



South African Reserve Bank

From the Office of
the Registrar of Banks

G4/2013

2013-07-23

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

Guidance Note 4/2013 issued in terms of section 6(5) of the Banks Act, 1990

Operational risk practices – completion and submission of the BA 410 return

Executive summary

The purpose of this guidance note is to (i) provide further guidance to banks, branches of foreign institutions and controlling companies (hereinafter collectively referred to as 'banks') regarding the completion and submission of the six-monthly operational risk BA 410 return and (ii) ensure consistency in terms of operational risk reporting across the South African banking industry. This guidance note does not relate to banks' internally agreed processes and thresholds.

1. Introduction

- 1.1 Regulation 34(2) of the Regulations relating to Banks (the Regulations) sets out the purpose of the BA 410 return for a bank that adopted the advanced measurement approach (AMA) for the calculation of its required amount of capital and reserve funds in respect of operational risk.
- 1.2 In addition, as part of its supervisory process, this Office requested banks that adopted the standardised approach (TSA) and the alternative standardised approach (ASA) for the calculation of their required amount of capital and reserve funds in respect of operational risk to also complete and submit the BA 410 return.

2. Line items 1 to 63 of the BA 410 return

- 2.1 This Office wishes to bring to the attention of banks that only pure operational risk losses, excluding boundary events must be recorded in line items 1 to 63.
- 2.2 In accordance with the provisions of regulation 34(3) of the Regulations relating to items 1 to 63, and as specified in Directive 11/2013, banks have to apply a minimum gross loss threshold amount of R10 000 for reporting purposes.

3. Line items 64 to 75 of the BA 410 return

- 3.1 Banks are reminded that for the purposes of internal operational risk management and reporting in line items 64 to 75, a bank must identify all material operational risk losses consistent with the scope of the definition of operational risk, including those losses related to credit risk and market risk. Material operational risk losses related to credit risk and market risk should therefore be flagged separately within a bank's internal operational risk database.
- 3.2 A written description must also be provided in column 21 of line items 64 to 75, for all material operational risk losses, including material boundary losses. Furthermore, banks should highlight in column 21 whether these material operational risk losses are related to credit risk or market risk.
- 3.3 In accordance with the provisions of regulation 34(3) of the Regulations relating to items 64 to 75, and as specified in Directive 11/2013, banks have to apply a gross loss threshold amount of R5 million for reporting material operational risk losses, that is, banks shall report any specific loss that exceeds R5 million. Banks may, after consultation with this Office, use a lower threshold should they so wish.

4. Acknowledgement of receipt

- 4.1 Two additional copies of this guidance note are enclosed for use by 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 guidance note issued was Guidance Note 3/2013, dated 11 June 2013.