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SOUTH AFRICAN RESERVE BANK
Prudential Authority

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

Directive issued in terms of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990)

Threshold amounts related to the revised standardised and internal ratings-based approaches for credit risk, liquidity risk and interest rate risk in the banking book frameworks

Executive summary

The Prudential Authority (PA) continues to strive towards ensuring that the legislative framework for the regulation and supervision of banks and banking groups in South Africa remains relevant.

Following the global financial crisis that commenced in 2007, various international standard-setting bodies agreed to put in place, among other things, comprehensive measures, policies, regulations and reforms to promote the safety and soundness of the international financial system. In this regard, the Basel Committee on Banking Supervision (BCBS) has issued various new or revised frameworks or requirements in recent years for implementation by member jurisdictions.

On 7 December 2017, the BCBS issued the revised standardised (STA) and internal ratings-based (IRB) approaches for credit risk. The Regulations relating to Banks (Regulations) were amended to align with the revisions in the Basel framework.

Among other matters, the revisions to the STA and IRB approaches include new and adjusted threshold amounts used in classifying credit risk exposures, calculating the minimum required capital and reserve funds, and regulatory reporting. These threshold amounts also impact the classification of assets and liabilities in the liquidity risk and IRRBB frameworks.

Accordingly, the purpose of this Directive is to specify the appropriate threshold amounts to be used by banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') when implementing the various requirements of the revised STA and IRB approaches and the liquidity risk and interest rate risk in the banking book (IRRBB) frameworks.

This Directive replaces Directive 1 of 2016 dated 12 April 2016 and withdraws Directive 8 of 2023 dated 28 September 2023.

1. Introduction

1.1 Following the global financial crisis that commenced in 2007, various standard-setting bodies agreed to put in place, among other things, comprehensive measures, policies, regulations and reforms to promote financial stability as well as the safety and soundness of individual financial institutions.

1.2 On 7 December 2017, as part of the agreed regulatory reforms, the BCBS issued for implementation by member jurisdictions the remaining components of the Basel III post-crisis reforms.[1]

1.3. The revised STA and IRB approaches specify various threshold amounts to be used by banks in classifying credit exposures across the various asset classes as well as in calculating their minimum required capital and reserve funds. Some of these threshold amounts impact the classification of assets and liabilities in calculating the net stable funding ratio (NSFR) and the liquidity coverage ratio (LCR) in the liquidity risk framework.

1.4. Specific threshold amounts also affect the classification of deposits according to the nature of the deposit and the depositor within the IRRBB framework.

2. Directive

2.1. Based on the aforesaid and in accordance with the provisions of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990), banks are hereby directed to comply with the respective requirements specified in paragraphs 2.2 to 2.11. below:

2.2. Classification of credit exposures in the retail asset class

2.2.1. Regulation 23(6)(b)(iv) and proviso (i) of regulation 23(11)(c)(iv)(A)(iii) of the Regulations specify the qualifying criteria for an exposure to be included in the retail portfolio. Among other things, the exposure must be to an individual person or small business. In addition, the aggregate amount of the said exposure, after applying the relevant credit conversion factors, but before taking into account credit risk mitigation, must be less than or equal to such an amount as may be specified in writing by the PA from time to time.

2.2.2. Furthermore, in terms of regulation 23(6)(b)(v)(A) of the Regulations, an exposure to an entity, institution or person is classified as a retail small and medium-sized entity (SME) if the outstanding exposure is less than or equal to such an amount as may be directed in writing by the PA, and complies with such further conditions as may be directed in writing by the PA.

2.2.3. Accordingly, banks are hereby directed to classify an exposure to an entity, institution or small business in the retail asset class, provided the aggregate amount of the said exposures is less than or equal to R12.5 million.

[1] Available online: https://www.bis.org/bcbs/publ/d424.htm

2.3. *Classification of credit exposures in the retail revolving asset class*

2.3.1. The retail asset class includes qualifying retail revolving exposures (QRRE), with qualifying criteria for classifying exposures in this asset class specified in regulation 23(11)(c)(iv)(B)(ii)(dd) of the Regulations. These include, among other criteria, the requirement that the exposure must be to an individual person and not exceed an amount that may be specified in writing by the PA.

2.3.2. Accordingly, banks are hereby directed to only classify an exposure in the QRRE asset class if, in addition to complying with the requirements specified in regulation 23(11)(c)(iv)(B)(ii)(dd) of the Regulations, the aggregate exposure amount is less than or equal to R1.5 million.

2.4. *Firm-size adjustment for corporate SME exposures*

2.4.1. Banks that are granted approval to apply the IRB approach for calculating the minimum required capital and reserve funds for their corporate, bank and sovereign exposures must apply the risk-weight function specified in regulation 23(11)(d)(ii)(A) of the Regulations. For corporate SME exposures specifically, the formula must be adjusted using the correlation parameter specified in regulation 23(11)(d)(ii)(C) of the Regulations.

2.4.2. The adjustment will apply to an SME borrower, which would otherwise be categorised as a corporate exposure, but where the reported turnover or sales for the consolidated group of which the SME borrower is a member is less than such amount as may be directed in writing by the PA.

2.4.3. Accordingly, for the purpose of calculating the minimum required capital and reserve funds for exposures to corporate SMEs, the firm-size adjustment will apply to entities where the reported turnover or sales for the consolidated group to which the SME borrower is a member is greater than R60 million but less than or equal to R600 million.

2.4.4. In terms of regulation 23(11)(d)(ii)(C) of the Regulations, exposures to SME borrowers that are classified as corporate exposures must be calculated using an adjustment to the formula specified in regulation 23(11)(d)(ii)(A) of the Regulations, which adjustment shall be made using the relevant specified formula. Accordingly, the adjustment shall be calculated through the application of the formula specified below, provided that the reported sales for the consolidated group of which the SME borrower is a member are less or equal to R600 million. The PA may specify in writing a different threshold amount or base.

The adjustment to the relevant correlation factor ‘R’ shall be made through the application of the following formula:

$$0.04\left(1-\frac{(\mathrm{S}-60)}{540}\right)$$

where:

S is the total annual sales expressed in millions of rand and values of S falling between R60 million ≤ S ≤ R600 million.

For the purposes of the aforesaid adjustment, sales of less than R60 million shall be deemed to be equal to R60 million.

R is the relevant correlation, which correlation shall be calculated through the application of the formula specified below:

$$R = 0.12\ \frac{(1-\mathrm{e}^{-50\cdot \mathrm{PD}})}{(1-\mathrm{e}^{-50})} + 0.24\left(1-\frac{(1-\mathrm{e}^{-50\cdot \mathrm{PD}})}{(1-\mathrm{e}^{-50})}\right) - 0.04\ \left(1-\frac{(\mathrm{S}-60)}{540}\right)$$

2.5. Classification and reporting of credit exposures in the corporate SME asset class

2.5.1. The STA and IRB approaches consist of various asset classes for classifying exposures. These include the corporate SME asset class. Exposures classified in this asset class are defined in regulation 67 of the Regulations as any exposure to a corporate entity or institution where the aggregate annual turnover amount is less than a specified amount. Exposures shall be deemed to constitute a corporate SME exposure and, as such, be reported separately.

2.5.2. Accordingly, for the purpose of reporting credit exposures in the relevant asset classes of the regulatory returns, banks must classify all exposures as corporate SME exposures if the reported turnover of the corporate entity or institution is less than R600 million.

2.6. Advanced IRB (AIRB) approach corporate modelling cut-off

2.6.1. Regulation 23(13)(d)(i)(A)(i)(cc)(i) of the Regulations states that a bank shall not apply the AIRB approach in respect of any general corporate exposure belonging to a group of persons, entities or institutions of which the total consolidated annual revenues reported in the group audited financial statements exceed such amount as may be directed in writing by the PA.

2.6.2. Accordingly, for the purpose of calculating the minimum required capital and reserve funds, a bank shall not apply the AIRB approach in respect of any general corporate exposure to a person, entity or institution belonging to group of persons, entities or institutions of which the total consolidated revenues reported in the group audited annual financial statements exceed R15 billion.

2.7. Asset value correlation factor

2.7.1. Banks that have approval to use the IRB approach to calculate their risk weights for their credit exposures must, in the case of corporate institutions, sovereigns or banks, apply the risk-weight function specified in regulation 23(11)(d)(ii)(A) of the Regulations.

2.7.2. The risk-weight function has several inputs, including a correlation parameter, which is calculated through the application of a formula also specified in regulation 23(11)(d)(ii)(A) of the Regulations. In relation to a financial institution with total assets greater than or equal to such amount as may be directed in writing by the PA, the bank is required to apply a 1.25 multiplication factor to the specified correlation parameter.

2.7.3. Accordingly, for the purpose of using the risk-weight function specified in regulation 23(11)(d)(ii)(A) of the Regulations, IRB banks must apply a multiplication factor of 1.25 to all exposures to financial institutions, provided the total assets of the said financial institution are greater than or equal to R1.2 trillion.

2.8. Calculating the effective maturity

2.8.1. The effective maturity parameter is an input into the risk-weight function used by banks that adopted the IRB approach for measuring their exposure to credit risk. For banks using the foundation IRB (FIRB) approach, regulation 23(11)(d)(ii) of the Regulations sets this parameter at 2.5 years, unless the exposure relates to a repurchase or resale transaction, in which case an effective maturity equal to six months shall apply.

2.8.2. For banks that have approval to apply the AIRB approach, this effective maturity is calculated in accordance with the relevant requirements specified in regulation 23(13)(d)(ii)(B) of the Regulations.

2.8.3. Moreover, in terms of regulation 23(11)(d)(ii)(A) of the Regulations, the PA may exempt exposures under the FIRB approach from the 2.5-year effective maturity and instead require banks to calculate the effective maturity of these exposures in accordance with the relevant requirements specified in regulation 23(13)(d)(ii)(B) of the Regulations.

2.8.4. Accordingly, banks that have adopted the FIRB approach for the measurement of their exposures to credit risk are hereby directed to calculate the effective maturity of these exposures in accordance with the requirements specified in regulation 23(13)(d)(ii)(B) of the Regulations.

2.9. Securitisation scheme with early amortisation features

2.9.1. Regulation 23(6)(h)(xi)(G) of the Regulations specifies that, in the case of a securitisation scheme with early amortisation features, retail exposure means any exposure to a person that is less than the amount that may be prescribed by the PA.

2.9.2. Accordingly, in the case of a securitisation scheme with early amortisation features, the bank shall interpret retail exposure to mean any exposure to a person that is less than R12.5 million.

2.10. Classification of funding for calculating the LCR and NSFR

2.10.1. Proviso (i) of regulation 26(12)(d)(iv) of the Regulations specifies that unsecured wholesale funding provided by non-financial small business customers shall only include only those small business customers in respect of which the total aggregate amount of funding raised from a customer and its relevant associates or affiliates, on a gross consolidated basis, is less than such an amount as may be specified in writing by the PA from time to time.

2.10.2. Accordingly, unsecured wholesale funding provided by non-financial small business customers shall only include small business customers in respect of which the total aggregate amount of funding raised from a customer and its relevant associates or affiliates, on a gross consolidated basis, is less than R12.5 million.

2.11. Classification of assets and liabilities in the IRRBB framework

2.11.1. Regulation 30(5)(c)(v) of the Regulations requires a bank to distinguish between categories or types of deposit, based on the nature of the deposit and the depositor. More specifically, a bank shall distinguish broadly between retail and wholesale deposits.

2.11.2. In terms of regulation 30(5)(c)(v)(A)(i)(aa) of the Regulations, a bank may regard any deposits made by small business customers and managed by the bank as retail exposures and as having interest rate risk characteristics similar to retail accounts. These deposits may then be treated as retail deposits, provided that the total aggregated liabilities raised from the business customer amount to less than such amount as may be directed in writing by the PA from time to time.

2.11.3. Accordingly, a bank shall classify and treat any deposits made by small business customers as retail deposits, provided that the aggregate liabilities raised from the small business customer amount to less than R12.5 million.

3. Acknowledgement of receipt

3.1. Kindly ensure that a copy of this Directive is made available to your institution's external auditors. In addition, 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 the PA at the earliest convenience of the signatories.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 30/06/25

The previous Directive issued was Directive 7/2025, dated 30 June 2025.