South African Reserve Bank

Prudential Authority

Ref.: 15/8/2

G6/2019

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

Guidance Note 6/2019 issued in terms of section 6(5) of the Banks Act 94 of 1990

Proposed implementation dates in respect of specified regulatory reforms

Executive summary

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

In this regard, the Basel Committee on Banking Supervision (Basel Committee) has issued various new or amended frameworks, standards or requirements for implementation by member jurisdictions.

Based upon, among others, industry comments, quantitative impact studies, progress by member jurisdictions of the Basel Committee to implement the reforms and matters related to implementation complexity, the Prudential Authority (PA) proposes to implement the outstanding regulatory reforms in South Africa on the dates set out in this Guidance Note.

This Guidance Note replaces Guidance Note 6 of 2018.

1. Background

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

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1.2 In this regard, the Basel Committee has issued, among others-

1.2.1 the Basel III capital framework, originally published in December 2010 and updated in June 2011, which has subsequently been implemented in South Africa with effect from 1 January 2013;

1.2.2 the Basel III Liquidity Coverage Ratio framework, originally published in December 2010 and updated in January 2013, which has subsequently been implemented in South Africa with effect from 1 January 2015;

1.2.3 extensive enhancements to the Basel II framework in 2009, which have subsequently been implemented in South Africa with effect from 1 January 2012;

1.2.4 revisions to the Basel II market risk framework in 2009 and in 2011, which have subsequently been implemented in South Africa with effect from 1 January 2012;

1.2.5 the Basel III Net Stable Funding Ratio framework, originally published in December 2010 and updated in October 2014, which has subsequently been implemented in South Africa with effect from 1 January 2018.

1.3 During December 2017, the Basel Committee published the outstanding components of the Basel III post-crisis reform package.

1.4 The revised Basel framework comprehensively addresses the shortcomings identified in the pre-crisis regulatory framework and provides a regulatory foundation for a resilient banking system that supports the real economy.

1.5 Based upon, among others, industry comments, quantitative impact studies, progress by member jurisdictions of the Basel Committee to implement the reforms and matters related to implementation complexity, the PA proposes to implement the outstanding regulatory reforms in South Africa on the dates set out in paragraph 2.5 below.

1.6 This Guidance Note replaces Guidance Note 6 of 2018.

2. Proposed implementation dates

2.1 On 3 May 2019, the PA has issued for comment a proposed directive related to the second set in a series of proposed amendments to the Regulations relating to Banks (Regulations), inviting all interested persons to submit their comments on the proposed amendments to the Regulations by no later than 13 June 2019.

2.2 The second set in the series of proposed amendments to the Regulations incorporates the following frameworks issued by the Basel Committee for implementation by member jurisdictions:

2.2.1 The standardised approach for measuring counterparty credit risk exposures (SA-CCR).

2.2.2 A capital standard for bank exposures to central counterparties (BECCPs).

2.2.3 Capital requirements for banks' equity investments in funds (CREIF).

2.3 Originally the proposed implementation date for the second set in the series of proposed amendments to the Regulations was 1 October 2019, to be closely aligned with the earlier proposed implementation date of 1 September 2019 for the draft Joint Standards for margining requirements on OTC derivative transactions, since the respective frameworks are interrelated.

2.4 Subsequently the PA-

2.4.1 has received extensive comments and proposals from, among others, industry bodies, banks and several other stakeholders;

2.4.2 has held extensive and robust discussions with, among others, the Banking Association South Africa, other relevant industry participants as well as internally within the PA in respect of the proposed implementation in South Africa of all the relevant frameworks and standards, including the frameworks and standards related to the SA-CCR, BECCPs and CREIF;

2.4.3 has issued a letter to all banks (during September 2019) informing all banks that, for several reasons, it has been decided to delay the proposed implementation of the respective frameworks specified in paragraphs 2.2.1 to 2.2.3 to a date later than 1 October 2019.

2.5 Based upon the aforementioned comments and proposals received and the outcome of the subsequent discussions held, it has been decided to revise the proposed implementation dates in South Africa for specified regulatory reforms, including the SA-CCR, BECCPs and CREIF frameworks and standards, and the relevant other components of the Basel III post-crisis reform package, as follows:

Regulatory reform	**Proposed implementation date**
Capital requirements for equity investments in funds	1 October 2020
Capital requirements for bank exposures to central counterparties	1 October 2020
Standardised approach for measuring counterparty credit risk exposures	1 October 2020
Revisions to the securitisation framework	1 January 2021
Total loss absorbing capacity holdings	1 January 2021
Large exposures framework	1 January 2021
Interest rate risk in the banking book	1 June 2022
Interest rate risk in the banking book: Disclosure requirements	1 June 2022
Minimum capital requirements for market risk	1 January 2023
Revised standardised approach for credit risk framework	1 January 2023

Regulatory reform	Proposed implementation date
Revised internal ratings based approach framework	1 January 2023
Revised credit valuation adjustment framework	1 January 2023
Revised operational risk framework	1 January 2023
Leverage ratio – revised exposure definition	1 January 2023
Output floor	1 January 2022: 50% 1 January 2023: 55% 1 January 2024: 60% 1 January 2025: 65% 1 January 2026: 70% 1 January 2027: 72.5%

2.6 However, ultimately, amendments to the Regulations are promulgated by the Minister of Finance in terms of section 90 of the Banks Act, 1990, for implementation, only when the National Treasury and the Minister of Finance, as a minimum-

2.6.1 have concluded their own respective processes related to, for example, consideration of any relevant proposed amendments to legislation; and

2.6.2 are satisfied that a sufficiently robust consultation process has been followed in respect of the said proposed amendments to legislation.

2.7 As such, should any of the aforementioned proposed implementation dates need to be revised due to, for example, the nature and extent of comments received and/ or the PA's ongoing engagements with all relevant interested persons, including the National Treasury and the Minister of Finance, the PA will accordingly communicate the said revised proposed implementation dates.

2.8 Where applicable, parallel runs will commence at least three months prior to the relevant proposed implementation date, the relevant details of which will also be communicated by the PA in due course.

3. Statement of expected impact

3.1 In order to ensure adequate engagement and that the potential impact, costs and benefits of proposed amendments to the Regulations are duly considered and measured, the preparation of a statement of expected impact forms an integral part of the process of proposing amendments to the Regulations, with an invitation for all interested persons to submit their comments.

3.2 As part of the aforementioned processes, the PA engages all banks and other relevant persons on the respective reforms, in order to gather the necessary qualitative and quantitative information that the PA requires to determine or assess the potential impact of the proposed amendments to the Regulations, as well as to prepare the aforementioned statement of expected impact.

3.3 All comments received related to the potential impact, costs and benefits of the proposed amendments to the Regulations as well as the comments received in respect of the actual proposed amendments to the Regulations will in future be published on the website of the PA, unless a respondent specifically requests confidential treatment of such comments.

4. Acknowledgement of receipt

4.1 Kindly ensure that a copy of this guidance note is made available to your institution's external 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 the PA at the earliest convenience of the aforementioned signatories.

Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 21 NOVEMBER 2019

The previous guidance note issued was Guidance Note 5/2019, dated 23 August 2019.