



South African Reserve Bank

From the Office of
the Registrar of Banks

C3/2011

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

Circular 3/2011 issued in terms of section 6(4) of the Banks Act, 1990

The use of mapping tables by banks, controlling companies and branches of foreign institutions converting national scale ratings to international scale ratings for the calculation of minimum required capital and reserve funds related to credit risk

Executive summary

Regulation 23 of the Regulations relating to Banks (the Regulations) prescribes, amongst others, the risk weights relating to the international scale ratings as issued by Standard & Poor's Ratings Services for the calculation of the minimum required capital and reserve funds required in respect of credit risk. The Regulations provide that the rating scales of approved external credit assessment institutions (ECAIs) may be used for the calculation of minimum required capital and reserve funds related to credit risk. No reference is however made to national scale ratings.

This Banks Act Circular serves to inform all banks, controlling companies and branches of foreign institutions that they may, in specified cases, use the mapping tables issued by eligible ECAIs to convert national scale ratings to international scale ratings in the calculation of the minimum required capital and reserve funds related to credit risk.

1. Introduction

1.1 The "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II) was introduced, amongst others, to enhance the differentiation in credit risk and to provide greater granularity in the calculation of a bank's minimum required capital and reserve funds related to credit risk.

1.2 In terms of the Regulations, exposures are classified as unrated in cases where no international rating scale is available.

- 1.3 The use of mapping tables that convert national scale ratings to international scale ratings may provide for greater granularity and enhance the differentiation of credit risk as intended by the Regulations and Basel II.

2. Banks Act Circular

- 2.1 The purpose of this Banks Act Circular is to inform banks, controlling companies and branches of foreign institutions that they may, in specified cases, use the mapping tables issued by eligible ECAs to convert national scale ratings to international scale ratings for the calculation of their minimum required capital and reserve funds related to credit risk and for the treatment of relevant securitisation and re-securitisation exposures.
- 2.2 In the case where an international scale rating is available, banks shall always use the assigned international scale rating in the calculation of their minimum required capital and reserve funds relating to credit risk.
- 2.3 Where no international scale rating is published but a national scale rating exists, this Banks Act Circular permits banks, controlling companies and branches of foreign institutions to use the mapping tables issued by eligible ECAs to convert national scale ratings to international scale ratings in the following instances:
 - 2.3.1 The eligible ECAI has applied the same methodology to determine both national and international scale ratings, and
 - 2.3.2 The mapping relationship between national and international scale ratings are always being adhered to by the eligible ECAI.
 - 2.3.3 The ECAI confirms in its published mapping table the aforementioned matters related to the use of the same methodology and the mapping relationship.
- 2.4 The implied or converted international scale ratings may then be used in the calculation of a bank's or controlling company's minimum required capital and reserve funds related to credit risk.
- 2.5 In instances where an assigned national scale rating maps into a range of international scale ratings, banks, controlling companies and branches of foreign institutions shall use the most conservative international scale rating (lowest credit quality) to determine their risk weights in the calculation of their minimum required capital and reserve funds related to credit risk, and for the treatment of relevant securitisation and re-securitisation exposures.
- 2.6 The use of the said mapping tables is only for exposures originated and rated before the issuance of this Banks Act Circular. For exposures originated and rated after the date of issue of this Banks Act Circular, banks, controlling companies and branches of foreign institutions shall, in accordance with the requirements specified in the Regulations, only use issued international scale ratings or inferred international scale ratings in the calculation of the minimum required capital and reserve funds related to credit risk and for the treatment of relevant securitisation and re-securitisation exposures.

3. Publishing and revision of mapping tables

- 3.1 The publishing and updating of mapping tables remain the responsibility of the respective eligible ECAs. This Banks Act Circular merely informs banks and controlling companies of the appropriate use of these mapping tables in specified cases.
- 3.2 Eligible ECAs have the discretion and responsibility to amend their respective mapping tables as they deem appropriate in order to reflect the underlying probability of default or expected loss, and will publish changes to these mapping tables when necessary.

4. Acknowledgement of receipt

- 4.1 Two additional copies of this Banks Act Circular are enclosed for 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 2/2011, dated 8 March 2011.