

2004-12-14

TO ALL BANKS, BRANCHES OF FOREIGN BANKS AND MUTUAL BANKS

BANKS ACT CIRCULAR 20/2004

NEW CAPITAL ACCORD (“BASEL II”) – IMPLEMENTATION TIMELINES AND RELATED ISSUES

1. Executive Summary

The implementation date of Basel II is 1 January 2008. All banks, branches of foreign banks and mutual banks will be required to perform parallel calculations during 2007.

Minimum historical observations, minimum historical use periods and minimum periods during which capital floors will apply will be contained in a follow-up circular.

2. Introduction

On 26 June 2004, the Basel Committee on Banking Supervision (“BCBS”) issued a publication, titled International convergence of Capital Measurement and Capital Standards: a Revised Framework and commonly referred to as Basel II.

In order to give focus to the planning of Basel II implementation, this circular sets out the proposed implementation timelines and certain related issues.

3. Implementation Date of Basel II

A common implementation date of 1 January 2008 for all approaches available under Basel II will apply.

4. Pilot Runs and Parallel Calculation

In the light of the common implementation date of 1 January 2008, banks, branches of foreign banks and mutual banks (“banks”) will be required to comply with the following timelines and procedural and information-submission requirements with regard to Basel II implementation:

4.1 Pilot runs

During 2006, banks will be required to perform two pilot runs, for which the reference dates will be 30 June 2006 and 30 September 2006. Details of the requirements which banks will have to comply with will be furnished closer to 2006.

4.2 Parallel calculation

Paragraph 263 of Basel II states that “(b)anks adopting the foundation or advanced approaches are required to calculate their capital requirement using these approaches, as well as the 1988 Accord for the time period specified in paragraphs 45 to 49. Parallel calculation for banks adopting the foundation IRB approach to credit risk will start for the year beginning year-end 2005. Banks moving directly from the 1988 Accord to the advanced approaches to credit and/or operational risk will be subject to parallel calculations or impact studies for the year beginning year-end 2005 and to parallel calculations for the year beginning year-end 2006”.

In the light of the common implementation date of 1 January 2008 in South Africa, the impact on all banks during 2007 will be as follows:

- Banks will continue to submit the required DI returns to this Office, thereby continuing to comply with the 1988 Accord.
- In addition, banks will be required to comply with Basel II by performing parallel calculations.

Details of the requirements which banks will have to comply with will be furnished closer to 2007.

4.3 Common implementation

With effect from 1 January 2008, all banks will be required to comply with Basel II. As from that date, Basel I will no longer be available to any bank.

5. Acknowledgement of Receipt

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

E M Kruger
Registrar of Banks

The previous circular issued was Banks Act Circular 19/2004 dated 13 December 2004.