



**South African Reserve Bank**

From the Office of  
the Registrar of Banks

D2/2011

2011-08-05

**To: Banks, controlling companies, branches of foreign institutions and auditors of banks or controlling companies**

**Directive 2/2011 to be issued in terms of section 6(6) of the Banks Act, 1990**

**Reporting daily value-at-risk amounts for market risk using specified items of the form BA 325**

### **Executive summary**

The Regulations relating to Banks (the Regulations) requires banks that obtained approval from the Registrar to adopt the internal models approach (IMA) for the measurement of the bank's exposure to market risk, to report capital requirements for market risk to the Bank Supervision Department (BSD) daily on the form BA 325 using the Value at Risk (VaR) statistic.

The recent volatility in financial markets resulting from the financial market turmoil has necessitated that IMA banks report their VaR on a daily basis to the BSD using the specified lines on the form BA 325. This directive defines the basis for reporting daily VaR at a risk factor level.

#### **1. Purpose**

- 1.1. The purpose of this directive is to prescribe the daily reporting standards for risk factor level VaR.

#### **2. References in the Regulations**

- 2.1. Regulation (28)(8)(e)(iii) of the Regulations specifies:

*"On a daily basis, a bank that obtained the approval of the Registrar to adopt the internal models approach for the measurement of the bank's exposure to market risk shall maintain a capital requirement in respect of the said exposures equal to the higher of-*

- (A) *the previous day's value-at-risk amount, measured in accordance with the relevant parameters and requirements specified in this subregulation (8);*  
*or*

(B) *the average amount of the daily value-at-risk amount calculated in accordance with the relevant parameters and requirements specified in this subregulation (8) in respect of each of the preceding sixty business days, multiplied by the multiplication factor envisaged in subparagraph (iv) below.*"

2.2. Furthermore Regulation (28)(8)(e)(iv) of the Regulations specifies:

*"Based on, amongst other things, the Registrar's assessment of the quality of a bank's risk management system and related processes, the Registrar shall specify in writing a multiplication factor of no less than three, and a "plus-factor", which plus-factor-*

(A) *shall directly relate to the ex-post performance of the bank's model, thereby providing a built-in incentive for the bank to maintain or improve the predictive quality of the model;*

(B) *based on the outcome of backtesting, may range between zero and one, that is, when the backtesting results of the relevant bank-*

(i) *are satisfactory, and the bank complies with all the qualitative standards specified in regulation 39(14)(b), the plus factor may be equal to zero; or*

(ii) *fall into the red zone specified by the Registrar from time to time, the multiplication factor applicable to the said bank's model shall automatically increase by one, to four."*

### **3. Directive for risk-factor VaR reporting**

3.1. In order for the Bank Supervision Department to continuously monitor the volatility in banks' daily VaR amounts, all banks that obtained approval from the Registrar to adopt the internal models approach are required to use the form BA 325 to report VaR amounts at the undiversified, or risk factor level, in lines 21 to 25 and columns 1 and 2 for the trading day to which the return pertains, for a 99<sup>th</sup> percentile single-tailed confidence interval and a single day's price movement using a sample period of one year.

3.2. Therefore, risk factor level VaR amounts reported as requested shall not be based on the greater amount of a sixty-days' moving average VaR and the previous day's VaR, nor shall a multiplication factor be applied to the amounts reported.

### **4. Acknowledgement of receipt**

4.1 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.



Adv M S Blackbeard  
**Registrar of Banks**

The previous directive issued was Directive 1/2011 dated 3 May 2011.