



Ref.: 15/8/1/3

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

Proposed Directive issued in terms of section 6(6) of the Banks Act, 1990

Proposed amendments to the Regulations relating to Banks

Executive summary

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

As part of the internationally agreed regulatory reforms to promote the safety and soundness of the international financial system, the Basel Committee on Banking Supervision (BCBS) has issued various new or revised frameworks or requirements during recent years for implementation by member jurisdictions.

In this regard, on 21 April 2016, the BCBS issued a revised framework for Interest Rate Risk in the Banking Book (IRRBB).

As such, the PA proposes amendments to the Regulations relating to Banks (Regulations) to incorporate the respective requirements specified in the revised framework for IRRBB issued by the BCBS into the Regulations.

Banks, controlling companies, branches of foreign institutions, eligible institutions and auditors of banks or controlling companies (hereinafter collectively referred to as interested persons) are hereby invited to submit their comments in respect of the proposed amendments to the Regulations by no later than 15 January 2021.

1. Introduction

- 1.1 In response to the global financial crisis that commenced in 2007, the Group of Twenty (G-20) initiated a reform programme in 2009 to strengthen the international financial system.¹
- 1.2 As part of the internationally agreed regulatory reforms, the BCBS has issued for implementation by member jurisdictions a revised framework for IRRBB.

¹ G-20, Pittsburgh summit declaration: [Pittsburgh declaration](#)

1.3 In order to ensure that the legal framework for the regulation and supervision of banks and banking groups in South Africa remains relevant and current, the PA has drafted proposed amendments to the Regulations to incorporate the respective requirements specified in the revised framework for IRRBB issued by the BCBS into the Regulations.

1.4 The key matters communicated by the BCBS in respect of the aforementioned revised framework for IRRBB are summarised in paragraph 2 below.

2. Revised framework for IRRBB

2.1 On 21 April 2016 the BCBS issued a revised framework for IRRBB,² replacing the BCBS's 2004 Principles for the management and supervision of interest rate risk.

2.2 The key enhancements to the 2004 Principles include:

2.2.1 More extensive guidance on the expectations for a bank's IRRBB management process in areas such as the development of interest rate shock scenarios, as well as key behavioural and modelling assumptions to be considered by banks in their measurement of IRRBB.

2.2.2 Enhanced disclosure requirements to promote greater consistency, transparency and comparability in the measurement and management of IRRBB. This includes quantitative disclosure requirements based on common interest rate shock scenarios.

2.2.3 An updated standardised framework, which supervisors could mandate their banks to follow or banks could choose to adopt.

2.2.4 A more strict threshold for identifying outlier banks, which has been reduced from 20% of a bank's total capital to 15% of a bank's Tier 1 capital.

2.3 The revised IRRBB standards reflect changes in market and supervisory practices since the Principles were first published in 2004, which is particularly pertinent in light of the current exceptionally low interest rate environment in many jurisdictions.

2.4 One of the key objectives of the revised IRRBB framework is to ensure that banks have appropriate capital to cover potential losses from exposures to material changes in interest rates.

3. Proposed amendments to the Regulations

3.1 In order to ensure the legal framework for the regulation and supervision of banks and banking groups in South Africa remains relevant and current, the PA has drafted proposed amendments to the Regulations.

3.2 The aforementioned proposed amendments to the Regulations include amendments to:

3.2.1 the form BA 330;

² Available online at [BCBS's IRRBB](#).

- 3.2.2 regulation 30 of the Regulations to provide for matters related to-
 - 3.2.2.1 a bank's governance and risk management framework;
 - 3.2.2.2 the measurement and appropriate management of a bank's exposure to interest rate risk in the banking book;
 - 3.2.2.3 a bank's risk and internal capital adequacy assessment process;
 - 3.2.2.4 a bank's stress testing framework related to its exposure to interest rate risk in the banking book;
 - 3.2.2.5 behavioural and modelling assumptions;
 - 3.2.2.6 a bank's internal validation framework;
 - 3.2.2.7 disclosure;
- 3.2.3 regulation 39 of the Regulations to provide for matters related to the responsibility of the board of directors of a bank to ensure an adequate and effective process of corporate governance, which is consistent with the nature, size, complexity and risk inherent in the bank's on-balance sheet and off-balance sheet activities and that appropriately responds to changes in the bank's environment and conditions, is established and maintained;
- 3.2.4 regulation 67 of the Regulations, in order to incorporate the relevant required definitions.
- 3.3 The PA proposes to implement the updated set of proposed amendments to the Regulations by no later than 1 June 2022.³

4. Directive

- 4.1 Based on the aforesaid and in accordance with the provisions of section 6(6) of the Banks Act 94 of 1990, all interested persons are hereby directed to take note of the proposed amendments to the Regulations, attached to this proposed directive as Annexure 1, and the proposed implementation date of 1 June 2022.

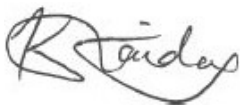
5. Statement of expected impact and matters related thereto

- 5.1 During the recent past, the PA had engagements with several interested persons in respect of the need for and the expected impact of the revised IRRBB framework issued by the BCBS, and the envisaged proposed amendments to the legal framework for the regulation and supervision of banks and banking groups in South Africa, to duly incorporate the respective requirements specified in the revised IRRBB framework issued by the BCBS for implementation by member jurisdictions.
- 5.2 In order to ensure adequate engagement with all interested persons and that the potential impact, costs and benefits of the proposed amendments to the Regulations are duly considered and measured, a statement of expected impact was prepared by the PA, which is attached to this proposed directive as Annexure 2.

³ See [Guidance Note 7 of 2020](#)

6. Invitation for comment

- 6.1 All interested persons are hereby invited to submit their comments on the proposed amendments to the Regulations, attached to this proposed directive as Annexure 1, and/ or the statement of the need for, expected impact and intended operation of the proposed amendments to the Regulations, attached to this proposed directive as Annexure 2, to: SARB-PA@resbank.co.za, for the attention of Mr A J Smal, by no later than 15 January 2021.
- 6.2 All comments received will be published on the website of the PA, unless a respondent specifically requests confidential treatment.



Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 2020-10-27

Encl. 2