



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

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D5/2015

2015-03-26

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

Directive 5/2015 issued in terms of section 6(6) of the Banks Act 94 of 1990

Capital requirements for over-the-counter derivatives not transacted through a central counterparty

Executive summary

The Office of the Registrar of Banks (this Office) hereby informs all relevant persons of the decision taken by the Governor of the South African Reserve Bank (the Governor) in consultation with the Registrar of Banks (the Registrar) concerning capital requirements for specified transactions in over-the-counter (OTC) derivatives.

1. Introduction

- 1.1 The Regulations relating to Banks (the Regulations) include capital requirements related to banks' exposures to OTC derivatives, exchange-traded derivatives and securities-financing transactions.
- 1.2 The Governor in consultation with the Registrar decided to cancel Directive 10/2014, dated 10 December 2014, in terms of the provisions of section 6(6)(c) of the Banks Act, 1990, with effect from 1 April 2015, and to direct banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') to comply with the directives contained herein, with effect from 1 April 2015, onwards.

2. Directive: Domestic currency OTC derivatives and OTC derivatives with local counterparties¹

- 2.1 In accordance with the relevant requirements specified in the Regulations, banks are required to treat both ZAR-OTC and local-OTC derivatives that are not cleared through either a domestic or non-domestic central counterparty (CCP) as bilateral trades. Banks shall report and calculate the capital requirement for the default risk component of counterparty credit risk (CCR) on the basis of the capital requirements for bilateral trades as specified in the Regulations.

¹ For purposes of this directive, local-OTC derivatives mean OTC derivatives entered into bilaterally between South African counterparties. Locally registered branches of foreign banks are regarded as South African counterparties for this purpose. Local-OTC derivatives may include OTC derivatives not denominated solely in ZAR.

- 2.2 Furthermore, banks are required to treat all OTC derivatives that are transacted through a CCP that has not been declared a licensed clearing house under the Financial Markets Act 19 of 2012 as transactions through a non-qualifying CCP. Banks shall report and calculate the capital requirement for the default risk component of CCR on the basis of the capital requirements for trades through non-qualifying CCPs, as specified in the Regulations.
- 2.3 For the purposes of reporting a bank's capital requirements for both ZAR-OTC and local-OTC derivatives, the bank shall continue to report the appropriate required amounts of capital on the form BA 200 in compliance with the requirements specified in the Regulations. Banks that adopted the standardised approach for credit risk shall report the credit valuation adjustment (CVA) risk exposure related to OTC derivative trades in accordance with the relevant requirements, in columns 26 and 27 of line 80 of the form BA 200, and in lines 92 to 99, not excluding reporting CCR exposures in other relevant line items and columns, without alteration. Banks that obtained approval to use the internal ratings-based approach for credit risk shall report the relevant required CVA risk information in full in columns 26 and 27 of line 280 and in lines 287 to 294 of the form BA 200.
- 2.4 Based on the relevant requirements specified in the Regulations, with effect from 1 April 2015, for the purposes of calculating the capital requirement emanating from the bank's exposure to CVA risk for ZAR-OTC and local-OTC derivatives, the bank shall maintain the full capital requirement for CVA risk, as reported on the form BA 200. Furthermore, the full capital requirement for CVA risk related to the aforesaid ZAR-OTC and local-OTC derivatives, in addition to CVA and CCR capital requirements for all other categories of OTC derivatives, shall be reported as part of the total capital requirement for CCR in column 2 of the form BA 700.
- 2.5 This Office will continue to engage banks during 2015 to ensure full compliance with this directive.
- 2.6 Should a bank be unable to comply with any of the relevant directives specified in this Directive D5/2015, the bank shall, in accordance with the provisions of regulation 5 of the Regulations, report its inability to comply in writing to the Registrar, stating the reasons for such failure or inability to comply.

3. Acknowledgement of receipt

- 3.1 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 4/2015, dated 25 March 2015.