaire, that is, as a current or prospective director, an executive officer or combination of these.  
.....
6. Please state your full title, and describe the particular duties and responsibilities attaching to the position(s) that you hold or will hold. If you are completing this form in the capacity of director, indicate whether, in your position as director, you have or will have executive responsibility for the management of the institution's business. In addition, please provide a copy of your *curriculum vitae*, unless it has already been provided:  
.....  
.....
7. Residential address:  
.....
8. Any previous residential address(es) during the past 10 years:  
.....

9. Date and place of your birth (including town or city):  
.....
10. Your nationality and how it was acquired (birth, naturalisation or marriage):  
.....
11. Name(s) and address(es) of your bankers during the past 10 years:  
.....
12. Your professional qualifications and year in which they were obtained:  
.....
13. Your occupation and employment now and during the past 10 years, including the name of your employer in each case, the nature of the business, the position held and relevant dates:  
.....
14. Of which bodies corporate (other than the institution) are you a director or an executive officer and since when?  
.....
15. Do you have any direct or indirect interest representing 15 per cent or more of the issued capital of any body corporate (other than the institution) that is now registered, or that has applied for authorisation, under the Act? If so, give particulars:  
.....
16. Of which bodies corporate other than the institution and those listed in reply to question 13 above have you been a director or an executive officer at any time during the past 10 years? Give relevant dates:  
.....
17. Do any of the bodies corporate listed in reply to questions 13, 14, 15 and 16 above maintain a business relationship with the institution? If so, give particulars:  
.....
18. Do you hold or have you ever held or applied for a licence or equivalent authorisation to conduct any business activity in the Republic of South Africa ("the Republic") or elsewhere? If so, give particulars. If any such application was refused or withdrawn after it was made or if any authorisation was revoked, give particulars:  
.....

- 19.** Does any institution with which you are, or have been, associated as a director or executive officer hold, or has it ever held or applied for, a licence or equivalent authorisation to conduct any business activity? If so, give particulars. If any such application was refused, or was withdrawn after it was made or if an authorisation was revoked, give particulars:
- .....

- 20.** Have you at any time been convicted of any offence, excluding -

- (i) any offence committed when you were under 18 years, unless the same offence was committed within the last 10 years;
- (ii) any road traffic offence; or
- (iii) any political offence?

If so, give particulars of the court by which you were convicted, the offence, the penalty imposed and the date of conviction:

.....

- 21.** Have you, in the Republic or elsewhere, been censured, disciplined, warned as to future conduct, or made the subject of a court order at the instigation of any regulatory authority or any professional body to which you belong or belonged, or have you ever held a practising certificate subject to conditions? If so, give particulars:
- .....

- 22.** Have you, or has any body corporate, partnership or unincorporated institution with which you are, or have been, associated as a director or executive officer, been the subject of an investigation, in the Republic or elsewhere, by or at the instigation of a government department or agency, professional association or other regulatory body? If so, give particulars:
- .....

- 23.** Have you, in the Republic or elsewhere, been dismissed from any office or employment, or been subject to disciplinary proceedings by your employer or been barred from entry to any profession or occupation? If so, give particulars:
- .....

- 24.** Have you failed to satisfy any debt adjudged due and payable by you, as a judgement-debtor under an order of a court in the Republic or elsewhere, or made any compromise arrangement with your creditors within the past 10 years? If so, give particulars:
- .....

- 25.** Have you ever been declared insolvent (either provisionally or finally) by a court in the Republic or elsewhere, or has a bankruptcy petition ever been served on you? If so, give particulars:

.....

- 26.** Have you, in connection with the formation or management of any body corporate, partnership or unincorporated institution, been adjudged by a court in the Republic or elsewhere civilly liable for any fraud, misfeasance or other misconduct by you towards such a body or company or towards any members thereof? If so, give particulars:

.....

- 27.** Has any body corporate, partnership or unincorporated institution with which you were associated as a director or executive officer, in the Republic or elsewhere, been wound up, made subject to an administration order, otherwise made any compromise or arrangement with its creditors or ceased trading, either while you were associated therewith or within one year after you ceased to be associated therewith, or has anything analogous to any of these events occurred under the laws of any other jurisdiction? If so, give particulars:

.....

- 28.** Have you been concerned with the management or conduct of the affairs of any institution that, by reason of any matter relating to a time when you were so concerned, has been censured, warned as to future conduct, disciplined or made the subject of a court order at the instigation of any regulatory authority in the Republic or elsewhere? If so, give particulars:

.....

- 29.** In carrying out your duties will you be acting on the directions or instructions of any other individual or institution? If so, give particulars:

.....

- 30.** Do you, or does any related party of whom you are aware, undertake business with this institution? If so, give particulars:

.....

- 31.** How many shares in the institution are registered in your name or the name of a related party? If applicable, give name(s) in which such shares are registered and the class of shares:

.....

- 32.** In how many shares in the institution (not being registered in your name or that of a related party) are related parties beneficially interested?

.....

- 33.** Do you, or does any related party, hold any shares in the institution as trustee or nominee? If so, give particulars:

.....

- 34.** Are any of the shares in the institution mentioned in reply to questions 31, 32 and 33 above equitably or legally charged or pledged to any party? If so, give particulars:

.....

- 35.** In respect of which proportion of the voting power at any general meeting of the institution (or of another body corporate of which it is a subsidiary) are you or any related party entitled to exercise control?

.....

- 36.** If the exercise of the voting power at any general meeting of the institution, or of another body corporate of which it is a subsidiary, is or may be controlled by one or more of your associates or any related party, give the proportion of the voting power so controlled in each case and the identity of each associate:

.....

- 37.** Are you currently, or do you, other than in a professional capacity, expect to be, engaged in any litigation in the Republic or elsewhere? If so, give particulars:

.....

- 38.** Do you have a basic knowledge and understanding of the risks to which banks are exposed? (Refer to Chapter III, regulation 39 of the Regulations relating to Banks, in this regard.)

.....

- 39.** Do you, at all times while acting in your capacity as a director or executive officer of the institution, undertake-

- (i) to act in good faith towards the bank/banks in the group;
- (ii) to avoid conflict between your other interests and the interests of the bank/banks in the group; and
- (iii) to place the interest of the bank/banks in the group and the depositors above all other interests?

.....

- 40.** Have you acquainted yourself with, and do you understand, the extent of the rights and powers, as well as your responsibilities and duties as a director of the institution, as contained in the applicable law? (To be completed only by directors or prospective directors.)

.....  
 .....

Please attach to the form BA 020 a matrix that clearly sets out the details specified below:

- (i) The number of other directorships or memberships held by the proposed appointee.
- (ii) The name of the other entity(ies) in respect of which the proposed appointee already serves as a director or member.
- (iii) The particular duties and responsibilities attached to each of the aforesaid positions held.
- (iv) The number of meetings each of the aforesaid entities holds or is expected to hold per annum, that the proposed appointee is required to attend.
- (v) The expected average number of hours that is required for the proposed appointee to duly prepare for each of the aforesaid meetings.



**DECLARATION**

I, ....., hereby declare the following:  
 This statement consists of ..... pages, each signed by me. The content of this declaration is true to the best of my knowledge and belief. I am aware that should it be submitted as evidence and I know that something appears therein that I know to be false or believe not to be true, I may be liable to prosecution.

I undertake that, as long as I continue to be a director or executive officer of the institution, I will notify the Registrar of any material changes to, or affecting the completeness or accuracy of, the information supplied by me in items 1 to 40 as soon as possible, but in no event later than 21 days from the day that the changes come to my attention.

Taking into account the commitments set out in question 40, I confirm that I have sufficient time available to duly discharge my duties and responsibilities as a director of this institution.\*

I know and understand the content of this declaration. I have\*/do not have\* objections to taking the prescribed oath\*/ affirmation\*.

I consider the prescribed oath\*/ affirmation\* to be binding\*/not binding\* on my conscience.

..... SIGNATURE OF DEPONENT

I certify that the above statement was taken by me and that the deponent has acknowledged that he\*/she\* knows and understands the content of this statement. This statement was sworn to\*/affirmed\* before me and the deponent's signature was placed thereon in my presence at ..... on this ..... day of .....(yyyy-mm).

.....  
 COMMISSIONER OF OATHS

FULL NAMES: .....

EX OFFICIO: .....

AREA: .....

ADDRESS: .....

\* Delete whichever is not applicable

Note: Each page of the form BA 020, and each additional page attached thereto, shall be initialled by the relevant signatories, that is, the relevant applicant, commissioner of oaths, and the chairperson of the board of directors or external auditor.

**DECLARATION BY CHAIRPERSON OF INSTITUTION\***

I, the undersigned, ....., being chairperson of the board of directors of ....., confirm that I have carefully studied all information supplied in this statement and, after discussion with the deponent ..... and all other members of the board, and after having taken into account any other information at my disposal or that has come to my attention, am of the opinion that the deponent ..... is fit and proper to take up office in this institution, with effect from ..... In the case of the appointment of a director, I confirm that there has been compliance with the appropriate conditions of the articles of association of the company. Similarly, in the case of the appointment of an executive officer, I confirm that there has been compliance with company policy.

**DECLARATION BY AUDITOR IN CASE OF NEW BANK\***

I, the undersigned, ....., being the auditor of ....., confirm that I have carefully studied all information supplied in this statement and, after discussion with the deponent ..... and all other members of the board, and after having taken into account any other information at my disposal confirm that nothing has come to my attention that causes me to believe that the deponent ..... is not fit and proper to take up office in this institution, with effect from ..... In the case of the appointment of a director, I confirm that there has been compliance with the appropriate conditions of the articles of association of the company. Similarly, in the case of the appointment of an executive officer, I confirm that there has been compliance with company policy.

NAME .....

SIGNED .....

DATE .....

\* *Delete whichever is not applicable*

Note: Each page of the form BA 020, and each additional page attached thereto, shall be initialled by the relevant signatories, that is, the relevant applicant, commissioner of oaths, and the chairperson of the board of directors or external auditor.

### 43. Public disclosure

(1) Subject to the provisions of subregulation (3), a bank shall disclose in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enable users of that information, among other things, to make an accurate assessment of the bank's financial condition, including, but not limited to, its capital adequacy position and its liquidity position, financial performance, its leverage ratio, ownership, governance, business activities, risk profile and risk management practices, provided that-

- (a) the bank shall have in place a formal board approved policy relating to disclosure, which policy, as a minimum-
  - (i) shall specify the approach that the bank adopted in order to determine the materiality, nature and extent of information that will be disclosed to the public;
  - (ii) shall be sufficiently robust to ensure that the bank-
    - (A) establishes and maintains appropriate internal control processes and procedures relating to the qualitative and quantitative information disclosed to the public;
    - (B) assesses on a regular basis the appropriateness of information disclosed to the public;
    - (C) establishes and maintains an appropriate process to validate the information disclosed to the public;
    - (D) regularly assesses the frequency and materiality of information disclosed to the public;
    - (E) is able to continuously determine the extent to which the required information may already be included in the bank's accounting disclosure requirements and to what extent the bank has to disclose information in addition to the bank's accounting disclosure requirements;
- (b) when compliance with the minimum required information specified in subregulation (2) below is not sufficient to provide a true and fair presentation of the bank's financial condition, including its capital adequacy position and its liquidity position, and financial performance, leverage ratio, business activities, risk profile and risk-management practices, the bank shall disclose relevant additional information;
- (c) the bank's annual financial statements and other disclosures to the public shall present or disclose each material item separately. Information is material if its omission or misstatement could change or influence the judgement or decision of a user relying on that information to take, amongst other things, economic or investment decisions;

- (d) the minimum required publicly disclosed information, amongst other things, shall be consistent with the manner in which the board of directors and the senior management of the bank assess and manage the bank's risk exposures;
- (e) the bank shall on a regular basis, but not less frequently than-
  - (i) once a year disclose to the public qualitative information in respect of the bank's risk management objectives and policies, reporting system and general definitions;
  - (ii) and concurrent with the publication of its financial statements, irrespective whether or not the financial statements are audited, disclose to the public the information respectively specified in subregulations (2)(c)(i), (2)(c)(iv) and (2)(c)(v)(A) of this regulation 43, provided that-
    - (A) the required information shall be included either in the bank's published financial statements or, as a minimum, the published financial statements shall provide a direct link to the completed disclosure on the bank's website;
    - (B) the bank shall make available on its website an archive of all the relevant required templates relating to reporting periods after the implementation of any relevant specified disclosure requirement, which archive period shall be aligned to the archive period specified in the relevant legislation related to annual financial statements issued from time to time, but which period shall in no case be less than five years;
    - (C) irrespective of the location used by the bank for the required disclosure, that is, the bank's published financial statements or its website, all the relevant required information shall be disclosed in the relevant format specified in these Regulations;
    - (D) in order to prevent a divergence of templates across jurisdictions, which may undermine the objectives of consistency and comparability, no bank shall add, delete or change any definition or numbering of any row or item from the common reporting templates specified in these Regulations;
    - (E) in the case of the main features template specified in subregulation (2)(c)(i)(F) of this regulation 43, and the disclosure of the full terms and conditions of capital instruments as envisaged in subregulation (2)(c)(i) of this regulation 43-
      - (i) the bank shall report each relevant regulatory capital instrument, including common or ordinary shares, in a separate column of the template, such that the completed template would provide a 'main features report' that summarises all of the regulatory capital instruments of the relevant bank or banking group;

- (ii) the bank shall update the relevant disclosures whenever a new capital instrument is issued and included in the bank's capital, or whenever there is a redemption, conversion, write-down or other material change in the nature of an existing capital instrument;
- (F) in the case of information related to the bank's capital and reserve funds, whenever-
  - (i) the bank discloses any ratio that involves a component of regulatory capital, the bank shall ensure that such disclosure is accompanied by a sufficiently comprehensive explanation of how that ratio was calculated;
  - (ii) a specific component of capital, including capital instruments or regulatory adjustments, benefits from any transitional arrangement or provision, the bank shall disclose to the public the relevant details relating to the benefits of the said transitional arrangement or provision;
- (G) in the case of the bank's leverage ratio, the bank shall, as a minimum, irrespective of the frequency of the publication of the bank's financial statements, on a quarterly basis-
  - (i) disclose to the public-
    - (aa) the relevant numerator for its leverage, that is, the bank's tier 1 capital and reserve funds;
    - (bb) the relevant denominator for its leverage, that is, the bank's relevant exposure measure; and
    - (cc) the bank's leverage ratio,

Provided that-

- (i) as a minimum, the aforesaid numbers shall be the relevant number at the end of the relevant reporting quarter;
- (ii) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, the bank may calculate its leverage ratio based on either daily or monthly average numbers;

- (ii) disclose to the public-
  - (aa) the relevant numbers and ratios for the preceding three quarter-ends;
  - (bb) the relevant detail and source(s) of material differences between the bank's total balance sheet assets, net of any relevant on-balance sheet derivative and SFT assets, as reported in the bank's published financial statements, and the bank's on-balance sheet exposures measure as reported in item 1 of the common disclosure template specified in subregulation (2)(c)(iv)(B) below;
  - (cc) the relevant detail related to key drivers of-
    - (i) material changes that relate to the numerator;
    - (ii) material changes that relate to the denominator; and/or
    - (iii) material changes in the bank's leverage ratio,

observed from the end of the previous reporting period to the end of the current reporting period;
- (H) in the case of information related to the bank's Liquidity Coverage Ratio (LCR)-
  - (i) the bank shall disclose to the public sufficiently detailed qualitative information to facilitate a clear understanding of the bank's liquidity position, which qualitative information may include:
    - (aa) the main drivers of the LCR, and the evolution of the contribution of inputs to the calculation of the LCR over time;
    - (bb) intra-period changes as well as changes over time;
    - (cc) the composition of HQLA;
    - (dd) any concentration of funding sources;

- (ee) derivative exposures and potential collateral calls;
  - (ff) any material currency mismatches in the LCR;
  - (gg) a description of the degree of centralisation of liquidity management and interaction between the relevant bank's or group's respective units; and
  - (hh) other inflows and outflows in the LCR calculation that are not captured in the common template specified in these Regulations for LCR, but which the bank considers to be relevant for its liquidity profile;
- (ii) the bank may wish to disclose qualitative information in addition to the required information specified in sub-item (i) above to enable market participants to gain a more thorough understanding of the bank's internal liquidity risk management and positions, which qualitative information may include-
- (aa) governance of liquidity risk management, including-
    - (i) risk tolerance;
    - (ii) structure and responsibilities for liquidity risk management;
    - (iii) internal liquidity reporting; and
    - (iv) communication of the liquidity risk strategy, policies and practices across business lines and with the board of directors;
  - (bb) the funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralised or decentralised;
  - (cc) the bank's liquidity risk mitigation techniques;
  - (dd) an explanation of how stress testing is used; and
  - (ee) an outline of the bank's contingency funding plans;

- (iii) the relevant required quantitative information specified in subregulation (2)(c)(v)(A) of this regulation 43 shall be the simple average of daily observations during the preceding quarter, that is, the average during a period of, typically, 90 days, provided that-
  - (aa) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, a bank may be exempted from the requirement to calculate and disclose a daily average amount up to the first reporting period after 1 January 2017, in which case the bank shall calculate and disclose an average amount based on the relevant month-end amounts;
  - (bb) the relevant average shall be calculated after the application of any relevant haircuts, inflow and outflow rates, and caps;
  - (cc) when the bank reports on-
    - (i) a semiannual basis, the average LCR shall be reported in respect of each of the two relevant preceding quarters;
    - (ii) an annual basis, the LCR shall be reported for each of the relevant preceding four quarters;
- (iv) the bank shall calculate any relevant required unweighted amount related to a specified category of outflows or inflows in accordance with the formula specified below:

$$\text{Total unweighted amount of specified category}_{Qi} = \frac{1}{T} \times \sum_{t=1}^T (\text{Total unweighted amount of specified category})_t$$

where:

$T$  equals the number of observations in period  $Qi$ .

- (v) the bank shall calculate any relevant required weighted amount related to a specified category of outflows or inflows in accordance with the formula specified below:

$$\text{Total weighted amount of specified category}_{Qi} = \frac{1}{T} \times \sum_{t=1}^T (\text{Total weighted amount of specified category})_t$$

where:

$T$  equals the number of observations in period  $Qi$ .



- (vi) the bank shall calculate its LCR as the average of observations of the LCR, in accordance with the formula specified below:

$$LCR_{Qi} = \frac{1}{T} \times \sum_{t=1}^T LCR_t$$

- (vii) the bank shall in all relevant cases publish the number of data points used in the calculation of the aforesaid average amounts;
- (viii) the relevant required information shall be presented in a single currency whenever the information is calculated or required to be calculated on a consolidated basis;
- (ix) the bank may wish to disclose quantitative information in addition to the required information specified in subregulation (2)(c)(v)(A) of this regulation 43, to provide market participants with a broader perspective of the bank's liquidity risk position and management, which additional quantitative information may include-
- (aa) concentration limits on collateral pools and sources of funding in respect of products and counterparties;
  - (bb) liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity; and
  - (cc) balance sheet items and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps;
- (iii) once a year disclose to the public the relevant required qualitative and quantitative information related to remuneration, specified in subregulation (2)(f) below;
- (iv) on a quarterly basis, disclose to the public quantitative information in respect of-
- (A) the bank's tier 1 capital, including the bank's tier 1 capital adequacy ratio;
  - (B) the bank's total capital, including the bank's total capital adequacy ratio;

- (C) the components of capital;
  - (D) the total required amount of capital and reserve funds;
  - (E) the bank's relevant countercyclical buffer requirement, which buffer requirement shall be based on the latest relevant jurisdictional countercyclical buffers available at the date that the bank calculates its minimum capital requirement, provided that the bank shall also disclose to the public the relevant geographic distribution of its private sector credit exposures used in the calculation of the said buffer requirement;
  - (F) any risk exposure or other item that is subject to rapid or material change,
- (v) on a semi-annual basis, disclose to the public the qualitative and quantitative information, other than the information referred to in subparagraphs (i) to (iv) above, envisaged in subregulation (2) below,

provided that, in all relevant cases, the bank shall publish material information that are subject to rapid or material change as soon as possible;

- (f) at the discretion of the management of the bank, the bank shall determine appropriate additional mediums and locations to disclose the required information to the public;
- (g) the bank's disclosure to the public in terms of the provisions of this regulation 43-
  - (i) shall be consistent with the bank's audited financial statements;
  - (ii) shall be subject to appropriate internal control and verification;
- (h) when the information required to be disclosed in terms of the provisions of this regulation 43 differs from any prescribed listing requirements or disclosure requirements in terms of Financial Reporting Standards, the bank shall in an appropriate manner explain any material differences between the said disclosure requirements;

- (i) on prior written application by the bank and/or subject to such conditions as may be specified in writing by the Registrar, the requirements of this regulation 43 place no duty on the bank to disclose to the public proprietary or confidential information, that is-
  - (i) information in respect of, for example, products or systems that, if shared with competitors, is likely to render the bank's investment in the said products or systems less valuable or undermine the bank's competitive position; or
  - (ii) information that is provided in terms of a legal agreement, which information is classified as confidential information;
- (j) except for information that forms part of a bank's audited financial statements as a result of requirements relating to Financial Reporting Standards, unless otherwise specified in writing by the Registrar, the required additional information that has to be disclosed by the bank to the public in terms of the provisions of this regulation 43 may be, but is not required to be, subject to external audit.

(2) Without derogating from the provisions of subregulation (1), unless specifically otherwise stated, in accordance with the provisions of the framework for the preparation and presentation of financial statements, read with the relevant requirements of Financial Reporting Standards that may be issued from time to time and such directives as may be issued in writing by the Registrar, a bank shall, as a minimum, disclose in its financial statements and/ or other disclosures to the public appropriate qualitative and quantitative information in respect of the broad categories of information specified below:

(a) Scope of application

A bank shall in respect of the required-

- (i) qualitative information, disclose to the public-
  - (A) the name(s) of the controlling company/ public company in the group structure to which the disclosure requirements of the Regulations also apply;
  - (B) sufficiently detailed information in respect of any restrictions or other major impediments on the transfer of funds or qualifying capital within the banking group;
- (ii) quantitative information, disclose to the public such information as may be specified in writing by the Registrar;

(b) Financial performance

## (c) Financial position, including-

## (i) capital position

Based on the relevant requirements specified in-

- (A) this item (A), a bank shall, as a minimum, in respect of all relevant required reporting periods up to and including 31 December 2017, disclose to the public the information set out in the disclosure template specified below:

Disclosure template relating to all relevant required reporting periods up to and including 31 December 2017			Amounts subject to pre-Basel III treatment <sup>1</sup> Note 5
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
1	Directly issued qualifying common share capital plus related stock surplus		
2	Retained earnings		
3	Accumulated other comprehensive income (and other reserves)		
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies) <sup>6</sup>		
	Public sector capital injections grandfathered until 1 January 2018		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		Note 5
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>		
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
7	Prudential valuation adjustments		Note 5
8	Goodwill (net of related tax liability)		Note 5
9	Other intangibles other than goodwill or mortgage-servicing rights (net of related tax liability)		Note 5
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		Note 5
11	Cash-flow hedge reserve		Note 5
12	Shortfall of provisions to expected losses		Note 5
13	Securitisation gain on sale (as set out in regulation 38(5)(a)(i) of these Regulations)		Note 5
14	Gains and losses due to changes in own credit risk on fair valued liabilities		Note 5
15	Defined-benefit pension fund net assets		Note 5
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		Note 5
17	Reciprocal cross-holdings in common equity		Note 5
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10 per cent of the issued share capital (amount above 10 per cent threshold)		Note 5
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10 per cent threshold)		Note 5
20	Mortgage servicing rights (amount above 10 per cent threshold)		Note 5
21	Deferred tax assets arising from temporary differences (amount above 10 per cent threshold, net of related tax liability)		Note 5

Disclosure template relating to all relevant required reporting periods up to and including 31 December 2017			Amounts subject to pre-Basel III treatment <sup>1</sup> Note 5
22	Amount exceeding the 15 per cent threshold		Note 5
23	of which: significant investments in the common stock of financials		Note 5
24	mortgage servicing rights		Note 5
25	deferred tax assets arising from temporary differences		Note 5
26	Other regulatory adjustments specified by the Registrar or regulatory adjustments specified in the Regulations in addition to the regulatory adjustments specified in the Basel III framework		Note 5
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT <sup>2, 3</sup>	Note 5	
	OF WHICH: (please specify)	Note 5	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
28	<b>Total regulatory adjustments to Common equity Tier 1</b>		
29	<b>Common Equity Tier 1 capital (CET1)</b>		
	<b>Additional Tier 1 capital: instruments</b>		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		
31	of which: classified as equity under applicable Financial Reporting Standards		
32	classified as liabilities under applicable Financial Reporting Standards		
33	Directly issued capital instruments subject to phase out from Additional Tier 1 <sup>6</sup>		
34	Additional Tier 1 instruments (and CET1 instruments not included in item 5) issued by subsidiaries and held by third parties (amount allowed in group Additional Tier 1)		
35	of which: instruments issued by subsidiaries subject to phase out <sup>6</sup>		
36	<b>Additional Tier 1 capital before regulatory adjustments</b>		
	<b>Additional Tier 1 capital: regulatory adjustments</b>		
37	Investments in own Additional Tier 1 instruments		Note 5
38	Reciprocal cross-holdings in Additional Tier 1 instruments		Note 5
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10 per cent of the issued common share capital of the entity (amount above 10 per cent threshold)		Note 5
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		Note 5
41	Other regulatory adjustments specified by the Registrar or regulatory adjustments specified in the Regulations in addition to the regulatory adjustments specified in the Basel III framework		
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT <sup>2, 3</sup>	Note 5	
	OF WHICH: (please specify)	Note 5	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>		
44	<b>Additional Tier 1 capital (AT1)</b>		
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>		

Disclosure template relating to all relevant required reporting periods up to and including 31 December 2017		Amounts subject to pre-Basel III treatment <sup>1</sup> Note 5
<b>Tier 2 capital: instruments and provisions</b>		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier 2 <sup>6</sup>	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in items 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	of which: instruments issued by subsidiaries subject to phase out <sup>6</sup>	
50	Provisions	
51	<b>Tier 2 capital before regulatory adjustments</b>	
<b>Tier 2 capital: regulatory adjustments</b>		
52	Investments in own Tier 2 instruments	Note 5
53	Reciprocal cross-holdings in Tier 2 instruments	Note 5
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10 per cent of the issued common share capital of the entity (amount above the 10 per cent threshold)	Note 5
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	Note 5
56	Other regulatory adjustments specified by the Registrar or regulatory adjustments specified in the Regulations in addition to the regulatory adjustments specified in the Basel III framework	
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT <sup>2, 3</sup>	Note 5
	OF WHICH: (please specify)	Note 5
57	<b>Total regulatory adjustments to Tier 2 capital</b>	
58	<b>Tier 2 capital (T2)</b>	
59	<b>Total capital (TC = T1 + T2)</b>	
	RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT <sup>4</sup>	Note 5
	OF WHICH: (please specify)	Note 5
60	<b>Total risk weighted assets</b>	
<b>Capital ratios</b>		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	
62	Tier 1 (as a percentage of risk weighted assets)	
63	Total capital (as a percentage of risk weighted assets)	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	
65	of which: capital conservation buffer requirement	
66	bank specific countercyclical buffer requirement	
67	G-SIB buffer requirement	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	

Disclosure template relating to all relevant required reporting periods up to and including 31 December 2017		
Minimum requirements specified in these Regulations when different from Basel III minima		
69	Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	
70	Tier 1 minimum ratio (if different from Basel III minimum)	
71	Total capital minimum ratio (if different from Basel III minimum)	
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	
73	Significant investments in the common stock of financials	
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

## Notes:

1. Relates to the amount of each relevant regulatory adjustment that is subject to existing national treatment during the transitional phase. For example, during 2014 banks are required to make 20 per cent of the regulatory adjustments in accordance with the Basel III framework. A bank with "Goodwill, net of related tax liability" of R100 million conducts business in a jurisdiction that does not require this to be deducted from common equity. The bank shall report R20 million in the first of the two empty cells in item 8 and report R80 million in the second of the two cells. The sum of the two cells shall therefore be equal to the total Basel III regulatory adjustment.
2. When the bank described in note 1 above, for example, conducts business in a jurisdiction that requires goodwill to be deducted from Tier 1, the bank shall report in the item inserted between items 41 and 42 the amount of R80 million that the bank in note 1 reported in the last cell of item 8, to indicate that during the transition phase some goodwill will continue to be deducted from Tier 1 (in effect Additional Tier 1).
3. A bank with an unrealised loss of R50 million on its holdings of available-for-sale debt securities, for example, conducts business in a jurisdiction that filters out such unrealised gains and losses. The Basel III transitional arrangements require this bank to recognise 20 per cent of this loss, that is, R10 million, in 2014. This means that 80 per cent of the loss, or R40 million, is not recognised. The aforesaid bank that conducts business in this jurisdiction shall report R40 million in the item between items 26 and 27 as an addition to Common Equity Tier 1, to add back the relevant unrealised loss.
4. A bank with defined benefit pension fund net assets of R50 million, for example, conducts business in a jurisdiction that risk weights such assets at 200 per cent. The Basel III transitional arrangements require this bank to deduct 20 per cent of these assets in 2014, that is, the bank shall report R10 million in the first empty cell in item 15 and R40 million in the second empty cell (the total of the two cells shall be equal to the total Basel III regulatory adjustment). Furthermore, the bank shall disclose in the inserted items between item 59 and 60 that such assets are risk weighted at 200 per cent during the transitional phase, that is, the bank shall report an amount of R80 million (R40 million multiplied with 200 per cent) in that row.
5. Cells with dotted borders relate to items that are impacted by the transitional arrangements.
6. Relates only to specified ineligible capital instruments that are subject to a specified phased-out period up to 1 January 2022.

- (B) this item (B), read with the relevant directives and requirements specified in item (C) below, a bank shall, as a minimum, in respect of all relevant required reporting periods from 1 January 2018 onwards, disclose to the public the information set out in the disclosure template specified below:

<b>Disclosure template relating to all relevant required reporting periods from 1 January 2018 onwards</b>		
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Directly issued qualifying common equity or share capital plus related stock surplus	
2	Retained earnings	
3	Accumulated other comprehensive income, and other reserve funds	
4	Directly issued capital subject to phase out from CET1 <sup>1</sup> (only applicable to non-joint stock companies)	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b> (total of items 1 to 5)	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
7	Prudential valuation adjustments	
8	Goodwill, net of related tax liability	
9	Other intangibles other than goodwill or mortgage-servicing rights, net of related tax liability	
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences, net of related tax liability	
11	Cash-flow hedge reserve	
12	Shortfall of provisions to expected losses	
13	Securitisation gain on sale (as set out in regulation 38(5)(a)(i)(F) of these Regulations)	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined-benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	
17	Reciprocal cross-holdings in common equity	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10 per cent of the issued share capital (amount above 10 per cent threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10 per cent threshold)	
20	Mortgage servicing rights (amount above 10 per cent threshold)	
21	Deferred tax assets arising from temporary differences (amount above 10 per cent threshold, net of related tax liability)	
22	Amount exceeding the 15 per cent threshold	
23	<i>of which:</i> significant investments in the common stock of financials	
24	mortgage servicing rights	
25	deferred tax assets arising from temporary differences	
26	Other regulatory adjustments specified in writing by the Registrar (Please disclose the relevant details of each relevant adjustment separately)	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28	<b>Total regulatory adjustments to Common equity Tier 1</b> (total of items 7 to 22, and 26 to 27)	
29	<b>Common Equity Tier 1 capital (CET1)</b> (item 6 less item 28)	
<b>Additional Tier 1 capital: instruments</b>		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
31	<i>of which:</i> classified as equity under relevant Financial Reporting Standards	



Disclosure template relating to all relevant required reporting periods from 1 January 2018 onwards		
32	classified as liabilities under relevant Financial Reporting Standards	
33	Directly issued capital instruments subject to phase out from Additional Tier 1 <sup>1</sup>	
34	Additional Tier 1 instruments (and CET1 instruments not included in item 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	
35	<i>of which:</i> instruments issued by subsidiaries subject to phase out <sup>1</sup>	
36	<b>Additional Tier 1 capital before regulatory adjustments</b> (total of items 30, 33 and 34)	
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10 per cent of the issued common share capital of the entity (amount above 10 per cent threshold)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
41	Other regulatory adjustments specified in writing by the Registrar (Please disclose the relevant details of each relevant adjustment separately)	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b> (total of items 37 to 42)	
44	<b>Additional Tier 1 capital (AT1)</b> (item 36 less item 43)	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b> (item 29 plus item 44)	
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
47	Directly issued capital instruments subject to phase out from Tier 2 <sup>1</sup>	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in item 5 or item 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	<i>of which:</i> instruments issued by subsidiaries subject to phase out <sup>1</sup>	
50	Provisions	
51	<b>Tier 2 capital before regulatory adjustments</b> (total of items 46 to 48, plus item 50)	
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	
53	Reciprocal cross-holdings in Tier 2 instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10 per cent of the issued common share capital of the entity (amount above the 10 per cent threshold)	
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	
56	Other regulatory adjustments specified in writing by the Registrar (Please disclose the relevant details of each relevant adjustment separately)	
57	<b>Total regulatory adjustments to Tier 2 capital</b> (total of items 52 to 56)	
58	<b>Tier 2 capital (T2)</b> (item 51 less item 57)	
59	<b>Total capital (TC = T1 + T2)</b> (item 45 plus item 58)	
60	<b>Total risk weighted exposure</b>	
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted exposure) (item 29 divided by item 60, expressed as a percentage)	
62	Tier 1 (as a percentage of risk weighted exposure) (item 45 divided by item 60, expressed as a percentage)	
63	Total capital (as a percentage of risk weighted exposure) (item 59 divided by item 60, expressed as a percentage)	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer	

<b>Disclosure template relating to all relevant required reporting periods from 1 January 2018 onwards</b>		
	requirement, expressed as a percentage of risk weighted exposure)	
65	<i>of which:</i> capital conservation buffer requirement	
66	bank specific countercyclical buffer requirement	
67	G-SIB buffer requirement	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted exposure)	
<b>National minima (if different from Basel III requirement)</b>		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum requirement)	
70	National Tier 1 minimum ratio (if different from Basel III minimum requirement)	
71	National total capital minimum ratio (if different from Basel III minimum requirement)	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Non-significant investments in the capital of other financials	
73	Significant investments in the common stock of financials	
74	Mortgage servicing rights, net of related tax liability	
75	Deferred tax assets arising from temporary differences, net of related tax liability	
<b>Applicable caps on the inclusion of provisions or credit impairments in Tier 2</b>		
76	Provisions or credit impairments eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	
77	Cap on inclusion of provisions or credit impairments in Tier 2 under standardised approach	
78	Provisions or credit impairments eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap for inclusion of provisions or credit impairments in Tier 2 under internal ratings-based approach	
<b>Capital instruments subject to phase-out arrangements<sup>2</sup></b>		
80	Current cap on CET1 instruments subject to phase out arrangements	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

**Notes:**

1. Relates only to specified ineligible capital instruments that are subject to a specified phased-out period up to 1 January 2022.
2. Line items 80 to 85 apply only in respect of the relevant reporting periods between 1 January 2018 and 1 January 2022.

- (C) this item (C), read with the relevant directives and requirements specified in item (B) above, a bank shall, as a minimum, in respect of all relevant required reporting periods from 1 January 2018 onwards, disclose to the public the information specified in the table encapsulated in item (B) above;

Explanation of each relevant line item of the common disclosure template specified in item (B) above	
Line item	Description
1	<p>This item-</p> <p>(a) shall reflect the relevant required information in respect of instruments issued by the parent company of the reporting bank or group that meet all of the CET1 entry criteria specified in regulation 38(13)(a) of these Regulations;</p> <p>(b) shall be equal to the sum of common stock (and related surplus only) and other instruments for non-joint stock companies, both of which have to meet the relevant criteria specified for common stock or ordinary shares;</p> <p>(c) shall be net of treasury stock and other investments in own shares to the extent that these are already derecognised on the balance sheet in terms of the relevant Financial Reporting Standards issued from time to time;</p> <p>(d) shall exclude all other paid-in capital elements and all relevant minority interest.</p>
2	<p>This item-</p> <p>(a) shall reflect the relevant required information in respect of retained earnings, prior to any relevant regulatory adjustment;</p> <p>(b) shall include interim profit and loss that complies with the relevant requirements specified in regulation 38(10) of these Regulations;</p> <p>(c) shall in accordance with the relevant Financial Reporting Standards issued from time to time exclude any relevant amount related to dividends, that is, dividends shall be removed from this item when they are removed from the balance sheet of the relevant bank or controlling company.</p>
3	This item shall reflect the relevant required information in respect of accumulated other comprehensive income and other disclosed reserves, prior to any relevant regulatory adjustment.
4	<p>This item-</p> <p>(a) applies only to non-joint stock companies;</p> <p>(b) shall in the case of joint-stock companies be equal to zero;</p> <p>(c) shall reflect the relevant required information in respect of directly issued capital instruments subject to phase-out from CET1 in accordance with the relevant requirements that may be specified in these Regulations or in writing by the Registrar.</p> <p>This item will be deleted once all the ineligible capital instruments have been fully phased out, that is, from 1 January 2022 onwards.</p>
5	<p>This item-</p> <p>(a) shall reflect the relevant required information in respect of common share capital issued by subsidiaries and held by third parties; and</p> <p>(b) shall only reflect the relevant amount that is eligible for inclusion in group CET1.</p>
6	This item shall reflect the relevant aggregate amount of items 1 to 5.
7	This item shall reflect the relevant aggregate amount relating to any prudential valuation adjustment required in terms of the provisions of these Regulations or as specified in writing by the Registrar.
8	This item shall reflect the relevant aggregate amount relating to goodwill, net of any related tax liability.
9	This item shall reflect the relevant aggregate amount relating to intangibles other than goodwill and mortgage-servicing rights, net of any related tax liability.
10	This item shall reflect the relevant aggregate amount relating to deferred tax assets that rely on future profitability, excluding those arising from temporary differences, net of any related tax liability.

<b>Explanation of each relevant line item of the common disclosure template specified in item (B) above</b>	
<b>Line item</b>	<b>Description</b>
11	This item shall reflect the relevant aggregate amount relating to cash-flow hedge reserves as envisaged in regulation 38(5)(a)(i)(D) of these Regulations.
12	This item shall reflect the relevant aggregate amount relating to any shortfall of provisions to expected losses as envisaged in regulation 38(5)(a)(i)(E) of these Regulations.
13	This item shall reflect the relevant aggregate amount relating to any securitisation gain on sale as envisaged in regulation 38(5)(a)(i)(F) of these Regulations.
14	This item shall reflect the relevant amount relating to gains and losses due to changes in own credit risk on fair valued liabilities, as envisaged in regulation 38(5)(a)(i)(G) of these Regulations.
15	This item shall reflect the relevant aggregate amount relating to defined-benefit pension fund net assets, as envisaged in regulation 38(5)(a)(i)(H) of these Regulations.
16	This item shall reflect the relevant aggregate amount relating to investments in own shares, to the extent not already netted off against paid-in capital on the reported balance sheet, as envisaged in regulation 38(5)(a)(i)(I) of these Regulations.
17	This item shall reflect the relevant aggregate amount relating to reciprocal cross-holdings in common equity, as envisaged in regulation 38(5)(a)(i)(J) of these Regulations.
18	This item shall reflect the relevant aggregate amount relating to investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank does not own more than 10 per cent of the issued share capital, which amount exceeds the relevant specified 10 per cent threshold and that has to be deducted from CET1, as envisaged in regulation 38(5)(a)(i)(L) of these Regulations.
19	This item shall reflect the relevant aggregate amount relating to significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, which amount exceeds the relevant specified 10 per cent threshold and that has to be deducted from CET1, as envisaged in regulation 38(5)(a)(i)(M) read with regulation 38(5)(b) of these Regulations.
20	This item shall reflect the relevant aggregate amount relating to mortgage servicing rights, which amount exceeds the relevant specified 10 per cent threshold and that has to be deducted from CET1, as envisaged in regulation 38(5)(b) of these Regulations.
21	This item shall reflect the relevant aggregate amount relating to deferred tax assets arising from temporary differences, which amount exceeds the relevant specified 10 per cent threshold, net of any related tax liability, and that has to be deducted from CET1, as envisaged in regulation 38(5)(b) of these Regulations.
22	This item shall reflect the relevant aggregate amount by which the aforesaid three threshold items exceeds the relevant specified 15 per cent threshold, excluding the relevant amounts reported in items 19 to 21 above, calculated in accordance with the relevant requirements specified in regulation 38(5)(b) of these Regulations.
23	This item shall reflect the relevant amount reported in item 22 that relates to significant investments in the common stock of financials.
24	This item shall reflect the relevant amount reported in item 22 that relates to mortgage servicing rights.
25	This item shall reflect the relevant amount reported in item 22 that relates to deferred tax assets arising from temporary differences.
26	This item shall reflect the relevant aggregate amount relating to any other regulatory adjustments specified in writing by the Registrar that are required to be applied to CET1.
27	This item shall reflect the relevant aggregate amount relating to regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 to cover the relevant specified deductions. When the amount reported in item 43 exceeds the amount reported in item 36 the relevant excess amount shall be reported in this item 27.
28	This item shall reflect the relevant aggregate amount relating to regulatory adjustments to Common equity Tier 1, that is, the sum of items 7 to 22 plus items 26 and 27.
29	This item shall reflect the relevant adjusted amount of Common Equity Tier 1 capital (CET1), that is, item 6 minus item 28.

Explanation of each relevant line item of the common disclosure template specified in item (B) above	
Line item	Description
30	<p>This item-</p> <p>(a) shall reflect the relevant aggregate amount relating to instruments issued by the parent company of the reporting group that comply with the entry criteria specified in regulation 38(13)(b) of these Regulations for AT1, and any related stock surplus, as envisaged in section 1(1) of the Act;</p> <p>(b) shall exclude any relevant amount related to instruments issued by subsidiaries of the consolidated group;</p> <p>(c) may include Additional Tier 1 capital issued by an SPV of the parent company only if it meets the relevant requirements specified in these Regulations and such additional requirements as may be specified in writing by the Registrar.</p>
31	This item shall reflect the relevant aggregate amount included in item 30 above that is classified as equity in accordance with the relevant Financial Reporting Standards issued from time to time.
32	This item shall reflect the relevant aggregate amount included in item 30 above that is classified as liabilities in accordance with the relevant Financial Reporting Standards issued from time to time.
33	<p>This item shall reflect the relevant aggregate amount relating to directly issued capital instruments subject to phase out from Additional Tier 1 in accordance with the relevant requirements specified in regulations 38(13)(c) and 38(13)(d) of these Regulations.</p> <p>This item will be deleted once all the ineligible capital instruments have been fully phased out, that is, from 1 January 2022 onwards.</p>
34	This item shall reflect the relevant aggregate amount relating to additional Tier 1 instruments, and any CET1 instruments not included in item 5, issued by subsidiaries and held by third parties, in accordance with the relevant requirements specified in regulation 38(16) of these Regulations.
35	<p>This item shall reflect the relevant aggregate amount included in item 34 above that relates to instruments subject to phase out from AT1 in accordance with the relevant requirements specified in regulations 38(13)(c) and 38(13)(d) of these Regulations.</p> <p>This item will be deleted once all the ineligible capital instruments have been fully phased out, that is, from 1 January 2022 onwards.</p>
36	This item shall reflect the relevant aggregate amount of items 30, 33 and 34.
37	This item shall reflect the relevant aggregate amount relating to investments in own Additional Tier 1 instruments, which amount has to be deducted from AT1 in accordance with the relevant requirements specified in regulation 38(5)(a)(ii)(A) of these Regulations.
38	This item shall reflect the relevant aggregate amount relating to reciprocal cross-holdings in Additional Tier 1 instruments, which amount has to be deducted from AT1 in accordance with the relevant requirements specified in regulation 38(5)(a)(ii)(B) of these Regulations.
39	This item shall reflect the relevant aggregate amount relating to investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank does not own more than 10 per cent of the issued common share capital of the entity, net of eligible short positions, which amount has to be deducted from AT1 in accordance with the relevant requirements specified in regulation 38(5)(a)(ii)(C) of these Regulations.
40	This item shall reflect the relevant aggregate amount relating to significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, which amount has to be deducted from AT1 in accordance with the relevant requirements specified in regulation 38(5)(a)(ii)(D) of these Regulations.
41	This item shall reflect the relevant aggregate amount relating to any other regulatory adjustments specified in writing by the Registrar that are required to be applied to AT1.
42	This item shall reflect the relevant aggregate amount relating to regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover the relevant specified deductions. When the amount reported in item 57 exceeds the amount reported in item 51 the relevant excess amount shall be reported in this item

Explanation of each relevant line item of the common disclosure template specified in item (B) above	
Line item	Description
	42.
43	This item shall reflect the relevant aggregate amount of items 37 to 42.
44	This item shall reflect the relevant adjusted amount of Additional Tier 1 capital (AT1), that is, item 36 minus item 43.
45	This item shall reflect the relevant aggregate amount relating to Tier 1 capital (T1), that is, item 29 plus item 44.
46	<p>This item-</p> <p>(a) shall reflect the relevant aggregate amount relating to instruments issued by the parent company of the reporting group that comply with all the entry criteria specified in regulation 38(14) of these Regulations for Tier 2, and any related stock surplus, as envisaged in section 1(1) of the Act;</p> <p>(b) shall exclude any relevant amount related to instruments issued of subsidiaries of the consolidated group;</p> <p>(c) may include Tier 2 capital issued by an SPV of the parent company only if it meets the relevant requirements specified in these Regulations and such additional requirements as may be specified in writing by the Registrar.</p>
47	<p>This item shall reflect the relevant aggregate amount relating to directly issued capital instruments subject to phase out from Tier 2 in accordance with the relevant requirements specified in regulations 38(14)(b) and 38(14)(c) of these Regulations.</p> <p>This item will be deleted once all the ineligible capital instruments have been fully phased out, that is, from 1 January 2022 onwards.</p>
48	This item shall reflect the relevant aggregate amount relating to Tier 2 instruments, and any relevant amount related to CET1 and AT1 instruments not included in items 5 or 32 respectively, issued by subsidiaries and held by third parties, in accordance with the relevant requirements specified in regulation 38(16) of these Regulations.
49	<p>This item shall reflect the relevant aggregate amount included in item 48 above that relates to instruments subject to phase out from T2 in accordance with the relevant requirements specified in regulations 38(14)(b) and 38(14)(c) of these Regulations.</p> <p>This item will be deleted once all the ineligible capital instruments have been fully phased out, that is, from 1 January 2022 onwards.</p>
50	This item shall reflect the relevant aggregate amount relating to provisions or credit impairments included in Tier 2, calculated in accordance with the relevant requirements specified in regulation 23(22) of these Regulations.
51	This item shall reflect the relevant aggregate amount of items 46 to 48 and item 50.
52	This item shall reflect the relevant aggregate amount relating to investments in own Tier 2 instruments, which amount has to be deducted from Tier 2 in accordance with the relevant requirements specified in regulation 38(5)(a)(iii) of these Regulations.
53	This item shall reflect the relevant aggregate amount relating to reciprocal cross-holdings in Tier 2 instruments, which amount has to be deducted from Tier 2 in accordance with the relevant requirements specified in regulation 38(5)(a)(iii) of these Regulations.
54	This item shall reflect the relevant aggregate amount relating to investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank does not own more than 10 per cent of the issued common share capital of the entity, net of eligible short positions, which amount has to be deducted from Tier 2 in accordance with the relevant requirements specified in regulation 38(5)(a)(iii) of these Regulations.
55	This item shall reflect the relevant aggregate amount relating to significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, which amount has to be deducted from Tier 2 in accordance with the relevant requirements specified in regulation 38(5)(a)(iii) of these Regulations.
56	This item shall reflect the relevant aggregate amount relating to any other regulatory adjustments specified in writing by the Registrar that are required to be applied to Tier 2.
57	This item shall reflect the relevant aggregate amount of items 52 to 56.
58	This item shall reflect the relevant aggregate amount of Tier 2 capital (T2), that is,

Explanation of each relevant line item of the common disclosure template specified in item (B) above	
Line item	Description
	item 51 minus item 57.
59	This item shall reflect the relevant aggregate amount of total capital, that is, item 45 plus item 58.
60	This item shall reflect the relevant aggregate amount of total risk weighted exposure of the relevant reporting entity or group.
61	This item shall reflect Common Equity Tier 1 as a percentage of risk weighted exposure, that is, item 29 divided by item 60, expressed as a percentage.
62	This item shall reflect Tier 1 as a percentage of risk weighted exposure, that is, item 45 divided by item 60, expressed as a percentage.
63	This item shall reflect total capital as a percentage of risk weighted exposure, that is, item 59 divided by item 60, expressed as a percentage.
64	<p>This item-</p> <p>(a) shall reflect the relevant institution specific buffer requirement, that is, the South African base minimum requirement plus the relevant specified capital conservation buffer plus the bank-specific countercyclical buffer requirement, calculated in accordance with the relevant requirements specified in these Regulations read with such further directive as may be issued in writing by the Registrar from time to time, plus the G-SIB buffer requirement, expressed as a percentage of risk weighted exposure;</p> <p>(b) shall be clearly labelled as being different from the relevant Basel III minimum requirements whenever and wherever the relevant requirements applied in respect of this item 64 differ from the relevant specified Basel III minimum requirements.</p> <p>The reporting entity shall in the relevant notes to the template separately disclose the impact of any differences between the relevant Basel III minimum requirements and any requirement applied in respect of this item 64.</p> <p>This item will show the CET1 ratio below which the relevant bank or controlling company will become subject to constraints on distributions, excluding the D-SIB requirement.</p>
65	This item shall reflect the relevant amount included in item 64, expressed as a percentage of risk weighed exposure, that relates to the capital conservation buffer, that is, after the relevant phase-in period banks will report 2.5% here.
66	This item shall reflect the relevant amount included in item 64, expressed as a percentage of risk weighed exposure, that relates to the relevant countercyclical buffer requirement.
67	This item shall reflect the relevant amount included in item 64, expressed as a percentage of risk weighed exposure, that relates to the relevant G-SIB requirement.
68	This item shall reflect the relevant amount of Common Equity Tier 1 available to meet the relevant specified buffers, expressed as a percentage of risk weighted exposure, that is, the CET1 ratio less any common equity used to meet the relevant Tier 1 and Total capital requirements.
69	This item shall reflect the relevant national Common Equity Tier 1 minimum ratio, if different from the relevant Basel III minimum.
70	This item shall reflect the relevant national Tier 1 minimum ratio, if different from the relevant Basel III minimum.
71	This item shall reflect the relevant national total capital minimum ratio, if different from the relevant Basel III minimum.
72	This item shall reflect the relevant aggregate amount relating to non-significant investments in the capital of other financials, the total amount of which is not reported in item 18, item 39 and item 54.
73	This item shall reflect the relevant aggregate amount relating to significant investments in the common stock of financials, the total amount of which is not reported in item 19 and item 23.
74	This item shall reflect the relevant aggregate amount relating to mortgage servicing rights, the total amount of which is not reported in item 20 and item 24.
75	This item shall reflect the relevant aggregate amount relating to deferred tax assets arising from temporary differences, the total amount of which is not reported in item 21 and item 25.

Explanation of each relevant line item of the common disclosure template specified in item (B) above	
Line item	Description
76	This item shall reflect the relevant aggregate amount relating to provisions or credit impairment eligible for inclusion in Tier 2 in respect of exposures subject to the standardised approach, calculated in accordance with the relevant requirements specified in regulation 23(22) of these Regulations, prior to the application of the relevant specified cap.
77	This item shall reflect the relevant aggregate amount relating to the cap on inclusion of provisions or credit impairment in Tier 2 in terms of the standardised approach, calculated in accordance with the relevant requirements specified in regulation 23(22) of these Regulations.
78	This item shall reflect the relevant aggregate amount relating to provisions or credit impairment eligible for inclusion in Tier 2 in respect of exposures subject to the internal ratings-based approach, calculated in accordance with the relevant requirements specified in regulation 23(22) of these Regulations, prior to the application of the relevant specified cap.
79	This item shall reflect the relevant aggregate amount relating to the cap on inclusion of provisions or credit impairment in Tier 2 in terms of the internal ratings-based approach, calculated in accordance with the relevant requirements specified in regulation 23(22) of these Regulations.
80	This item shall reflect the relevant aggregate amount relating to the current cap on CET1 instruments subject to phase out arrangements.
81	This item shall reflect the relevant aggregate amount excluded from CET1 due to the cap, that is, the relevant excess over the cap after any relevant redemptions and maturities.
82	This item shall reflect the relevant aggregate amount relating to the current cap on AT1 instruments subject to phase out arrangements.
83	This item shall reflect the relevant aggregate amount excluded from AT1 due to the cap, that is, the relevant excess over cap after any relevant redemptions and maturities.
84	This item shall reflect the relevant aggregate amount relating to the current cap on T2 instruments subject to phase out arrangements.
85	This item shall reflect the relevant aggregate amount excluded from T2 due to the cap, that is, the relevant excess over cap after any relevant redemptions and maturities.



- (D) this item (D), read with the relevant requirements specified in item (E) below, a bank shall provide a full reconciliation of all relevant regulatory capital elements back to the bank's published financial statements, which reconciliation, as a minimum, shall be done by following the three-step approach specified below:
- (i) firstly the bank shall disclose in a separate column the respective balances reported in the balance sheet contained in the bank's published financial statements as at the end of the relevant disclosure period, provided that-
    - (aa) when the scope of regulatory consolidation and accounting consolidation is identical, the bank may simply state that there is no difference between the regulatory consolidation and the accounting consolidation and move to the next step, that is, move to step two;
    - (bb) as an integral part of the first step, in order to enable all relevant supervisors and market participants to better understand the potential risks posed by unconsolidated subsidiaries, the bank shall disclose a list of the legal entities that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation, and *vice versa*, that is the legal entities that are included in the regulatory scope of consolidation but not included in the accounting scope of consolidation;
    - (cc) when some entities are included in both the regulatory scope of consolidation and accounting scope of consolidation, but the method of consolidation differs, the bank shall-
      - (i) list the legal entities separately and explain the respective differences in the consolidation methods;
      - (ii) in respect of each relevant legal entity also disclose its total balance sheet assets and total balance sheet equity, as stated on the accounting balance sheet of that relevant legal entity, and a description of the principle activities of that entity;
  - (ii) thereafter, that is, as the second step, the bank shall, in a separate column titled "balance sheet under regulatory scope of consolidation", disclose the required components specified in the relevant capital disclosure template, provided that-

- (aa) when the template for regulatory scope of consolidation specifies or contains an item that is not contained in the bank's published financial statements the bank shall add the relevant required line item under the "balance sheet under regulatory scope of consolidation", and report a balance of zero in the column that reflects the balances in the bank's published financial statements;
- (bb) the bank is required to expand only those elements of the balance sheet that are necessary to disclose the relevant components that are used in the composition of capital disclosure template, that is, for example, when all of the paid-in capital of the bank complies with the specified requirements for CET1, the bank would not need to expand that line;
- (cc) in order to facilitate the proper completion of step 3, the bank shall assign to each relevant item or element under the column that deals with "regulatory scope of consolidation" a unique reference number or letter; and
- (iii) thereafter, that is, as the third step, the bank shall map each relevant component referred to in sub-item (ii) above to the composition of capital disclosure template specified in item (A) or item (B) above, as the case may be.

For example, the post 1 January 2018 disclosure template includes the line "goodwill net of related deferred tax liability". Next to the disclosure of this item in the template the bank would be required to capture "a - d" or "a minus d" to show that item 8 of the template has been calculated as the difference between component "a" of the balance sheet under the regulatory scope of consolidation, illustrated in step 2, and component "d";

- (E) this item (E), read with the relevant requirements specified in item (D) above, a bank shall provide a full reconciliation of all relevant regulatory capital elements back to the bank's published financial statements:

Description	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period end	As at period end	
	Step 1	Step 2	
<b>Assets</b>			
<b>Relevant classes/ items</b>			
<i>For example:</i>			
Goodwill and intangible assets			
of which:			
- goodwill			a
- other intangibles (excluding MSRs)			b
- MSRs			c
<b>Liabilities</b>			
<b>Relevant classes/ items</b>			
<i>For example:</i>			
Current and deferred tax liabilities			
of which:			
- DTLs related to goodwill			d
- DTLs related to intangible assets (excluding MSRs)			e
- DTLs related to MSRs			f
<b>Shareholders' Equity</b>			
<b>Relevant classes/ items</b>			
<i>For example:</i>			
Paid-in share capital			
of which:			
- amount eligible for CET1			h
- amount eligible for AT1			i

Extract of common disclosure template (with added column)			<i>For illustration purposes (part of step 3)</i>
<b>Common Equity Tier 1 capital: instruments and reserves</b>		<b>Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2</b>	
1	Directly issued qualifying common equity or share capital plus related stock surplus		h
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b> (total of items 1 to 5)		
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
8	Goodwill, net of related tax liability		a minus d
	Etc.		

- (F) this item (F), read with the relevant requirements or further description specified in item (G) below, a bank shall, as a minimum, provide to the public a description of the main features of all its relevant regulatory capital instruments, provided that the bank shall insert the text “NA” when a particular item or question is not applicable:

Main features of regulatory capital instruments		
1	Issuer	
2	Unique identifier (such as CUSIP, ISIN or Bloomberg identifier for private placement)	
3	Governing law(s) of the instrument	
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules	
5	Post-transitional Basel III rules	
6	Eligible at solo/ group/ group and solo	
7	Instrument type	
8	Amount recognised in regulatory capital (R' million, as of most recent reporting date)	
9	Par value of instrument	
10	Accounting classification	
11	Original date of issuance	
12	Perpetual or dated	
13	Original maturity date	
14	Issuer call subject to prior supervisory approval	
15	Optional call date, contingent call dates and redemption amount	
16	Subsequent call dates, if applicable	
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	
18	Coupon rate and any related index	
19	Existence of a dividend stopper	
20	Fully discretionary, partially discretionary or mandatory	
21	Existence of step up or other incentive to redeem	
22	Noncumulative or cumulative	
23	Convertible or non-convertible	
24	If convertible, conversion trigger (s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down feature	
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of write-up mechanism	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	
36	Non-compliant transitioned features	
37	If yes, specify non-compliant features	

- (G) this item (G), read with the relevant requirements or further descriptions specified in item (F) above, a bank shall, as a minimum, provide to the public a description of the main features of all its relevant regulatory capital instruments:

Explanation or description of main features <sup>1</sup>	
1	Identifies issuer legal entity <i>Free text</i>
2	Unique identifier, such as CUSIP, ISIN or Bloomberg identifier for private placement <i>Free text</i>
3	Specifies the governing law(s) of the instrument <i>Free text</i>
4	Specifies the regulatory capital treatment during the Basel III transitional phase, that is, the component of capital from which the instrument is being phased-out <i>Select from menu:</i> <i>Common Equity Tier 1</i> <i>Additional Tier 1</i> <i>Tier 2</i>
5	Specifies regulatory capital treatment under Basel III rules not taking into account any transitional treatment <i>Select from menu:</i> <i>Common Equity Tier 1</i> <i>Additional Tier 1</i> <i>Tier 2</i> <i>Ineligible</i>
6	Specifies the level(s) within the group at which the instrument is included in capital <i>Select from menu:</i> <i>Solo</i> <i>Group</i> <i>Solo and Group</i>
7	Specifies instrument type <i>Select from menu:</i> <i>Menu options specified in writing by the Registrar<sup>2</sup></i>
8	Specifies amount recognised in regulatory capital <i>Free text</i>
9	Par value of instrument <i>Free text</i>
10	Specifies accounting classification (to assist in the assessment of loss absorbency). <i>Select from menu:</i> <i>Shareholders' equity</i> <i>Liability – amortised cost</i> <i>Liability – fair value option</i> <i>Non-controlling interest in consolidated subsidiary</i>
11	Specifies date of issuance <i>Free text</i>
12	Specifies whether dated or perpetual <i>Select from menu:</i> <i>Perpetual</i> <i>Dated</i>
13	In the case of- dated instrument, specifies original maturity date (day, month and year); perpetual instrument, state "no maturity". <i>Free text</i>
14	Specifies whether there is an issuer call option (to assist in the assessment of permanence). <i>Select from menu:</i> <i>Yes</i> <i>No</i>
15	For instrument with issuer call option, specifies first date of call if the instrument has a call option on a specific date (day, month and year) and, in addition, specifies if the instrument has a tax and/or regulatory event call. Also specifies the redemption price. (To assist in the assessment of permanence). <i>Free text</i>
16	Specifies the existence and frequency of subsequent call dates, if applicable (to assist in

Explanation or description of main features <sup>1</sup>	
	the assessment of permanence). <i>Free text</i>
17	Specifies whether the coupon/dividend is fixed over the life of the instrument, floating over the life of the instrument, currently fixed but will move to a floating rate in the future, currently floating but will move to a fixed rate in the future. <i>Select from menu:</i> <i>Fixed</i> <i>Floating</i> <i>Fixed to floating</i> <i>Floating to fixed</i>
18	Specifies the coupon rate of the instrument and any related index that the coupon/dividend rate references. <i>Free text</i>
19	Specifies whether the non-payment of a coupon or dividend on the instrument prohibits the payment of dividends on common or ordinary shares, that is, whether or not a dividend-stop provision is in place. <i>Select from menu:</i> <i>Yes</i> <i>No</i>
20	Specifies whether the issuer has full discretion, partial discretion or no discretion over whether a coupon/dividend is paid. If the bank has full discretion to cancel coupon/dividend payments under all circumstances the bank shall select "fully discretionary", including when there is a dividend stopper that does not have the effect of preventing the bank from cancelling payments on the instrument. If there are conditions that must be met before payment can be cancelled, such as qualifying capital below a specified threshold, the bank shall select "partially discretionary". If the bank is unable to cancel the payment outside of insolvency the bank shall select "mandatory". <i>Select from menu:</i> <i>Fully discretionary</i> <i>Partially discretionary</i> <i>Mandatory</i>
21	Specifies whether there is a step-up clause or other incentive to redeem. <i>Select from menu:</i> <i>Yes</i> <i>No</i>
22	Specifies whether dividends / coupons are cumulative or noncumulative. <i>Select from menu:</i> <i>Noncumulative</i> <i>Cumulative</i>
23	Specifies whether instrument is convertible or not (to assist in the assessment of loss absorbency). <i>Select from menu:</i> <i>Convertible</i> <i>Nonconvertible</i>
24	Specifies the conditions under which the instrument will convert, including point of non-viability. When one or more authorities have the ability to trigger conversion, the authorities shall be listed. For each of the authorities, state whether it is the terms of the contract of the instrument that provide the legal basis for the authority to trigger conversion, that is, a contractual approach, or whether the legal basis is provided by statutory means, that is, a statutory approach. <i>Free text</i>
25	For conversion trigger separately, specifies whether the instrument will: (i) always convert fully; (ii) may convert fully or partially; or (iii) will always convert partially <i>Free text referencing one of the options above</i>
26	Specifies rate of conversion into the more loss absorbent instrument (to assist in the assessment of the degree of loss absorbency). <i>Free text</i>
27	For convertible instruments, specifies whether conversion is mandatory or optional (to assist in the assessment of loss absorbency). <i>Select from menu:</i> <i>Mandatory</i> <i>Optional</i> <i>NA</i>
28	For convertible instruments, specifies instrument type convertible into (to assist in the

Explanation or description of main features <sup>1</sup>	
	assessment of loss absorbency). <i>Select from menu:</i> <i>Common Equity Tier 1 (CET1)</i> <i>Additional Tier 1</i> <i>Tier 2</i> <i>Other</i>
29	If convertible, specify issuer of instrument into which it converts. <i>Free text</i>
30	Specifies whether there is a write down feature (to assist in the assessment of loss absorbency). <i>Select from menu:</i> <i>Yes</i> <i>No</i>
31	Specifies the trigger at which write-down occurs, including point of non-viability. When one or more authorities have the ability to trigger write-down, the authorities shall be listed. For each of the authorities, state whether it is the terms of the contract of the instrument that provide the legal basis for the authority to trigger write-down, that is, a contractual approach, or whether the legal basis is provided by statutory means, that is, a statutory approach. <i>Free text</i>
32	For each write-down trigger separately, specifies whether the instrument will: (i) always be written down fully; (ii) may be written down partially; or (iii) will always be written down partially. (To assist in the assessment of the level of loss absorbency at write-down). <i>Free text referencing one of the options above</i>
33	For write down instrument, specifies whether write down is permanent or temporary (to assist in the assessment of loss absorbency). <i>Select from menu:</i> <i>Permanent</i> <i>Temporary</i> <i>NA</i>
34	For instrument that has a temporary write-down, description of write-up mechanism. <i>Free text</i>
35	Specifies instrument to which it is most immediately subordinate (to assist in the assessment of loss absorbency on gone-concern basis). Where applicable, banks shall specify the column numbers of the instruments in the completed main features template to which the instrument is most immediately subordinate. <i>Free text</i>
36	Specifies whether there are non-compliant features. <i>Select from menu:</i> <i>Yes</i> <i>No</i>
37	In the case of non-compliant features, the bank shall specify such non-compliant features (to assist in the assessment of instrument loss absorbency). <i>Free text</i>

**Notes:**

1. This template is available in spreadsheet format. In all relevant specified cases, a bank shall select the relevant option from the relevant drop down menu provided in the aforesaid template.
2. Or the relevant supervisory authority.

## (ii) capital adequacy

A bank shall in respect of the required-

- (A) qualitative information, disclose to the public sufficiently detailed information in respect of the bank's approach to assess the adequacy of the bank's capital in order to support the bank's current and future activities;
- (B) quantitative information, disclose to the public such additional information as may be specified in writing by the Registrar;

## (iii) capital structure

Without derogating from the relevant requirements specified in subregulation (2)(c)(i) above, a bank shall in respect of the required-

- (A) qualitative information, disclose to the public sufficiently detailed information relating to-
  - (i) the main features, terms and conditions of all relevant capital instruments issued by the bank, particularly in respect of innovative, complex or hybrid capital instruments, in accordance with the relevant requirements specified in subregulation (2)(c)(i) above;
  - (ii) all limits and minima, identifying the positive and negative elements of capital to which such limits and minima apply;
- (B) quantitative information, disclose to the public -
  - (i) the amount relating to common equity tier 1 capital and reserve funds;
  - (ii) the amount relating to additional tier 1 capital and reserve funds;
  - (iii) the relevant amounts relating to tier 2 capital;
  - (iv) the relevant amount relating to total qualifying capital and reserve funds;
  - (v) a full reconciliation between all instruments and reserves qualifying as capital and reserve funds in terms of the provisions of these Regulations and the balance sheet in the audited financial statements, in accordance with the relevant requirements specified in subregulation (2)(c)(i) above;

## (iv) leverage

Based on the relevant requirements specified in-

- (A) this item (A), a bank shall disclose to the public a reconciliation between the bank's assets reflected in the bank's published financial statements and its leverage ratio exposure measure, as set out below:



<b>Reconciliation between accounting assets and leverage ratio exposure measure</b>	<b>Line item</b>	<b>Total</b>
Total consolidated assets as per published financial statements	1	
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but are outside the scope of regulatory consolidation	2	
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	3	
Adjustments for derivative financial instruments	4	
Adjustment for securities financing transactions, that is, repos and similar secured lending	5	
Adjustment for off-balance sheet items, that is, conversion to credit equivalent amounts of off-balance sheet exposures	6	
Other adjustments	7	
Leverage ratio exposure measure	8	

- (B) this item (B), read with the relevant further directives, clarifications and instructions specified in item (C) below, a bank shall, based on the leverage ratio common disclosure template set out below, disclose to the public the relevant specified information:

<b>Leverage ratio common disclosure template</b>	<b>Line item</b>	<b>Total</b>
<b>On-balance sheet exposures<sup>1</sup></b>		
On-balance sheet items, excluding derivatives and SFTs, but including collateral	1	
Asset amounts deducted in determining tier 1 capital <sup>7</sup>	2	
Total on-balance sheet exposures, excluding derivatives and SFTs (total of items 1 and 2)	3	
<b>Derivative exposures<sup>2</sup></b>		
Replacement cost associated with all derivatives transactions, net of eligible cash variation margin	4	
Add-on amounts for PFE associated with all derivatives transactions	5	
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	6	
Deductions of receivables assets for cash variation margin provided in derivatives transactions <sup>7</sup>	7	
Exempted CCP leg of client-cleared trade exposures <sup>7</sup>	8	
Adjusted effective notional amount of written credit derivatives	9	
Adjusted effective notional offsets and add-on deductions for written credit derivatives <sup>7</sup>	10	
Total derivative exposures (total of items 4 to 10)	11	

<b>Leverage ratio common disclosure template</b>	<b>Line item</b>	<b>Total</b>
<b>Securities financing transaction exposures<sup>3</sup></b>		
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	12	
Netted amounts of cash payables and cash receivables of gross SFT assets <sup>7</sup>	13	
CCR exposure for SFT assets	14	
Agent transaction exposures	15	
Total securities financing transaction exposures (total of items 12 to 15)	16	
<b>Other off-balance sheet exposures<sup>4</sup></b>		
Off-balance sheet exposure at gross notional amount	17	
Adjustments for conversion to credit equivalent amounts <sup>7</sup>	18	
Off-balance sheet items (total of items 17 and 18)	19	
<b>Capital and total exposures</b>		
Tier 1 capital <sup>5</sup>	20	
Total exposures (total of items 3, 11, 16 and 19)	21	
<b>Leverage ratio<sup>6</sup></b>		<b>Ratio</b>
Leverage ratio (expressed as a percentage)	22	

1. Refer to regulation 38(15)(e)(iv)(A).
2. Refer to regulation 38(15)(e)(iv)(B).
3. Refer to regulation 38(15)(e)(iv)(C).
4. Refer to regulation 38(15)(e)(iv)(D).
5. Refer to regulation 38(15)(d).
6. Refer to regulation 38(15)(c).
7. Report as negative amounts or reductions.

- (C) this item (C), read with the relevant requirements specified in item (B) above, a bank shall disclose to the public the relevant information specified in item (B) above:

<b>Item number</b>	<b>Further explanation of common disclosure template</b>
1	This item shall reflect the relevant aggregate amount of on-balance sheet assets, determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(A) of these Regulations.
2	This item shall reflect the relevant aggregate amount of deductions from tier 1 capital, determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(A) of these Regulations, and excluded from the leverage ratio exposure measure, which aggregate amount shall be reported in the common disclosure template as a negative amount.
3	This item shall reflect the relevant aggregate amount of item 1 and item 2.
4	This item shall reflect the relevant aggregate amount of replacement cost (RC) associated with all derivatives transactions, including exposures resulting from transactions with guaranteed performance of clients described in regulation 38(15)(e)(iv)(B) of these Regulations, net of cash variation margin received and with, where applicable, bilateral netting as envisaged in regulation 38(15)(e)(iv)(B) of these Regulations,
5	This item shall reflect the relevant aggregate add-on amount for all

Item number	Further explanation of common disclosure template
	derivative exposures determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(B) of these Regulations,
6	This item shall reflect the relevant aggregate grossed-up amount for collateral provided, determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(B) of these Regulations,
7	This item shall reflect the relevant aggregate amount of deductions of receivables assets from cash variation margin provided in derivatives transactions determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(B) of these Regulations, which aggregate amount shall be reported in the common disclosure template as a negative amount.
8	This item shall reflect the relevant aggregate amount of exempted trade exposures associated with the CCP leg of derivatives transactions resulting from client-cleared transactions determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(B) of these Regulations, which aggregate amount shall be reported in the common disclosure template as a negative amount.
9	This item shall reflect the relevant adjusted effective notional amount, that is, the effective notional amount reduced by any relevant negative change in fair value, for written credit derivatives, determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(B) of these Regulations.
10	This item shall reflect the relevant amount of adjusted effective notional offsets of written credit derivatives determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(B) of these Regulations, and deducted add-on amounts relating to written credit derivatives determined in accordance with the relevant requirements specified in the said regulation 38(15)(e)(iv)(B) of these Regulations, which aggregate amount shall be reported in the common disclosure template as a negative amount.
11	This item shall reflect the relevant aggregate amount of items 4 to 10.
12	This item shall reflect the relevant aggregate amount related to gross SFT assets with no recognition of any netting other than novation with QCCPs determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(C) of these Regulations, removing specified securities received as determined in accordance with the relevant requirements specified in the said regulation 38(15)(e)(iv)(C) of these Regulations, and adjusting for any sales accounting transactions determined in accordance with the relevant requirements specified in the aforesaid regulation 38(15)(e)(iv)(C) of these Regulations.
13	This item shall reflect the relevant aggregate amount related to cash payables and cash receivables of gross SFT assets netted in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(C) of these Regulations, which aggregate amount shall be reported in the common disclosure template as a negative amount.
14	This item shall reflect the relevant measure of counterparty credit risk for SFTs determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(C) of these

Item number	Further explanation of common disclosure template
	Regulations.
15	This item shall reflect the relevant agent transaction exposure amount determined in accordance with the relevant requirements specified in regulation 38(15)(e)(iv)(C) of these Regulations.
16	This item shall reflect the relevant aggregate amount of items 12 to 15.
17	This item shall reflect the relevant total off-balance sheet exposure amounts on a gross notional basis, before any adjustment for credit conversion factors as envisaged in regulation 38(15)(e)(iv)(D) of these Regulations.
18	This item shall reflect the relevant reduction in the gross amount of off-balance sheet exposures due to the application of credit conversion factors specified in regulation 38(15)(e)(iv)(D) of these Regulations.
19	This item shall reflect the relevant aggregate amount of item 17 and item 18.
20	This item shall reflect the relevant aggregate amount of tier 1 capital determined in accordance with the relevant requirements specified in regulation 38(15)(d) of these Regulations.
21	This item shall reflect the relevant aggregate amount of items 3, 11, 16 and 19.
22	This item shall reflect the relevant leverage ratio determined in accordance with the relevant requirements specified in regulation 38(15)(c) of these Regulations.

(v) liquidity position, including-

(A) the Liquidity Coverage Ratio (LCR)

Based on the relevant requirements specified in-

- (i) this sub-item (i), read with the further directives or requirements set out in sub-item (ii) below, a bank shall, as a minimum, in the relevant specified format, disclose to the public the quantitative information specified below:

<b>LCR</b> <i>(In local currency)</i>		<b>Total unweighted value<sup>1</sup> (average)<sup>6</sup></b>	<b>Total weighted value<sup>2; 3</sup> (average)<sup>6</sup></b>
<b>HIGH-QUALITY LIQUID ASSETS</b>			
1	Total high-quality liquid assets (HQLA)		
<b>CASH OUTFLOWS:</b>			
	Retail deposits and deposits		
2	from small business customers		
	of which:		
3	<i>Stable deposits</i>		
4	<i>Less stable deposits</i>		
5	Unsecured wholesale funding		
	of which:		
6	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>		
7	<i>Non-operational deposits (all counterparties)</i>		
8	<i>Unsecured debt</i>		
9	Secured wholesale funding		
10	Additional requirements		
	of which:		
11	<i>Outflows related to derivative exposures and other collateral requirements</i>		
12	<i>Outflows related to loss of funding on debt products</i>		
13	<i>Credit and liquidity facilities</i>		
14	Other contractual funding obligations		
15	Other contingent funding obligations		
16	<b>TOTAL CASH OUTFLOWS</b>		
<b>CASH INFLOWS:</b>			
17	Secured lending (eg reverse repos)		
18	Inflows from fully performing exposures		
19	Other cash inflows		
20	<b>TOTAL CASH INFLOWS</b>		
			<b>Total adjusted value<sup>4; 5</sup></b>
21	<b>TOTAL HQLA<sup>4</sup></b>		
22	<b>TOTAL NET CASH OUTFLOWS<sup>5</sup></b>		
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		

**Notes:**

- The unweighted value of inflows and outflows shall be calculated as the relevant outstanding balances of the various specified categories or types of liabilities, off-balance sheet items or contractual receivables that mature or are callable within the relevant specified 30-day period.
- The weighted value for inflows and outflows shall be calculated as the value after the application of the relevant inflow and outflow rates or factors.
- The weighted value of HQLA shall be calculated as the relevant value after the application of the relevant required haircuts, but prior to the application of any relevant caps on level 2 assets and on level 2B assets.
- In the case of HQLA, adjusted value means the value of total HQLA after the application of any relevant haircuts and any relevant caps on level 2 and on level 2B assets.
- In the case of net cash outflows, adjusted value means the relevant amount after the application of the relevant inflow and outflow rates or factors and any cap on inflows, when relevant.
- Refer to regulation 43(1)(e)(ii)(E)(iii) of these Regulations.

- (ii) this sub-item (ii), read with the relevant requirements specified in sub-item (i) above, a bank shall, in the aforesaid specified format, disclose to the public the relevant specified quantitative information:

Item number	Description
1	<p>This item shall reflect the relevant aggregate amount relating to all eligible high-quality liquid assets (HQLA), as defined in the Act and these Regulations, before the application of any relevant limits, which aggregate amount-</p> <p>(a) shall include, where applicable, any relevant aggregate amount relating to assets qualifying under alternative liquidity approaches specified in writing by the Registrar;</p> <p>(b) shall exclude any amount related to assets that do not comply with the relevant specified operational requirements.</p>
2	<p>This item, which relates to retail deposits and deposits from small business customers, shall reflect the relevant aggregate amount relating to stable deposits, less stable deposits and any other relevant funding sourced from-</p> <p>(a) natural persons; and/or</p> <p>(b) small business customers as defined in these Regulations or specified in writing by the Registrar.</p>
3	<p>This item shall reflect the relevant aggregate amount relating to stable deposits, including deposits placed with the bank by a natural person and unsecured wholesale funding provided by small business customers defined as "stable" in terms of these Regulations.</p>
4	<p>This item shall reflect the relevant aggregate amount relating to less stable deposits, including deposits placed with the bank by a natural person and unsecured wholesale funding provided by small business customers not defined as "stable" in terms of these Regulations.</p>
5	<p>This item shall reflect the relevant aggregate amount relating to unsecured wholesale funding, that is, the relevant aggregate amount relating to those liabilities and general obligations from customers other than natural persons and small business customers that are not collateralised.</p>
6	<p>This item shall reflect the relevant aggregate amount relating to-</p> <p>(a) operational deposits, including deposits from bank clients with a substantive dependency on the bank where deposits are required for specified activities, such as clearing, custody or cash management activities; and</p> <p>(b) deposits in institutional networks of cooperative</p>

Item number	Description
	banks, which include deposits of member institutions with the central institution or specialised central service providers.
7	This item shall reflect the relevant aggregate amount relating to non-operational deposits, that is, the relevant aggregate amount relating to all other relevant unsecured wholesale deposits, both insured and uninsured.
8	This item shall reflect the relevant aggregate amount relating to unsecured debt, including amounts related to all relevant notes, bonds and other debt securities issued by the bank, regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts.
9	This item shall reflect the relevant aggregate amount relating to secured wholesale funding, that is, the relevant aggregate amount relating to all collateralised liabilities and general obligations.
10	This item shall reflect the relevant aggregate amount relating to any relevant additional requirements, such as other off-balance sheet liabilities or obligations.
11	<p>This item shall reflect the relevant aggregate amount relating to any outflows related to derivative exposures and other relevant collateral requirements, including-</p> <ul style="list-style-type: none"> <li>(a) expected contractual derivative cash flows, on a net basis;</li> <li>(b) increased liquidity needs related to: <ul style="list-style-type: none"> <li>(i) downgrade triggers embedded in financing transactions, derivative and other contracts;</li> <li>(ii) the potential for valuation changes on posted collateral securing derivatives and other transactions;</li> <li>(iii) excess non-segregated collateral held at the bank that could contractually be called at any time;</li> <li>(iv) contractually required collateral on transactions for which the counterparty has not yet demanded that the collateral be posted;</li> <li>(v) contracts that allow collateral substitution to non-HQLA assets; and</li> <li>(vi) market valuation changes on derivatives or other transactions.</li> </ul> </li> </ul>
12	<p>This item shall reflect the relevant aggregate amount relating to any outflow related to loss of funding in respect of secured debt products, including a loss of funding in respect of-</p> <ul style="list-style-type: none"> <li>(a) asset-backed securities, covered bonds and other structured financing instruments; and</li> </ul>

Item number	Description
	(b) asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities.
13	This item shall reflect the relevant aggregate amount relating to all relevant credit and liquidity facilities, including drawdowns on committed, that is, contractually irrevocable, or conditionally revocable credit and liquidity facilities, provided that the bank shall calculate the currently undrawn portion of the said facilities net of any eligible HQLA when the HQLA have already been posted as collateral to secure the facilities or are contractually obliged to be posted when the counterparty draws down the facility.
14	This item shall reflect the relevant aggregate amount relating to all other contractual funding obligations, including contractual obligations to extend funds within a 30-day period, and all other relevant contractual cash outflows not captured elsewhere.
15	This item shall reflect the relevant aggregate amount relating to all other relevant contingent funding obligations, as defined or specified in regulation 26(12) of these Regulations.
16	This item shall reflect the relevant aggregate amount relating to all outflows included in items 2 to 15 above.
17	This item shall reflect the aggregate amount relating to all relevant secured lending transactions, including the aggregate amount relating to all relevant maturing reverse repurchase, resale and securities borrowing agreements.
18	This item shall reflect the relevant aggregate amount relating to all inflows from fully performing exposures, including both secured and unsecured loans or other payments that are fully performing and contractually due within 30 calendar days, from retail and small business customers, other wholesale customers, operational deposits and deposits held at the centralised institution in a cooperative banking network.
19	This item shall reflect the aggregate amount relating to all other relevant cash inflows, including the aggregate amount relating to derivatives cash inflows and all other relevant contractual cash inflows.
20	This item shall reflect the relevant aggregate amount relating to all inflows included in items 17 to 19.
21	This item shall reflect the relevant aggregate amount relating to the bank's total portfolio of HQLA, after the application of any relevant cap on Level 2 and Level 2B assets.
22	This item shall reflect the relevant aggregate amount relating to the bank's total net cash outflows, after the application of any relevant cap on cash inflows.
23	This item shall reflect the bank's relevant Liquidity Coverage Ratio, after the application of any relevant cap on Level 2 and Level 2B assets and any relevant cap on cash inflows.



## (B) the Net Stable Funding Ratio (NSFR)

## (d) Types of risk to which the bank is exposed

In respect of each type of risk envisaged in regulation 39(3), that is, for example, credit risk, market risk, operational risk, interest-rate risk in the bank's banking book or currency risk, a bank shall disclose sufficiently detailed information in respect of the bank's risk-management objectives and policies, including information in respect of-

- (i) the bank's strategies and processes;
- (ii) the structure and organisation of the relevant risk management functions;
- (iii) the scope and nature of the bank's risk reporting and/or risk-measurement systems;
- (iv) the bank's policies relating to hedging and/or risk mitigation and the bank's strategies and processes in order to monitor the continued effectiveness of hedges or risk-mitigation instruments.

## (e) Nature and extent of risk exposures, including-

- (i) credit risk;
- (ii) market risk;
- (iii) liquidity risk;
- (iv) interest-rate risk;
- (v) operational risk;
- (vi) securitisation or resecuritisation;
- (vii) other material risks to which the bank is exposed;

## (f) Remuneration

With regards to a bank's remuneration policies, processes and procedures, a bank shall disclose to the public sufficiently detailed qualitative and quantitative information-

- (i) in respect of-
  - (A) the bank's relevant governance and/or committee structures;
  - (B) the design and operation of the bank's remuneration structure, and the frequency of review;
  - (C) the independence of remuneration for risk and compliance staff;

- (D) the relevant risk adjustment methodologies;
  - (E) the link between remuneration and performance;
  - (F) the relevant long-term performance measures, such as deferral, malus or clawback;
  - (G) the relevant types of remuneration, such as cash versus equity, and fixed versus variable;
- (ii) which qualitative information, as a minimum, shall include-
- (A) information relating to the relevant bodies that oversee the bank's remuneration, including-
    - (i) the relevant name, composition and mandate of the main body overseeing remuneration;
    - (ii) external consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process;
    - (iii) a description of the scope of the bank's remuneration policy, for example, by regions and business lines, including the extent to which it is applicable to foreign subsidiaries and branches;
    - (iv) a description of the types of employees considered as material risk takers and as senior managers, including the number of employees in each relevant group;
  - (B) information relating to the design and structure of the bank's remuneration processes, including
    - (i) an overview of the key features and objectives of the bank's remuneration policy;
    - (ii) whether the remuneration committee reviewed the bank's remuneration policy during the past year, and if so, an overview of any material changes that were made;
    - (iii) a discussion of how the bank ensures that risk and compliance employees are remunerated independently of the relevant businesses they oversee;

- (C) a description of the ways in which current and future risks are taken into account in the bank's remuneration processes, including-
  - (i) an overview of the key risks that the bank takes into account when implementing remuneration measures;
  - (ii) an overview of the nature and type of the key measures used to take account of the said risks, including risks difficult to measure;
  - (iii) a discussion of the ways in which the said measures affect remuneration;
  - (iv) a discussion of how the nature and type of the said measures has changed over the past year and reasons for the change, as well as the impact of changes on remuneration;
- (D) a description of the manner in which the bank seeks to link performance during a performance measurement period with levels of remuneration, including-
  - (i) an overview of main performance metrics for bank, top-level business lines and individuals;
  - (ii) a discussion of how amounts of individual remuneration are linked to bank-wide and individual performance;
  - (iii) a discussion of the measures the bank in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics;
- (E) a description of the manner in which the bank seeks to adjust remuneration to take account of longer-term performance, including-
  - (i) a discussion of the bank's policy on deferral and vesting of variable remuneration, and when the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance;
  - (ii) a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and, when relevant, after vesting through, for example, clawback arrangements;

- (F) a description of the different forms of variable remuneration that the bank utilises, and the rationale for using such different forms of variable remuneration, including-
  - (i) an overview of the respective forms of variable remuneration offered, that is, for example, cash, shares and share-linked instruments, or other forms, with a sufficiently detailed description of the core elements of such other forms;
  - (ii) a discussion of the use of the different forms of variable remuneration and, when the mix of different forms of variable remuneration differs across employees or groups of employees, a description of the factors that determine the mix and their relative importance;
- (iii) which quantitative information shall relate to and separate between the bank's senior management and other employees whose actions may have a material impact on the bank's exposure to risk, and, as a minimum, shall include-
  - (A) the relevant number of-
    - (i) meetings held by the main body overseeing remuneration during the financial year, and the remuneration paid to its members;
    - (ii) employees who received a variable remuneration award during the financial year;
  - (B) the relevant number of and total amount related to-
    - (i) guaranteed bonuses awarded during the financial year;
    - (ii) sign-on awards made during the financial year;
    - (iii) severance payments made during the financial year;
  - (C) the relevant total amount of-
    - (i) outstanding deferred remuneration, duly distinguishing between cash, shares and share-linked instruments, and other forms of deferred remuneration;
    - (ii) deferred remuneration paid out in the financial year;

- (D) a breakdown of the amount of remuneration awards for the financial year, clearly separating between-
- (i) fixed and variable remuneration;
  - (ii) deferred and non-deferred remuneration; and
  - (iii) the different forms of remuneration used, that is, cash, shares and share-linked instruments, and other forms of remuneration,

as indicated in table 1 below:

**Table 1**

<b>Total amount of remuneration for the financial year</b>	<b>Unrestricted</b>	<b>Deferred</b>
<b>Fixed remuneration</b>		
<i>of which:</i>		
Cash-based	x	x
Shares and share-linked instruments	x	x
Other	x	x
<b>Variable remuneration</b>		
<i>of which:</i>		
Cash-based	x	x
Shares and share-linked instruments	x	x
Other	x	x

- (E) sufficiently detailed information related to employees' exposure to implicit adjustments, that is, for example, fluctuations in the value of shares or performance units, and explicit adjustments, that is, for example, malus, clawbacks or similar reversals or downward revaluations of awards, of deferred remuneration and retained remuneration, clearly indicating the relevant total amount of-
- (i) outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments;
  - (ii) reductions during the financial year due to ex post explicit adjustments; and
  - (iii) reductions during the financial year due to ex post implicit adjustments,

Provided that in all relevant cases the bank shall also disclose to the public the relevant comparative quantitative information for the previous year.

- (g) To the extent not already covered by the information required to be disclosed in terms of the provisions of paragraphs (a) to (f) above, an overview of the key aspects relating to-
- (i) the organisational structure relevant to risk management and control, including relevant risk-management strategies, policies and practices;
  - (ii) the methods used to measure and manage risks;
  - (iii) the principal accounting policies and procedures relevant to the interpretation of the bank's risk exposures; and
  - (iv) basic business, management and corporate governance information;
  - (v) the bank's compensation or remuneration policies, processes and procedures, including sufficiently detailed information related to-
    - (A) the decision-making process used to determine the bank's compensation policy;
    - (B) the most important design characteristics of the compensation system, including-
      - (i) criteria used for performance measurement and risk adjustment;
      - (ii) relevant matters related to the bank's deferral policy and vesting criteria;
      - (iii) the parameters used for allocating cash versus other forms of compensation;
  - (vi) the manner in which the bank treats insurance entities when the bank calculates its required capital and reserve funds.

(3) Subject to such conditions as may be specified in writing by the Registrar, when a bank is controlled by-

- (a) a controlling company;
- (b) another bank; or
- (c) an institution which has been approved by the Registrar and which conducts business similar to the business of a bank in a country other than the Republic,

the requirements specified in subregulations (1) and (2) shall apply to such controlling company, bank or institution, as the case may be, on a consolidated basis, instead of to such bank that is so controlled, provided that control for the purposes of this subregulation (3) means control as defined in section 42(2) of the Act.

#### **44. Annual financial statements**

(1) Unless deviation is specifically authorised by the Act or the Registrar, the annual financial statements of a bank or controlling company shall be compiled in accordance with Financial Reporting Standards issued from time to time, with additional disclosure when required, provided that in the absence of a specific Financial Reporting Standard and an approved interpretation reference shall be made to the relevant pronouncements of the International Accounting Standards Board.

(2) When the Act or the Registrar authorises a deviation as envisaged in subregulation (1), the said bank or controlling company shall in writing inform its auditors of such authorisation.

(3) Annual financial statements in respect of all subsidiary companies of a bank or controlling company shall be held available by such a bank or controlling company for submission to the Registrar when required by the Registrar, and the information reported on the respective BA returns shall *inter alia* reflect such financial statements.

(4) When relevant, interim reports of a bank or controlling company shall be prepared in accordance with relevant Financial Reporting Standards issued from time to time in respect of interim reports, with additional disclosure when required, provided that-

- (a) in the absence of a specific Financial Reporting Standard on interim reports in South Africa and an approved interpretation reference shall be made to the relevant pronouncements of the International Accounting Standards Board;
- (b) the said interim reports shall be submitted to the Registrar as soon as they become available.

#### **45. Consolidated financial statements**

(1) A bank or in the case of a group of banks the relevant controlling company shall within 120 days of the end of the financial year of such bank or controlling company, as the case may be, furnish the Registrar with consolidated annual financial statements, as prescribed in subregulations (2) and (3), whether or not such bank or controlling company in the preparation of its annual financial statements avails itself of any exemption granted under section 15A(1) of the Companies Act, 1973, or in terms of any relevant provision contained in the Companies Act, 2008, as amended from time to time.

(2) The consolidated annual financial statements referred to in subregulation (1) shall duly present the state of affairs and the results of operations in respect of the banking business and all other business activities conducted by-

- (a) the reporting bank and all its subsidiaries, or the reporting controlling company and all its subsidiaries, as the case may be;

- (b) when applicable, the following associates of such reporting bank and its subsidiaries or of such reporting controlling company and its subsidiaries, as the case may be:
  - (i) a company or other incorporated business undertaking in respect of the issued share capital of which the reporting bank and its subsidiaries or the reporting controlling company and its subsidiaries jointly hold more than 20 per cent but not more than 50 per cent;
  - (ii) a trust or other unincorporated business undertaking in which the reporting bank and its subsidiaries or the reporting controlling company and its subsidiaries jointly hold an interest of more than 20 per cent, whether as beneficiary or ultimate beneficiary in the case of a trust, or as a partner in the case where such other unincorporated business undertaking is a partnership; and
- (c) associates referred to in paragraph (b), the business activities and financial affairs of which the reporting bank and its subsidiaries or the reporting controlling company and its subsidiaries are able to materially influence.

(3) The consolidated annual financial statements shall be prepared in accordance with Financial Reporting Standards issued from time to time, with additional disclosure when required, provided that in the absence of a specific Financial Reporting Standard in South Africa and an approved interpretation reference shall be made to the relevant pronouncements of the International Accounting Standards Board, and shall reflect rand amounts in units of thousands.

#### **46. Audit reports**

(1) The auditor of a bank shall annually, within 120 days of the financial year-end of the reporting bank, in addition to any report that a bank is statutorily required to obtain from the auditor, report on the bank's financial position and the results of its operations, as reflected in the returns specified in subregulation (6) that were submitted to the Registrar as at the financial year-end of the reporting bank.

(2) Notwithstanding the provision of subregulation (1), the auditor shall also report whether, in the auditor's opinion, the information contained-

- (a) in the returns at year-end in all material respects-
  - (i) reasonably reflects the information of the management accounts;
  - (ii) is complete in so far as all relevant information contained in the accounting and other records at the reporting date has been extracted therefrom and recorded in the returns;



- (iii) is accurate in so far as it correctly reflects the information contained in, and extracted from, the accounting and other records at the reporting date;
    - (iv) is prepared using the same accounting policies as those applied in the management and statutory accounts; and
    - (v) is prepared in accordance with the directives and instructions of the Act and the Regulations.
  - (b) in the returns other than at year-end in all material respects-
    - (i) reasonably reflects the information of the management accounts;
    - (ii) is prepared using the same accounting policies as those applied in the management and statutory accounts; and
    - (iii) is prepared in accordance with the directives and instructions of the Act and the Regulations.
- (3) Notwithstanding the provision of subregulation (2), the auditor shall annually report to the Registrar on any significant weaknesses in the system of internal controls relating to-
- (a) financial regulatory reporting; and
  - (b) compliance with the Act and the Regulations,
- that came to the auditor's attention while performing the necessary auditing procedures to enable the auditor to furnish the reports required under subregulation (2), within 120 days of the financial year-end of the reporting bank.
- (4) Notwithstanding the provisions of subregulations (1), (2) and (3), the auditor shall annually, within 120 days of the financial year-end of the reporting bank, report to the Registrar on any significant weaknesses in the system of internal controls that came to the auditor's attention while performing the necessary auditing procedures as regards the policies, practices and procedures of the bank relating to-
- (a) the granting of loans;
  - (b) the making of investments;
  - (c) the ongoing management of the loan and investment portfolios; and
  - (d) the relevant credit impairments or loan loss provisions and reserves.
- (5) In the case of amendments having been effected by a reporting bank to returns submitted by it during the course of the financial year, the auditor shall, when required to do so in terms of a written request addressed by the Registrar to both the reporting bank and the auditor, in writing confirm that the auditor has verified such of the amendments as have been specified by the Registrar in the said written request.

(6) The audit reports contemplated in this regulation 46 shall be rendered in accordance with the wording and practices agreed from time to time between the Registrar, the South African Institute of Chartered Accountants and the Independent Regulatory Board for Auditors, and shall be in respect of the forms BA 100, BA 110, BA 120, BA 125, BA 130, BA 200, BA 210, BA 220, BA 300, BA 310, BA 320, BA 325, BA 330, BA 340, BA 350, BA 400, BA 410, BA 500, BA 600, BA 610 and BA 700 submitted in respect of the reporting bank's and bank controlling company's banking and other relevant operations in the Republic and elsewhere in the world.

(7) Form BA 900 shall be reconcilable with the form BA 100, and the auditor shall within 120 days of the financial year-end of the reporting bank furnish the Registrar with a written report in which it is stated whether or not all forms BA 100 and BA 900 submitted by the reporting bank during the financial year under review were in fact reconcilable with each other.

(8) Notwithstanding the provisions of subregulations (1) to (7) above, the auditor shall annually, within 120 days of the financial year-end of the reporting bank, report to the Registrar whether there were any instances of non-compliance with the requirements specified in regulations 27(6), 42(1)(a) or 42(1)(b) of these Regulations.

(9) For the purposes of the performance of the auditor's duties in terms of this regulation, the auditor-

- (a) shall hold preliminary discussions with the Registrar prior to the commencement of the said audit; and
- (b) shall obtain from the Registrar, free of charge, copies of the relevant returns submitted to the Registrar by the reporting bank or controlling company during the financial year under review.

#### **47. Reportable offences**

(1) The Registrar may, after consultation with the Minister, by notice in the *Gazette*, declare a specified activity or event as a reportable offence.

(2) A bank shall report an offence specified in subregulation (3), or specified in the *Gazette*, as contemplated in subregulation (1), in writing to the Registrar within 30 days after the bank became aware of the said reportable offence.

(3) A reportable offence includes-

- (a) a breach of the fiduciary duty of a member of the board of directors, an employee in charge of a risk-management function or an executive officer;
- (b) market abuse or financial fraud within the bank that results in or is likely to result in the bank losing an amount in excess of 1 per cent of its qualifying capital and reserve funds, as reported in item 88 of the form BA 700, at the latest date for which the relevant statement was submitted;

- (c) any act of a member of the board of directors, an employee in charge of a risk-management function or an executive officer that results in or will probably result in the reputation of the bank being adversely affected;
- (d) any act of a member of the board of directors, an employee in charge of a risk-management function or an executive officer that results in or will probably result in the bank contravening the code of conduct or ethical code of any institution of which the bank is a member or with which the bank is associated;
- (e) any money-laundering or financing of terrorism activity in which the bank was involved and which was not identified in a timely manner and reported as required by law, including in terms of the relevant requirements contained in the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001), as amended from time to time;
- (f) any reportable irregularity as envisaged in section 45 of the Auditing Profession Act, 2005 (Act 26 of 2005), as amended, which irregularity was brought to the attention of the board of directors and/or senior management of the relevant bank.

#### **48. Internal audit**

(1) In order to, amongst other things, evaluate and improve the effectiveness of a bank's risk management, control, capital management and governance processes and/or systems, a bank shall establish an independent and objective internal audit function, which internal audit function-

- (a) shall in no case serve as a substitute for the ultimate responsibility of the bank's board of directors to ensure that the senior management of the bank, amongst other things-
  - (i) establishes and maintains-
    - (A) an adequate and effective system of internal controls, including controls over financial reporting;
    - (B) a sufficiently robust measurement system in order to identify and assess the various risks to which the bank may be exposed;
    - (C) a sufficiently robust system that relates risk exposure to required capital levels;
    - (D) appropriate methods in order to monitor the bank's compliance with laws, regulations, and supervisory and internal policies;

- (ii) implements appropriate corrective actions in respect of internal control weaknesses identified by the bank's internal or external auditor and subsequently brought to the attention of the bank's board of directors or senior management;
  - (iii) keeps the internal audit department fully informed of new developments, initiatives, products and operational changes in order to ensure that all associated risks are identified at an early stage;
- (b) shall form an integral part of the ongoing monitoring of the bank's system of internal controls, and of the bank's internal capital assessment procedure;
- (c) shall be a permanent function of the bank, provided that-
  - (i) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, a bank may outsource some of its internal audit services, provided that the bank shall as part of its application to the Registrar, among other things, present its analysis and assessment of the impact that the said outsourcing of internal audit services will have on the bank's overall risk profile and internal control system;
  - (ii) notwithstanding approval that might be obtained from the Registrar for a bank to outsource certain internal audit services, the bank's board of directors and senior management shall remain ultimately responsible for ensuring that the bank's system of internal control and internal audit are adequate, and operate effectively;
- (d) based on-
  - (i) the nature and extent of the bank's operations and risk exposure, shall be appropriately structured within the bank's governance structure;
  - (ii) the governance structure of the bank, shall report directly to the bank's chief executive officer, board of directors or audit committee;
- (e) shall have sufficient resources and appropriately trained staff, that is-
  - (i) the staff of the internal audit department shall be sufficiently competent to examine all areas in which the bank conducts business;
  - (ii) the bank shall ensure the continued professional competence of internal auditors by way of systematic and relevant training;
  - (iii) all staff members of the internal audit department shall have sufficient up-to-date knowledge of auditing techniques and banking activities;

- (f) shall be functionally independent from the activities audited and the day-to-day internal control processes of the bank, that is, the internal audit function-
  - (i) shall be able to conduct an assignment on its own initiative in respect of any relevant department, establishment or functions of the bank, including the activities of branches and subsidiaries, and outsourced activities;
  - (ii) shall be free to report its findings and appraisals;
  - (iii) shall be free to internally disclose its findings and appraisals;
- (g) shall be able to conduct any assignment with objectivity and impartiality, that is-
  - (i) the internal audit department shall be able to conduct an assignment free from any bias or interference;
  - (ii) staff shall not audit any activity or function they performed within the twelve month period preceding their appointment in the internal audit department and staff assignments shall periodically be rotated;
  - (iii) the internal audit department shall not be involved in the operations of the bank or in selecting or implementing internal control measures that may impair the judgmental independence of the internal auditors;
  - (iv) staff members of internal audit shall conduct their work free from any potential conflict of interest, which potential conflict of interest, for example, may be influenced by matters such as a compensation scheme, that is, the compensation of internal auditors shall be consistent with the objectives and charter of internal audit;
- (h) shall be headed by a senior executive officer of the bank with the authority to communicate directly and freely in respect of any relevant matter, including, for example, decisions made by the management of the bank that may be in conflict with legal or regulatory requirements, and on his/her own initiative,
  - (i) with the members or chairman of the bank's board of directors;
  - (ii) with the members or chairman of the bank's audit committee; or
  - (iii) with the external auditor of the bank, when appropriate.

Provided that whenever the head of the bank's internal audit department ceases to act as such or has been relieved of his/her duties, the bank shall in writing inform the Registrar accordingly.

- (i) shall be subject to independent review, which review, for example, may be conducted by an independent person or committee such as external audit or the bank's audit committee;
- (j) shall conduct its work in terms of a duly documented internal audit charter, which charter-
  - (i) shall enhance the standing and authority of the internal audit function within the bank;
  - (ii) shall duly state-
    - (A) the objectives and scope of the internal audit function;
    - (B) the position of the internal audit department within the bank, including its powers, responsibilities and relations with other control functions within the bank;
    - (C) the accountability of the head of the internal audit department;
    - (D) that the senior management of the bank grants the internal audit department the right of initiative and authorises the department-
      - (i) to have direct access to and communicate with any member of staff;
      - (ii) to examine any activity or entity of the bank;
      - (iii) to access any records, files or data of the bank, including management information and the minutes of any consultative or decision-making body, whenever relevant to the performance of the department's assignment;
    - (E) the terms and conditions according to which the internal audit department may be requested to provide consulting or advisory services or to conduct special tasks;
    - (F) that none of the activities of the bank or entities in which the bank has an interest, including the activities of branches and subsidiaries, and outsourced activities, are excluded from the scope of investigation of the internal audit department;
  - (iii) shall periodically be reviewed by the internal audit department, approved by the senior management of the bank and subsequently confirmed by the board of directors of the bank as part of the board's supervisory role;
  - (iv) shall be communicated throughout the bank;

- (k) shall adopt and comply with all relevant generally accepted internal audit standards issued from time to time;
- (l) as a minimum-
  - (i) shall provide an independent assessment of the adequacy of and compliance with the bank's established policies, processes and procedures;
  - (ii) shall examine and evaluate-
    - (A) the adequacy and effectiveness of the bank's internal control systems;
    - (B) the application and effectiveness of the bank's risk management procedures and risk assessment methodologies;
    - (C) the bank's management and financial information systems, including the electronic information system and electronic banking services;
    - (D) the accuracy and reliability of the bank's accounting records and financial reports;
    - (E) the manner and means in terms of which the bank safeguards its assets;
    - (F) the bank's system in terms of which the bank assesses its capital and reserve funds in relation to the bank's risk exposure;
    - (G) the systems and processes established by the bank in order to ensure compliance with any relevant legal and regulatory requirements, codes of conduct and the implementation of policies and procedures;
    - (H) the manner in which assigned responsibilities are fulfilled;
    - (I) the bank's compliance with policies and controls;
    - (J) the reliability, integrity, accuracy, completeness and timeliness of financial and management information;

- (K) the continuity and reliability of the electronic information systems;
- (L) the functioning of the staff departments;
- (iii) shall conduct-
  - (A) an appraisal of the economy and efficiency of the bank's operations;
  - (B) appropriate testing of-
    - (i) transactions;
    - (ii) the functioning of specific internal control procedures;
    - (iii) the reliability and timeliness of the bank's regulatory reporting;
  - (C) relevant special investigations from time to time;
- (iv) shall evaluate whether or not the senior management of the bank-
  - (A) developed and maintained sufficiently robust risk management processes and procedures to identify, measure, monitor and control the risks to which the bank is exposed;
  - (B) at least once a year, reports to the board of directors the scope and performance of the bank's internal control system and the bank's capital assessment procedure;
  - (C) maintains an organisational structure that clearly assigns responsibility, authority and reporting relationships, and ensures that delegated responsibilities are effectively carried out;
  - (D) developed and maintains appropriate internal control policies;
  - (E) continuously monitors the adequacy and effectiveness of the internal control system;
- (m) shall have in place a complete and duly authorised audit programme in respect of each relevant audit assignment, which audit programme, as a minimum, shall describe the relevant audit objectives and an outline of the required audit work in order to achieve the stated objectives;
- (n) in order to ensure the senior management of the bank makes informed decisions in a cost-effective manner, may provide advisory services to the senior management of the bank regarding the development or improvement of internal controls, provided that-
  - (i) the said advisory or consulting services shall be ancillary to the basic function and primary responsibilities of internal audit;



- (ii) subsequently internal audit shall not be precluded from analysing and criticising the internal controls that have been put in place by or at the direction of senior management;
- (iii) the introduction, development or improvement of internal controls shall remain the responsibility of the management of the bank;
- (o) may in the case when the bank established a separate department to control or monitor a specific activity or entity of the bank use the information reported by the relevant control department, provided that the internal audit department shall remain responsible for the examination and evaluation of the adequate functioning of the internal control of the said activity or entity;
- (p) may from time to time provide such additional assurance services as reasonably may be expected by the bank from such a function;
- (q) shall encourage departments or business units within the bank, or entities within the banking group, from time to time to conduct control self-assessments regarding the efficiency and effectiveness of all relevant internal control procedures;
- (r) may from time to time meet with the bank's external auditor in order to-
  - (i) provide information relating to any significant matter that came to the attention of the internal audit department that may affect the work of the external auditor;
  - (ii) obtain information regarding any significant matter that came to the attention of the external auditor that may affect internal audit;
  - (iii) provide input regarding the nature, timing and extent of certain external audit procedures,

provided that the external auditor shall solely be responsible for the audit opinion in respect of the bank's financial statements;
- (s) shall provide the bank's external auditor access to any relevant internal audit reports;
- (t) shall duly document-
  - (i) the bank's audit plan;
  - (ii) all audit procedures, examinations and evaluations that formed part of a particular audit assignment;
  - (iii) the purpose and scope of every audit assignment;
  - (iv) all audit findings and recommendations, and the relevant responses received;

- (u) shall have in place a sufficiently robust process in order to follow up-
  - (i) responses that relate to audit findings;
  - (ii) whether or not recommendations made by the internal audit department have been implemented;
  - (iii) whether or not the department's concerns were appropriately addressed.
- (v) shall regularly-
  - (i) report to and advise senior management and the board of directors or audit committee, as the case may be-
    - (A) on the performance of the internal control system;
    - (B) on the achievement of the objectives of the internal audit department;
  - (ii) inform senior management and/or the board of directors or audit committee about the progress made in respect of the audit plan.

#### **49. Compliance function**

(1) A bank shall have in place as part of its risk-management framework and governance structure an independent compliance function, which independent compliance function shall ensure that the bank continuously manages its regulatory and supervisory risks, that is, the risk that the bank does not comply with applicable laws and regulations or supervisory requirements.

(2) The compliance function-

- (a) shall be headed by a senior executive officer of the bank with the authority to communicate directly and freely in respect of any relevant matter, including, for example, decisions made by the management of the bank that may be in conflict with legal or regulatory requirements, and on his/her own initiative,
  - (i) with the members or chairman of the bank's board of directors;
  - (ii) with the members or chairman of the bank's audit committee; or
  - (iii) with the external auditor of the bank, when appropriate.
- (b) shall be headed by a compliance officer who shall perform his/her functions with diligence and care and with such a degree of competence as can reasonably be expected from a person responsible for such a function;
- (c) shall have adequate resources and stature in order to ensure that non-compliance with laws and regulations or supervisory requirements by the bank can be duly addressed.

## (3) As a minimum, the compliance officer of a bank-

*Effectiveness*

- (a) shall report directly to and have demonstrable support from the board of directors, the audit committee and the chief executive officer of the bank;
- (b) shall function independently from functions such as internal audit and shall be demonstrably independent;
- (c) shall in a timely manner report non-compliance with laws and regulations or supervisory requirements to the chief executive officer, the board of directors and the audit committee of the bank;
- (d) shall submit a report on the level of compliance with laws and regulations or supervisory requirements by the bank at every meeting of the board of directors or the audit committee of the bank and provide the Registrar with a copy of such a report;
- (e) shall ensure, as far as possible, that no conflict of interest with/between other internal control functions exists;

*Monitoring*

- (f) shall be responsible for establishing a compliance culture in the bank that contributes to the overall objective of prudent risk management by the bank;
- (g) shall establish a line of communication to line management, in order to monitor continuously compliance with laws and regulations or supervisory requirements by the bank;
- (h) shall require line management to monitor compliance with laws and regulations or supervisory requirements as part of their normal operational duties;
- (i) shall require relevant regulatory requirements to be incorporated into operational procedure manuals;
- (j) shall make recommendations whenever necessary in order to ensure that there is compliance with laws and regulations or supervisory requirements;

*Reporting*

- (k) shall establish prompt mechanisms for reporting and resolving non-compliance with laws and regulations or supervisory requirements;
- (l) shall ensure that resolutions are signed off;
- (m) shall duly document the compliance officer's findings, including any remedial action, as part of the compliance monitoring programme;

*Resources*

- (n) shall recruit sufficient staff of the correct quality in order to monitor and test continuously the bank's compliance with laws and regulations or supervisory requirements;
- (o) shall ensure that compliance staff are trained on a continuous basis in order to ensure that they have adequate technical knowledge in order to understand the regulatory framework that applies to the bank, as well as the risks to which the bank is exposed;

*Manual*

- (p) shall compile and maintain a compliance manual that -
  - (i) duly addresses all material risks to which the bank is exposed;
  - (ii) duly addresses all material objectives and aspects of applicable legislation;
  - (iii) refers to specific legislation, rules and regulations when appropriate;
  - (iv) is readily available to all relevant staff;
  - (v) is reviewed and updated at least once a year.
- (4) The provisions contained in this regulation shall not be construed as derogating from the general provisions contained in the Act that place the primary responsibility of compliance with the provisions of the Act and the Regulations on directors and executive officers.

**50. Market abuse and financial crime**

(1) A bank shall implement and maintain robust structures, policies, processes and procedures to guard against the bank being used for purposes of market abuse such as insider trading and market manipulation, and/or financial crimes such as fraud, financing of terrorist activities and money laundering.

(2) As a minimum, the structures, policies, processes and procedures referred to in subregulation (1) and implemented by the bank shall be adequate-

- (a) to ensure continued compliance with all relevant legislation;
- (b) to facilitate co-operation with relevant law-enforcement agencies;
- (c) to identify customers and, in particular, recognise suspicious customers and transactions;
- (d) to maintain high ethical standards in all business transactions;
- (e) to provide adequate training and guidance to staff;
- (f) to maintain internal records of transactions;

- (g) to report suspicious customers and transactions;
- (h) to provide a clear audit trail.

## 51. Eligible institutions

### (1) An-

- (a) external credit assessment institution; or
- (b) export credit agency,

that wishes to be recognised as an eligible institution for purposes of these Regulations shall obtain the prior written approval of the Registrar and shall comply with such conditions as may be specified in writing by the Registrar.

### (2) The Registrar shall not grant approval as envisaged in subregulation (1) unless, as a minimum-

- (a) the relevant external credit assessment institution complies with the requirements specified below.

#### (i) *Objectivity*

The methodology in terms of which an external credit assessment institution assigns credit assessments in respect of a particular market segment-

- (A) shall be well established for such a minimum period as may be specified by the Registrar, which minimum period shall in no case be less than one year;
- (B) shall be rigorous;
- (C) shall be systematic;
- (D) shall be based on a combination of qualitative and quantitative elements;
- (E) shall be subject to appropriate validation, ongoing review and backtesting;
- (F) shall be responsive to changes in financial condition.

(ii) *Independence*

The external credit assessment institution shall be independent in the sense, for example-

- (A) that the institution shall be free from political or economic pressure that may influence a particular rating;
- (B) that the composition of the board of directors or the shareholder structure of the institution to be assessed shall not create any conflict of interest.

(iii) *International access*

Individual assessments issued by the external credit assessment institution as well as the key elements underlying the assessments and whether the relevant issuer participated in the assessment process shall be publicly available on a non-selective basis, provided that-

- (A) in the case of a private assessment, the Registrar may, subject to conditions determined by the Registrar in writing, allow a deviation from the aforesaid requirements; and
- (B) in all cases, the general procedures, methodologies and assumptions for arriving at assessments, used by the relevant external credit assessment institution, shall be publicly available.

(iv) *Disclosure*

As a minimum, an external credit assessment institution shall publicly disclose-

- (A) its code of conduct;
- (B) the general nature of the compensation arrangements between the external credit assessment institution and the relevant assessed entities or institutions;
- (C) the assessment methodologies used by the said external credit assessment institution, including-
  - (i) the definition of default;
  - (ii) the time horizon used in the rating process;
  - (iii) the meaning of each relevant rating;

- (D) the actual default rates experienced in respect of each assessment category;
- (E) the transitions relating to the various assessments, that is, the likelihood of, for example, a AA rating becoming an A rating over time.

(v) *Resources*

An external credit assessment institution shall have sufficient resources-

- (A) to conduct high quality credit assessments, which assessments shall be based on a combination of qualitative and quantitative elements;
- (B) to allow for substantial ongoing contact with personnel at senior and operational levels within the assessed institutions.

(vi) *Credibility*

As a minimum, the credibility of an external credit assessment institution shall be evidenced by-

- (A) the reliance being placed on the institution's external credit assessments by independent parties such as investors or insurers;
- (B) the existence of comprehensive and duly documented internal policies and procedures to prevent the abuse of confidential information.

(b) the relevant export credit agency-

- (i) publishes its risk scores;
- (ii) subscribes to any relevant OECD agreed methodology to assign country risk scores, which methodology currently establishes eight risk score categories associated with minimum export insurance premiums.