

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

**Guidance Note 9/2020 issued in terms of section 6(5) of the Banks Act, 1990**

**Operational risk practices – completion and submission of form BA 410**

### **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 quarterly 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 serve as a substitute for the banks' own internally agreed operational risk processes and thresholds.

**This Guidance Note replaces Guidance Note 4/2013.**

#### **1. Introduction**

- 1.1 Regulation 34(2) of the Regulations relating to Banks (the Regulations) sets out the purpose of the form BA 410 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 processes, the Prudential Authority (PA) requested banks that adopted the standardised approach (TSA) and the alternative standardised approach (ASA) for the calculation of its required amount of capital and reserve funds in respect of operational risk to also complete and submit the form BA 410.
- 1.3 The purpose of the form BA 410 is to obtain selected information in respect of, among other things, the bank's loss event types, recorded gross losses and recovery of losses, which information is based on specified business lines and loss event types.
- 1.4 As set out in Directive 6/2020, gross loss means a loss stemming from an operational risk event or event type before any type of recovery is taken into consideration.

1.5 This Guidance Note replaces Guidance Note 4/2013.

## **2. Line items 1 to 63 of form BA 410**

2.1 The PA wishes to bring to the attention of banks that only losses that fall within the definition of operational risk losses specified in the Regulations, excluding credit boundary events, must be recorded in line items 1 to 63 of the form BA 410.

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 6/2020, banks must apply a minimum gross loss threshold amount of R10 000 for reporting purposes.

## **3. Line items 64 to 75 of form BA 410**

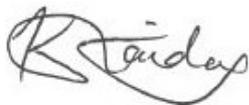
3.1 In relation to line items 64 to 75, banks should identify all material operational risk losses consistent with the scope of the definition of operational risk, including those losses related to credit risk and market risk. Material operational risk losses related to credit risk and market risk should, therefore, be flagged separately within a bank's operational risk database, for internal operational risk management and reporting purposes.

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, read with Directive 6/2020, banks must apply a gross loss threshold amount of R5 million for reporting material operational risk losses, that is, banks have to report any specific loss as envisaged in paragraph 2.1 that is equal to or exceeds R5 million. Banks may, after consultation with the PA, use a lower threshold should they so wish.

## **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:** 2020-09-23

The previous guidance note issued was Guidance Note 8/2020 dated 9 September 2020.