



South African Reserve Bank

From the Office of
the Registrar of Banks

D12/2013

2013-08-02

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

Directive 12/2013 issued in terms of section 6(6) of the Banks Act, 1990

Mapping of the international scale rating symbols of Fitch Ratings and Moody's Investors Service to the prescribed risk weights available in terms of regulation 23 of the Regulations relating to banks

Executive summary

Regulation 23 of the Regulations relating to Banks (the Regulations) prescribes, among other things, the risk weights that relate to the assessments (ratings) on an international scale issued by Standard & Poor's Rating Services (S&P). For instance, a loan to a corporate entity rated A+ to A- by S&P attracts a 50-per-cent prescribed risk weight.

As stated in the Regulations, the ratings used throughout the Regulations to determine the appropriate risk weights to be applied by banks and banking groups that adopted the standardised approach (STA) for credit risk and for the treatment of securitisation exposures relate to the ratings symbols on an international scale issued by S&P. The rating scales of other external credit assessment institutions recognised as eligible institutions in South Africa, could have been used instead.

This directive requires that all banks and/or affected parties map the international scale ratings of Fitch Ratings (Fitch) and Moody's Investors Service (Moody's) to the prescribed risk weights specified in regulation 23 of the Regulations in the manner outlined below.

1. Purpose

- 1.1 The purpose of this directive is to advise banks and/or affected parties of the mapping of the international scale ratings of Fitch and Moody's to the prescribed risk weights in regulation 23 of the Regulations.

2. References in the Regulations

- 2.1 Regulation 23 of the Regulations allows a bank to, among other things, choose between the internal ratings-based (IRB) approach and the STA for calculating its minimum required capital and reserve funds related to credit risk. The STA makes extensive use of the ratings issued by external credit assessment institutions (ECAIs) for determining the prescribed risk weights of exposures, and ultimately the calculation of the minimum required capital and reserve funds related to credit risk.
- 2.2 International scale ratings issued by eligible ECAIs are also used to calculate, amongst other things:
 - 2.2.1 the capital requirements in respect of securitisation exposures
 - 2.2.2 the capital requirement in respect of credit derivative instruments under the STA
- 2.3 Regulation 23 of the Regulations prescribes, *inter alia*, risk weights that relate to the ratings on an international scale issued by S&P. As stated in the Regulations, the rating scales of other external credit assessment institutions recognised as eligible institutions in South Africa, could have been used instead.

3. References in the Banks Act, 1990

- 3.1 Section 4(5) of the Banks Act, 1990 stipulates that “in order to ensure the appropriate usage by a bank, a controlling company or a branch, of an external credit assessment issued by an eligible institution, the Registrar:
 - (a) shall assign such external credit ratings to such risk weights as may be prescribed from time to time; and
 - (b) shall publicly disclose which external credit assessment or rating issued by an eligible external credit assessment institution relates to which prescribed risk weight”.

4. Other relevant references

- 4.1 Paragraph 1 of Annexure 2 of the “International Convergence of Capital Measurement and Capital Standards – A Revised Framework” (Basel II), issued in June 2006 indicates that supervisors will be responsible for assigning credit risk assessments issued by eligible ECAIs to the risk weights available under the STA.
- 4.2 In addition to research conducted by this Office, work already undertaken in this area by other regulatory authorities was also considered.

5. International scale ratings of Fitch and Moody's assigned to prescribed risk weights

5.1 This Office hereby wishes to advise that the international scale ratings of Fitch and Moody's shall be mapped in the manner outlined below.

5.1.1 *Figure 1* below sets out the mapping of the corresponding long-term credit assessments of Fitch and Moody's, respectively, to the relevant risk weights specified under the STA as outlined in Table 8 in regulation 23(8)(a) of the Regulations.

Figure 1: Long-term credit assessments

Institution			Claims in respect of:					
Fitch assessments	Moody's assessments	S & P assessments	Sovereigns (including the Central Bank of that particular country)	Public-sector entities	Banks	Securities Firms	Banks: short-term claims	Securities Firms: short-term claims
AAA to AA-	Aaa to Aa3	AAA to AA-	0%	20%	20%	20%	20%	20%
A+ to A-	A1 to A3	A+ to A-	20%	50%	50%	50%	20%	20%
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	50%	50%	50%	50%	20%	20%
BB+ to B-	Ba1 to B3	BB+ to B-	100%	100%	100%	100%	50%	50%
Below B-	Below B3	Below B-	150%	150%	150%	150%	150%	150%
Unrated	Unrated	Unrated	100%	50%	50%	50%	20%	20%

Claims in respect of corporate entities

Fitch assessments	Moody's assessments	S & P assessments	Risk weights
AAA to AA-	Aaa to Aa3	AAA to AA-	20%
A+ to A-	A1 to A3	A+ to A-	50%
BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	100%
Below BB-	Below Ba3	Below BB-	150%
Unrated	Unrated	Unrated	100%

5.1.2 *Figure 2* below sets out the short-term credit assessments and corresponding risk weights.

Fitch assessments	Moody's assessments	S & P assessments	Risk weights
F1	P-1	A-1	20%
F2	P-2	A-2	50%
F3	P-3	A-3	100%
All other ratings or unrated	All other ratings or unrated	All other ratings or unrated	150%

5.2 Securitisation

5.2.1 With reference to Table 3 in regulation 23(6)(h) of the Regulations, *Figures 3 and 4* set out the long and short-term ratings categories and corresponding risk-weight categories of securitisation and resecuritisation exposures under the STA.

Figure 3: Long-term rating category

Long-term ratings for securitisation exposures

Fitch assessments	Moody's assessments	S & P assessments	Risk weights
AAA to AA-	Aaa to Aa3	AAA to AA-	20%
A+ to A-	A1 to A3	A+ to A-	50%
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%
BB+ to BB-	Ba1 to Ba3	BB+ to BB-	350%
B+ and below or unrated	B1 and below or unrated	B+ and below or unrated	1250% ¹

Long-term ratings for resecuritisation exposures

Fitch assessments	Moody's assessments	S & P assessments	Risk weights
AAA to AA-	Aaa to Aa3	AAA to AA-	40%
A+ to A-	A1 to A3	A+ to A-	100%
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	225%
BB+ to BB-	Ba1 to Ba3	BB+ to BB-	650%
B+ and below or unrated	B1 and below or unrated	B+ and below or unrated	1250% ¹

Figure 4: Short-term rating category

Short-term ratings for securitisation exposures

Fitch assessments	Moody's assessments	S & P assessments	Risk weights
F1	P-1	A-1	20%
F2	P-2	A-2	50%
F3	P-3	A-3	100%
All other ratings or unrated	All other ratings or unrated	All other ratings or unrated	1250% ¹

Short-term ratings for resecuritisation exposures

Fitch assessments	Moody's assessments	S & P assessments	Risk weights
F1	P-1	A-1	40%
F2	P-2	A-2	100%
F3	P-3	A-3	225%
All other ratings or unrated	All other ratings or unrated	All other ratings or unrated	1250% ¹

¹ Or such imputed percentage that will effectively result in an amount equivalent to a deduction against capital and reserve funds

5.2.2 *Figure 5* below depicts the mapping of long-term credit ratings under the ratings-based approach (also see Table 12 in regulation 23(11)(e) of the Regulations).

Figure 5: Long-term credit rating

Long-term ratings for securitisation exposures

Credit Assessments			Risk weights:		
Fitch	Moody's	S & P	Senior granular position ²	Non-senior granular position ²	Non-granular ²
AAA	Aaa	AAA	7%	12%	20%
AA	Aa	AA	8%	15%	25%
A+	A1	A+	10%	18%	35%
A	A2	A	12%	20%	35%
A-	A3	A-	20%	35%	35%
BBB+	Baa1	BBB+	35%	50%	50%
BBB	Baa2	BBB	60%	75%	75%
BBB-	Baa3	BBB-	100%	100%	100%
BB+	Ba1	BB+	250%	250%	250%
BB	Ba2	BB	425%	425%	425%
BB-	Ba3	BB-	650%	650%	650%
Below BB- and unrated	Below Ba3 and unrated	Below BB- and unrated	1250% ³	1250% ³	1250% ³

Long-term ratings for resecuritisation exposures

Credit Assessments			Risk weights:	
Fitch	Moody's	S & P	Senior ²	Non-senior
AAA	Aaa	AAA	20%	30%
AA	Aa	AA	25%	40%
A+	A1	A+	35%	50%
A	A2	A	40%	65%
A-	A3	A-	60%	100%
BBB+	Baa1	BBB+	100%	150%
BBB	Baa2	BBB	150%	225%
BBB-	Baa3	BBB-	200%	350%
BB+	Ba1	BB+	300%	500%
BB	Ba2	BB	500%	650%
BB-	Ba3	BB-	750%	850%
Below BB- and unrated	Below Ba3 and unrated	Below BB- and unrated	1250% ³	1250% ³

² As defined in regulation 23(11)(e)(A)

³ Or such imputed percentage that will effectively result in an amount equivalent to a deduction against capital and reserve funds

5.2.3 Figure 6 indicates the mapping of short-term credit ratings under the ratings-based approach (also see Table 13 in regulation 23(11)(e) of the Regulations).

Figure 6: Short-term credit rating

Short-term ratings for securitisation exposures

Credit Assessments			Risk weights:		
Fitch	Moody's	S & P	Senior granular position ⁴	Non-senior granular position ⁴	Non-granular ⁴
F1	P-1	A-1	7%	12%	20%
F2	P-2	A-2	12%	20%	35%
F3	P-3	A-3	60%	75%	75%
Below F3 or unrated	Below P-3 or unrated	Below A-3 or unrated	1250% ⁵	1250% ⁵	1250% ⁵

Short-term ratings for resecuritisation exposures

Credit Assessments			Risk weights:	
Fitch	Moody's	S & P	Senior ⁴	Non-senior
F1	P-1	A-1	20%	30%
F2	P-2	A-2	40%	65%
F3	P-3	A-3	150%	225%
Below F3 or unrated	Below P-3 or unrated	Below A-3 or unrated	1250% ⁵	1250% ⁵

5.3 Credit derivative instruments under the STA

5.3.1 In the case of a first-to-default structure, the protection provider shall risk weight its exposures in accordance with the weightings set out in Table 11 in regulation 23(9)(d) of the Regulations. *Figures 7 and 8* below outline the corresponding long and short-term ratings of Fitch and Moody's.

Figure 7: Long-term rating

Fitch assessments	Moody's assessments	S & P assessments	Risk weights
AAA to AA-	Aaa to Aa3	AAA to AA-	20%
A+ to A-	A1 to A3	A+ to A-	50%
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%
BB+ to BB-	Ba1 to Ba3	BB+ to BB-	350%
B+ and below or unrated	B1 and below or unrated	B+ and below or unrated	1250% ⁵

⁴ As defined in regulation 23(11)(e)(B)

⁵ Or such imputed percentage that will effectively result in an amount equivalent to a deduction against capital and reserve funds

Figure 8: Short-term rating

Fitch assessments	Moody's assessments	S & P assessments	Risk weights
F1	P-1	A-1	20%
F2	P-2	A-2	50%
F3	P-3	A-3	100%
All other	All other	All other	1250% ^b

5.4 Other references to international scale ratings issued by eligible ECAs

5.4.1 In the case of any other reference in the Regulation to international scale ratings issued by eligible ECAs, the same principle as specified above should be applied.

6. Directive

6.1 All banks and controlling companies shall apply the mapping tables outlined above in the calculation of their minimum required capital and reserve funds related to credit risk in terms of regulation 23 of the Regulations.

6.2 The mapping of the international scale ratings issued by eligible ECAs to the risk weights prescribed in regulation 23 of the Regulations will be monitored by this Office and revised as appropriate.

7. Acknowledgement of receipt

7.1 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.



René van Wyk
Registrar of Banks

The previous directive issued was Directive 11/2013, dated 18 July 2013.

⁶ Or such imputed percentage that will effectively result in an amount equivalent to a deduction against capital and reserve funds