



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

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

Directive 9/2015 issued in terms of section 6(6) of the Banks Act, 1990

Approval and mapping of the international scale rating symbols of Global Credit Rating Co. (Pty) Ltd 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 (ECAI) recognised as eligible institutions in South Africa, can be used instead.

This directive requires that all banks and/or affected persons when making use of the ratings of Global Credit Rating Co. (Pty) Limited (GCR) map the international scale ratings of GCR 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 persons of

1.1.1 the approval of GCR as an eligible ECAI;

1.1.2 the mapping of the international scale ratings of GCR, 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 ECAs 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 ECAs 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 ECAs 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 ECAs 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 GCR assigned to prescribed risk weights

5.1 This Office hereby wishes to advise that the international scale ratings of GCR 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 GCR 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 GCR assessments	Claims in respect of:					
	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-	0%	20%	20%	20%	20%	20%
A+ to A-	20%	50%	50%	50%	20%	20%
BBB+ to BBB-	50%	50%	50%	50%	20%	20%
BB+ to B-	100%	100%	100%	100%	50%	50%
Below B-	150%	150%	150%	150%	150%	150%
Unrated	100%	50%	50%	50%	20%	20%

Claims in respect of corporate entities

GCR assessments	Risk weights:
AAA to AA-	20%
A+ to A-	50%
BBB+ to BB-	100%
Below BB-	150%
Unrated	100%

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

GCR assessments	Risk weights:
A1	20%
A2	50%
A3	100%
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

GCR assessments	Risk weights:
AAA to AA-	20%
A+ to A-	50%
BBB+ to BBB-	100%
BB+ to BB-	350%
B+ and below or unrated	1250%

Long-term ratings for resecuritisation exposures

GCR assessments	Risk weights:
AAA to AA-	40%
A+ to A-	100%
BBB+ to BBB-	225%
BB+ to BB-	650%
B+ and below or unrated	1250%

Figure 4: Short-term rating category

Short-term ratings for securitisation exposures

GCR assessments	Risk weights:
A1	20%
A2	50%
A3	100%
All other ratings or unrated	1250%

Short-term ratings for resecuritisation exposures

GCR assessments	Risk weights:
A1	40%
A2	100%
A3	225%
All other ratings or unrated	1250%

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:			
	GCR	Senior granular position ¹	Non-senior granular position ¹	Non-granular ¹
AAA		7%	12%	20%
AA		8%	15%	25%
A+		10%	18%	35%
A		12%	20%	35%
A-		20%	35%	35%
BBB+		35%	50%	50%
BBB		60%	75%	75%
BBB-		100%	100%	100%
BB+		250%	250%	250%
BB		425%	425%	425%
BB-		650%	650%	650%
Below BB- and unrated		1250%	1250%	1250%

Long-term ratings for resecuritisation exposures

Credit Assessments	Risk Weights:		
	GCR	Senior	Non-senior
AAA		20%	30%
AA		25%	40%
A+		35%	50%
A		40%	65%
A-		60%	100%
BBB+		100%	150%
BBB		150%	225%
BBB-		200%	350%
BB+		300%	500%
BB		500%	650%
BB-		750%	850%
Below BB- and unrated		1250%	1250%

¹ As defined in proviso (A) of regulation 23(11)(e) of the Regulations

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:		
	GCR	Senior granular position ²	Non-senior granular position ²
A1	7%	12%	20%
A2	12%	20%	35%
A3	60%	75%	75%
Below A3 or unrated	1250%	1250%	1250%

Short-term ratings for resecuritisation exposures

Credit Assessments	Risk weights:	
	GCR	Senior ²
A1	20%	30%
A2	40%	65%
A3	150%	225%
Below A3 or unrated	1250%	1250%

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 GCR.

Figure 7: Long-term rating

GCR assessments	Risk weights:
AAA to AA-	20%
A+ to A-	50%
BBB+ to BBB-	100%
BB+ to BB-	350%
B+ and below or unrated	1250%

Figure 8: Short-term rating

GCR assessments	Risk weights:
A1	20%
A2	50%
A3	100%
All other	1250%

² As defined in proviso (B) of regulation 23(11)(e) of the Regulations

5.4 Other references to international scale ratings issued by eligible ECAs

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

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 8/2015, dated 23 June 2015.