



South African Reserve Bank
From the Office of
the Registrar of Banks

D8/08

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To: Banks, controlling companies and auditors of banks or controlling companies

Directive 8/2008 issued in terms of section 6(6) of the Banks Act, 1990

Completion of specified items of form BA 320 for commodities and foreign exchange including gold

Executive summary

Regulation 28 of the Regulations relating to Banks (the Regulations) provides for the calculation of capital requirements for market risk, which is reported on a monthly basis, on form BA 320. Form BA 320 requires banks reporting market risk according to the standardised approach, among other things, to split the market risk capital required between the trading book and the banking book. As this reporting requirement differs from the methodology prescribed in the Regulations for the calculation of the capital requirement for commodities risk and foreign-exchange risk including gold, it creates uncertainty about the mechanics of entering data on the form. This Office deems it necessary to provide detailed instructions on completing specific required information on form BA 320.

1. Introduction

The purpose of this directive is to provide instructions on completing specified items on form BA 320 in accordance with the requirements specified in the Regulations.

During parallel-run testing in 2007, it became evident that certain items of form BA 320 require banks to summarise data in terms of capital required for trading book and banking book separately for exposures to foreign exchange, gold and commodities. This reporting requirement does not coincide with the requirements specified in regulations 28(7)(d) and 28(7)(e) of the Regulations, which do not require banks to distinguish between exposures in the trading and banking books when calculating capital requirements for exposures to foreign exchange, including gold or to commodities.

2. References in the Regulations

Regulation 28(3)(c) of the Regulations prescribes the framework for foreign-exchange and gold treatment while regulation 28(3)(d) of the Regulations prescribes the framework for commodities treatment. Regulation 28(7)(a)(i)(B) specifies the origins of foreign-exchange risk including gold, and regulation 28(7)(a)(i)(C) specifies the origins of commodities risk. The methodology for calculating capital requirements for foreign-exchange risk including gold, in terms of the standardised approach, is prescribed in regulation 28(7)(d) while regulation 28(7)(e) prescribes the methodology for calculating capital requirements for commodities risk according to the standardised approach.

3. Factors affecting this directive

Form BA 320 in its current format requires a bank to report its exposures to foreign-exchange risk including gold, and commodities risk according to criteria that differ from the methodology of calculating capital requirements prescribed in regulations 28(7)(d) and 28(7)(e), in particular in terms of trading and banking book net long and short positions. In addition, while the capital calculation differs significantly between foreign-exchange and gold positions, form BA 320 requires the said positions to be reported in the same manner.

Similarly, regulation 28(7)(e) does not require separate calculations for trading book and banking book positions in commodities. However, the return requires a bank to report its commodities exposures separately for trading and banking books, as well as for long and short positions.

The reporting requirement may create the impression that the netting of exposures between the trading book and banking book is prohibited. The Regulations, however, do not prohibit the common treatment of exposures in the trading and banking books for commodities risk and for foreign-exchange risk including gold.

4. Directive

A bank shall complete form BA 320 according to the following instructions:

- Lines 14 through 25 – regard columns 1 and 2 as greyed, and do not enter any data in these columns.
- Line 15, column 3 – enter the capital requirement for foreign-exchange positions only, calculated in accordance with the requirements specified in regulation 28(7)(d)(iii)(A). Disregard the reference to item 71.
- Line 16, column 3 – enter the capital requirement for gold positions only, calculated in accordance with the requirements specified in regulation 28(7)(d)(iii)(A). Disregard the reference to item 72.
- Line 18, column 3 – enter only the sum of gamma and vega components of capital requirement for options in foreign exchange and gold, in both the trading and banking books, calculated in accordance with the requirements specified in regulation 28(7)(f)(iii). Disregard the reference to adding columns 3 and 4 of item 89.

- Line 19, column 3 – enter the capital requirement for options in foreign exchange and gold calculated in terms of the scenario approach, for both the trading and banking books in accordance with the requirements specified in regulation 28(7)(f)(iv). Disregard the reference to adding columns 3 and 4 of item 94.
- Line 21, column 3 – enter the total capital requirement for commodity positions calculated in terms of the simplified method, for both the trading and banking books, calculated as the sum of capital requirements for net positions and gross positions, that is the sum of lines 83 and 84, column 10 (as amended herein to represent the capital amount for both trading and banking books).
- Line 22, column 3 – enter the total capital requirement for commodity positions calculated in terms of the maturity ladder method, for both the trading and banking books, calculated as the sum of capital requirements for matched long and short positions, capital requirements for residual net positions carried between time bands and capital requirements for residual net open positions, that is the sum of lines 85, 86 and 87, column 10 (as amended herein to represent the capital amount for both trading and banking books).
- Line 24, column 3 – enter only the sum of gamma and vega components of the capital requirement for options in commodities, in both the trading and banking books, calculated in accordance with the requirements specified in regulation 28(7)(f)(iii). Disregard the reference to adding columns 5 and 6 of item 89.
- Line 25, column 3 – enter the capital requirement for options in commodities calculated in terms of the scenario approach, for both the trading and banking books, in accordance with the requirements specified in regulation 28(7)(f)(iv). Disregard the reference to adding columns 3 and 4 of item 95.
- Line 79, column 1 (Total) – enter the sum of all net long positions for foreign-exchange and gold positions in the trading and banking books.
- Line 80, column 1 (Total) – enter the sum of all net short positions for foreign-exchange and gold positions in the trading and banking books.
- Line 81 column 1 (Total) – enter the sum of the positions in foreign exchange and in gold, calculated in accordance with the requirements specified in Regulation 28(7)(d)(iii), prior to multiplication by 8 percent. This amount and calculation are independent of the entries in lines 79 and 80. This is the amount upon which a combined capital requirement for both foreign exchange and gold is based. Do not carry this amount over to line 15 or 16.
- Line 82, column 1 (Total) – enter the combined capital requirement for both foreign exchange and gold, calculated in accordance with the requirements specified in regulation 28(7)(d)(iii)(A)(iii), as 8 per cent of the amount reported in line 81. Do not carry this amount over to line 15 or 16.
- Lines 83 through 87, columns 1 through 4 – enter commodity positions in the trading book and the banking book according to whether they are long or short positions in accordance with the column headings. In column 5 enter the relevant amount on which capital is calculated, in accordance with the requirements specified in regulation 28(7)(e) and as directed below. Columns 6, 7 and 8 must not contain any data. In column 10 enter the

effective capital requirement for the particular line, not only the trading book capital requirement. Column 11 must not contain any data.

- Line 83, column 5 – enter the sum of absolute values of net positions in separate commodity types in both trading and banking books. Columns 6, 7 and 8 must not contain any data. In column 10 enter the capital requirement for the amount entered in column 5, which is the capital requirement for both trading and banking books. Column 11 must not contain any data.
- Line 84, column 5 – enter the sum of gross positions in all commodity types in both trading and banking books. Columns 6, 7 and 8 must not contain any data. In column 10 enter the capital requirement for the amount entered in column 5, which is the capital requirement for both trading and banking books. Column 11 must not contain any data.
- Line 85, column 5 – enter the sum of absolute values of matched long and short positions in separate commodity types in both trading and banking books. Columns 6, 7 and 8 must not contain any data. In column 10 enter the capital requirement for the amount entered in column 5, which is the capital requirement for both trading and banking books. Column 11 must not contain any data.
- Line 86, column 5 – enter the sum of absolute values of residual net positions carried between time bands in all commodity types in both trading and banking books. Columns 6, 7 and 8 must not contain any data. In column 10 enter the capital requirement for the amount entered in column 5, which is the capital requirement for both trading and banking books. Column 11 must not contain any data.
- Line 87, column 5 – enter the sum of absolute values of residual net open positions in all commodity types in both trading and banking books. Columns 6, 7 and 8 must not contain any data. In column 10 enter the capital requirement for the amount entered in column 5, which is the capital requirement for both trading and banking books. Column 11 must not contain any data.

5. Acknowledgement of receipt

Two additional copies of this directive 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 directive issued was Directive 7/2008 dated 1 September 2008.