



South African Reserve Bank

From the Office of
the Registrar of Banks

Confidential

2007-06-14

Banks Act Circular 5/2007

To all banks and branches of foreign banks

Basel II – Final arrangements for parallel-run and other implementation issues

Executive summary

This circular serves to confirm that all banks will be required to participate in the parallel-run process during the fourth quarter of 2007.

1. Background

As previously indicated by this Office, this circular confirms that all banks will be required to participate in the parallel-run process.

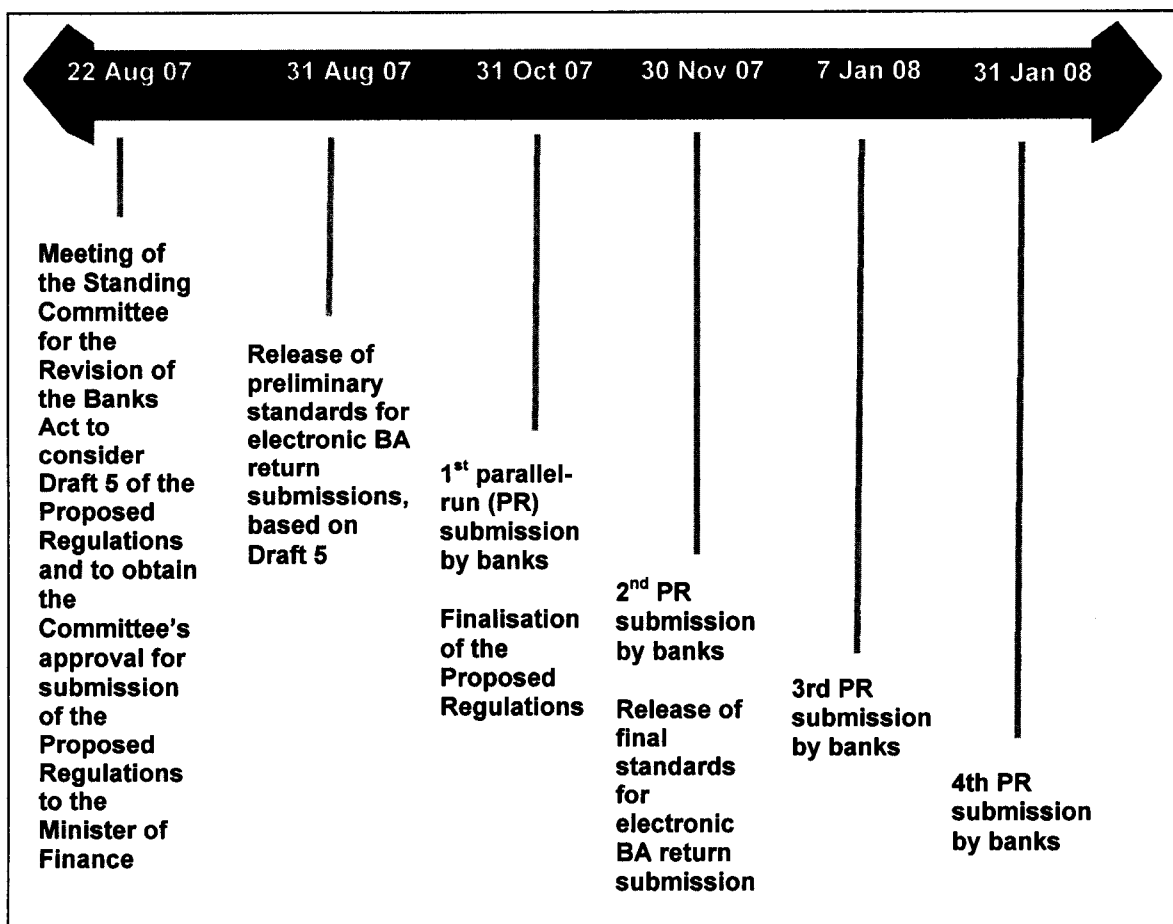
The parallel-run process refers to the fact that banks will be required during the fourth quarter of 2007 to submit both the statutory returns prescribed by the current Regulations relating to Banks (Basel I), as well as the proposed statutory information returns (proposed BA returns) included in the Proposed amended Regulations relating to Banks (Proposed Regulations - Basel II).

Banks are reminded to consider the content of this circular in conjunction with the contents of the latest versions of the following position papers released by the Accord Implementation Forum:

- Position Paper 4 – Key milestones
- Position Paper 63 – Road to Parliament
- Position Paper 150 – Adjustment to timelines and elucidation of requirements
- Position Paper 235 – Preliminary standards for electronic submission of proposed BA returns

2. Timelines

The remaining key milestones, which form part of the parallel-run process, can be depicted as follows:



3. Electronic submissions of the proposed statutory returns

The parallel run will entail **electronic** submissions of the proposed BA returns. In quarter one of 2007 this Office released preliminary standards (unique numbers and validation rules) for electronic BA-return submissions, based on Draft 4 of the Proposed Regulations that was issued on 15 January 2007 (refer to Position Paper 235).

In view of the outstanding key milestones involved in finalising the Proposed Regulations, Position Paper 235 can only be updated based on Draft 5 of the Proposed Regulations once it has been considered by the Standing Committee for the Revision of the Banks Act on 22 August 2007.

The BSD will release an updated version of Position Paper 235 by no later than 31 August 2007. The parallel-run submission will therefore be based on the Proposed BA returns as contained in Draft 5 of the Proposed Regulations, which will be released on the same day.

It is envisaged that the Proposed Regulations, in other words Draft 5, will be presented to the Minister of Finance during October 2007 for his consideration and approval. As soon as the Proposed Regulations are approved by the Minister of Finance, the BSD will publish the final set of standards for electronic submissions.

4. Final arrangements

Banks are requested to take note of the final arrangements and dates for the parallel-run submissions below.

4.1 First parallel run

The first parallel-run submission will be based on monthly, quarterly, six-monthly and annual reporting as at 30 September 2007, and will cover both solo and consolidated submissions.

The completed BA returns should be submitted by no later than 31 October 2007.

The above-mentioned can be illustrated as follows:

	BA returns to be submitted	Reporting dates			
Form number	Title/description	Solo supervision		Consolidated supervision	
		Bank in Republic	Bank legal entity	Bank consolidated	Controlling company consolidated
BA 100	Balance sheet	Sep 07	Sep 07	Sep 07	Sep 07
BA 110	Off-balance-sheet activities	Sep 07	Sep 07	Sep 07	Sep 07
BA 120	Income statement	Sep 07	Sep 07	Sep 07	Sep 07
BA 125	Shareholders of a bank/controlling company		Sep 07		Sep 07
BA 130	Restriction on investments, loans and advances	Sep 07			
BA 200	Credit risk: Monthly return	Sep 07			
BA 210	Credit risk: Quarterly return	Quarter ended Sep 07			
BA 220	Credit risk: Six-monthly return	Six months ended Sep 07			
BA 300	Liquidity risk	Sep 07			
BA 310	Minimum reserve balance and liquid assets	Sep 07			
BA 320	Market risk	Sep 07			
BA 330	Interest-rate risk: Banking book	Sep 07			
BA 340	Equity risk in the banking book	Sep 07			

	BA returns to be submitted	Reporting dates			
Form number	Title/description	Solo supervision		Consolidated supervision	
		Bank in Republic	Bank legal entity	Bank consolidated	Controlling company consolidated
BA 350	Derivative instruments	Sep 07			
BA 400 ¹	Operational risk: Six-monthly return	Sep 07			Sep 07 ²
BA 410 ³	Operational risk: Annual return	Sep 07			Sep 07 ⁴
BA 500	Securitisation schemes and related exposure	Sep 07			
BA 600	Consolidated return				Quarter ended Sep 07
BA 700	Capital adequacy	Sep 07			Quarter ended Sep 07
BA 900	Institutional and maturity breakdown of liabilities and assets	Sep 07			
BA 920	Analysis of instalment rate transactions, leasing transactions and selected assets	Quarter ended Sep 07			
BA 930	Interest rates on deposits, loans and advances at month-end	Sep 07			

¹ If the year-end period or interim period does not correspond with September 2007, use the most recent year-end or interim period as a basis to determine the three-year period.

² AMA banks also to submit a return for "Controlling company consolidated" where BSD is the home or lead supervisor.

³ Only for AMA banks, however some banks may be requested to submit the return.

⁴ Banks submitting the return must also submit a return for "Controlling company consolidated".

4.2 Second parallel run

The second parallel-run submission will be based on monthly reporting as at 31 October 2007 and will cover only solo submissions. The completed proposed BA returns should be submitted no later than 30 November 2007.

The daily reporting of the proposed form BA 325 will commence on 1 November 2007.

The above-mentioned can be illustrated as follows:

Form number	Title/description	Reporting dates	
		Solo supervision	
		Bank in Republic	Bank legal entity
BA 100	Balance sheet	Oct 07	Oct 07
BA 110	Off-balance-sheet activities	Oct 07	Oct 07
BA 120	Income statement	Oct 07	Oct 07
BA 200	Credit risk: Monthly return	Oct 07	
BA 300	Liquidity risk	Oct 07	
BA 310	Minimum reserve balance and liquid assets	Oct 07	
BA 320	Market risk	Oct 07	
BA 325	Daily return: Selected risk exposure	Daily from 1 Nov 07	
BA 330	Interest-rate risk: Banking book	Oct 07	
BA 340	Equity risk in the banking book	Oct 07	
BA 350	Derivative instruments	Oct 07	
BA 500	Securitisation schemes and related exposure	Oct 07	
BA 700	Capital adequacy	Oct 07	
BA 900	Institutional and maturity breakdown of liabilities and assets	Oct 07	
BA 930	Interest rates on deposits, loans and advances at month-end	Oct 07	

4.3 Third parallel run

The third parallel-run submission will be based on monthly reporting as at 30 November 2007 and will cover solo submissions only. The completed proposed BA returns should be submitted no later than 7 January 2008.

The daily reporting of the proposed form BA 325 will continue during December 2007.

The above-mentioned can be illustrated as follows:

Form number	Title/description	Reporting dates	
		Solo supervision	
		Bank in Republic	Bank legal entity
BA 100	Balance sheet	Nov 07	Nov 07
BA 110	Off-balance-sheet activities	Nov 07	Nov 07
BA 120	Income statement	Nov 07	Nov 07
BA 200	Credit risk: Monthly return	Nov 07	
BA 300	Liquidity risk	Nov 07	
BA 310	Minimum reserve balance and liquid assets	Nov 07	
BA 320	Market risk	Nov 07	
BA 325	Daily return: Selected risk exposure	Daily during December 2007	
BA 330	Interest-rate risk: Banking book	Nov 07	
BA 340	Equity risk in the banking book	Nov 07	
BA 350	Derivative instruments	Nov 07	
BA 500	Securitisation schemes and related exposure	Nov 07	
BA 700	Capital adequacy	Nov 07	
BA 900	Institutional and maturity breakdown of liabilities and assets	Nov 07	
BA 930	Interest rates on deposits, loans and advances at month-end	Nov 07	

4.4 Fourth parallel run

The fourth parallel-run submission will be based on monthly and quarterly reporting as at 31 December 2007 and will cover solo submissions only in respect of the Economic returns.

The completed proposed BA returns should be submitted by no later than 31 January 2008.

The above-mentioned can be illustrated as follows:

		Reporting date
Form number	Title/description	Solo supervision
		Bank in Republic
BA 900	Institutional and maturity breakdown of liabilities and assets	Dec 07
BA 920	Analysis of instalment rate transactions, leasing transactions and selected assets	Quarter ended Dec 07
BA 930	Interest rates on deposits, loans and advances at month-end	Dec 07

5. Oversight by independent parties

5.1 Internal audit

This Office encourages oversight and sign-off by the respective banks' internal audit departments to enhance the quality of submitted BA returns as part of the parallel runs.

5.2 External audit

There are fundamental differences between Basel I and Basel II, which clearly impact on the risk profiles of banks and this Office's duty to understand the risk profiles of banks and the related capital impact.

During 2008, it is therefore likely that banks will be subjected to independent verification by their external auditors on the quality of banks' statutory returns regarding compliance.

The report will be in respect of the statutory returns based on the finalised Proposed Regulations, which will be effective from 1 January 2008, of which specific detailed requirements will be communicated in due course.

6. General

- Banks should take note that, depending on the quality of submissions received during the parallel run, this Office might request certain banks to continue with parallel-run submissions after 1 January 2008 to ensure the safety and soundness of the banking sector as a whole.
- The parallel run does not affect the submission dates of the current DI returns.
- All banks will be expected at least to be in a position to submit the proposed BA returns as published in the 15 January 2007 edition of Draft 4 by end January 2008.

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 should be returned to this Office as soon as possible, duly completed and signed by both the chief executive officer of the institution and the said auditors.



E M Kruger
Registrar of Banks

The previous circular issued was Banks Act Circular 4/2007 dated 17 April 2007.