

Ref.: 15/8/1/3

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

Proposed Directive issued in terms of section 6(6) of the Banks Act 94 of 1990

Reporting requirements in terms of regulation 30 of the Regulations relating to Banks

Executive summary

On 28 October 2020, the Prudential Authority (PA) issued for public comment proposed amendments to the Regulations relating to Banks (Regulations) to incorporate the revised framework for banks' exposures to interest rate risk in the banking book (IRRBB) issued by the Basel Committee on Banking Supervision (BCBS) for implementation by member jurisdictions.

All interested persons were invited to submit their comments on the proposed amendments to the Regulations, including the proposed amended form BA330 and the related Statement of the need for, expected impact, and intended operation of the proposed amendments to the Regulations to the PA by no later than 15 January 2021.

On 8 August 2022, the PA issued an updated set of proposed amendments to the Regulations and the respective documents related thereto for a final round of public consultation. Accordingly, all interested persons were invited to submit their comments on the updated set of proposed amendments to the Regulations, including the proposed amended form BA330 and the related Statement of the need for, expected impact, and intended operation of the proposed amendments to the Regulations, to the PA by no later than 2 September 2022.

1. Introduction

- 1.1 On 28 October 2020, the PA issued for public comment proposed amendments to the Regulations to incorporate IRRBB. An updated set of proposed amendments to the Regulations to incorporate IRRBB was issued externally on 8 August 2022 for a final round of public comment.
- 1.2 Banks and other interested persons were consulted during an extended period to obtain their inputs in respect of various matters proposed within drafts 1 and 2 of the proposed amendments to the Regulations incorporating IRRBB, particularly in relation to the proposed amended form BA330.
- 1.3 The PA conducted extensive field testing of the proposed amended form BA330 during the latter part of 2021 and the first two months of 2022.

1.4 Most of the comments received from banks during the latest consultation related to the proposed amendment of form BA330. As a result, the PA has decided to delete the detailed instructions for the completion of the form BA330 from regulation 30(10) of the proposed amendments to the Regulations and to insert an enabling provision that allows the PA to issue a Directive in terms of section 6(6) of the Banks Act 1990 to specify the detailed instructions for the completion of the form BA330. Deleting the instructions from the Regulations and issuing the instructions as a Directive allows for further amendments without requiring amendments to the Regulations.

2. Directive

2.1 Based on the aforesaid and in accordance with the provisions of section 6(6) of the Banks Act 94 of 1990, banks are hereby directed as follows:

2.1.1 A bank shall construct the relevant required repricing gap by classifying all relevant interest rate-sensitive assets and liabilities in time buckets according to their repricing characteristics or maturity dates. The repricing gap:

- (a) measures the bank’s exposure to risk by focusing on changes to future profitability within a given time horizon, eventually affecting future levels of the bank’s equity;
- (b) is derived from a static balance sheet; and
- (c) assumes that the derived potential rate movements will occur through a parallel rate shock to all maturities along the yield curve.

2.1.2 Instructions relating to the completion of the form BA330 are furnished with reference to column and line-item descriptions appearing on the form BA330, as per the tables below.

BA330 Column instructions:

Column number	Column description	Instruction
1	Overnight	This column shall reflect the relevant required amounts related to items profiled to reprice/reset within the next business day or maturity date if maturing within the next day.
10	Non-rate sensitive items	This column shall reflect the required aggregate amounts of assets, liabilities or items held in the bank's banking book in relation to which the value is not sensitive to or influenced by changes in interest rates.

BA330 Line-item instructions:

Line number	Line-item description	Instruction
1	Variable rate items	These items shall reflect the aggregate amount of all relevant prime-linked items, central bank main reference rate, and other overnight resetting assets or items profiled according to their overnight (next business day) reset date or maturity date if maturing within the next day. Inflation-linked items can be treated as either fixed or variable rates (dependent on the reporting bank's classification). From an Interest rate shock perspective (whether for gap reporting, NII or EVE), apply consistent treatment regarding how inflation is classified.
2	Fixed-rate items	These items shall reflect the aggregate amount of all relevant fixed-rate assets or items profiled according to their contractual maturity dates or next reset date. Inflation-linked items can be treated as either fixed or variable rates (dependent on the reporting bank's classification). From an Interest rate shock perspective (whether for gap reporting, NII or EVE), apply consistent treatment regarding how inflation is classified.
3	Benchmark rate items	These items shall reflect the aggregate amount of all relevant reference rate-linked assets or items.
4	Discretionary rate items	These items shall reflect the aggregate amount of all relevant assets or items- (a) in respect of which the relevant rate: (i) may or may not change in line with a regular base rate, and (ii) may be varied at the discretion of the reporting bank, (b) which assets, items, or instruments shall be reported based on the earliest adjustable interest-rate date.
5	Non-rate sensitive assets	These items shall reflect the aggregate amount of all relevant assets or items held in the bank's banking book in relation to which the value is not sensitive to or changed or influenced by changes in interest rates- (a) such as, for example- (i) a deferred tax asset; or

Line number	Line-item description	Instruction
		<p>(ii) any portion of an impaired exposure or loan in respect of which the bank is no longer exposed to movements in interest rates since the bank has suspended interest accrual or;</p> <p>(iii) interest is recognised on the amortised cost, that is, on the gross exposure amount, but an equivalent amount is raised as an impairment against that exposure amount in terms of any relevant Financial Reporting Standard, such as, for example, IFRS 9 stage 3 type of exposures or loans. As such, in the end, that exposure or loan does not impact or change the bank's Income Statement or Balance sheet, provided that any portion of the loan or exposure that remains sensitive to changes or fluctuations in interest rates, and in respect of which the bank calculates interest, must be reported in the relevant interest rate bucket related to rate sensitive assets or items on the form BA330;</p> <p>(b) which assets or items are generally referred to as non-rate sensitive assets or items.</p> <p>These items may be reported in the 'Other assets' line item or variable, fixed, benchmark, and discretionary rate items (Dependent on the reporting bank's system set-up).</p>
8	Variable rate item	<p>These items shall reflect the aggregate amount of all relevant prime-linked items, central bank main reference rate, and other overnight resetting liabilities or items profiled according to their overnight (next business day) reset date or maturity date if maturing within the next day. Inflation-linked items can be treated as either fixed or variable rates (dependent on the reporting bank's classification). From an Interest rate shock perspective (whether for gap reporting, NII or EVE), apply consistent treatment regarding how inflation is classified.</p>
9	Fixed-rate items	<p>These items shall reflect the aggregate amount related to all relevant fixed-rate liabilities or items profiled according to their contractual maturity dates or next reset date. Inflation-linked items can be treated as either fixed or variable rates (dependent on the reporting bank's classification). From an interest rate shock perspective (whether for gap reporting, NII or EVE), apply consistent treatment regarding how inflation is classified.</p>

Line number	Line-item description	Instruction
10	Benchmark rate items	These items shall reflect the appropriate aggregate amount related to all reference rate-linked liabilities.
11	Discretionary rate items	These items shall reflect the aggregate amount of all relevant discretionary rate liabilities or items or non-maturity deposit balances that are subject to pass-through and profiling assumptions, which liabilities or items can contractually reprice overnight and/or be withdrawn overnight resulting in the full balance being reported in the overnight bucket.
12	Non-rate sensitive liabilities and capital and reserve funds	<p>These items shall reflect the aggregate amount of all relevant liabilities or items held in the bank's banking book and amounts constituting capital and reserve funds of the bank-</p> <p>(a) the relevant values of which are not sensitive to or influenced by changes in interest rates, such as, for example-</p> <p>(i) balances due to creditors; or</p> <p>(ii) any non-interest-bearing capital instrument or reserve fund;</p> <p>(b) which liabilities or items, or capital and reserve funds are generally referred to as non-rate sensitive liabilities or items.</p>
13	Net funding to / (from) trading book	These items shall reflect the relevant net position or amount arising from or related to the bank's internal lending between its trading book and banking book, provided that the bank shall report the relevant trading to banking book offsetting positions in the column titled non-rate sensitive items.
14	Net funding to / (from) foreign branches	<p>These items:</p> <p>(a) relate to the completion of the form BA330 on a legal entity basis that includes any relevant activity or exposure of a foreign branch;</p> <p>(b) shall reflect the relevant net position or amount related to funds borrowed from or lent to the bank's foreign branches,</p> <p>provided that the bank shall report the relevant offsetting positions in the non-rate sensitive items column.</p>
17 to 19	Swaps and forward rate agreements	In accordance with the relevant requirements specified in the form BA330, the bank shall separately report all relevant-

Line number	Line-item description	Instruction
		<p>(a) contracts or agreements in respect of which the bank pays a fixed rate and receives a floating rate, including all relevant interest rate swaps, assets swaps, FRAs, etc.;</p> <p>(b) contracts or agreements in respect of which the bank receives a fixed rate and pays a floating rate, including all relevant interest rate swaps, assets swaps, FRAs, etc.; and</p> <p>(c) contracts or agreements in respect of which the bank pays a floating rate and receives a floating rate, including all relevant basis risk swaps, that is, for example, pay 3-month Jibar linked rate and receive prime linked rate, provided that the bank shall, in all relevant cases-</p> <p>(i) report the relevant notional amounts associated with paid positions as a negative notional amount and amounts received as a positive notional amount in the appropriate maturing (fixed leg) or next, reprice date (floating leg) bucket;</p> <p>(ii) treat an interest-rate swap contract in terms of which the bank receives a floating rate and pays fixed as being equivalent to a long position in a floating-rate instrument with a maturity equivalent to the period until the next interest-rate fixing and as a short position in a fixed-rate instrument with the same maturity as the interest-rate swap contract itself; and vice versa.</p> <p>For example, a two-year pay fixed and receive floating forward swap contract commencing in one year, with a floating reset date of three months, must be reported as a long position in the one-year time band and a short position in the three-year time band.</p> <p>(iii) report a Forward Rate Agreement (FRA) or futures contract on the same basis as a purchased or sold position, that is, as a long or short position. The maturity of the relevant contract or instrument shall be based on the exercise date plus the life of the underlying contract or instrument.</p>

Line number	Line-item description	Instruction
		For example, a 3 x 6 FRA buyer borrowing money in three months must report a long position in the 3-month time band and a short position in the 6-month time band.
20	Other derivative instruments	<p>These items shall reflect the aggregate amount of all relevant derivative instruments other than swaps, futures and FRAs reported in line items 17 to 19, which derivative instruments form part of managing the reporting bank's exposure to interest rate risk in the banking book.</p> <p>Similar to other derivative contracts, the bank shall, in the case of an option contract, report the appropriate contract amounts in the relevant time bands based on the contract's relevant settlement date and maturity date.</p> <p>For example,</p> <p>(a) when the bank buys a call option in respect of a 3-month interest future, which option is exercisable in two months, the bank shall, based on the relevant delta equivalent value of the contract, report a long position in the 5-month time bucket and a short position in the 2-month time bucket; and</p> <p>(b) in the case of a swaption contract, the bank that bought the swaption shall report a short position, that is, a sold position, in respect of the strike date, and a long position, that is, a purchased position, in respect of the maturity date.</p>
22	Cumulative gap, including derivative instruments	Based on the relevant net amounts reported in item 21, this item shall reflect the appropriate cumulative amount in respect of the reporting bank's repricing gap in the relevant specified time band.
23 to 44	Behavioural static repricing gap	The bank shall apply the same line-item instructions specified herein before in relation to the bank's contractual static repricing gap when it completes the respective items specified in items 23 to 44, provided that the bank shall apply its behavioural assumptions in relation to the relevant specified items.

Line number	Line-item description	Instruction
45 to 48	Contractual sensitivity of net-interest income	Based on the bank's respective contractual positions and in accordance with the requirements specified in the form BA330, these items shall reflect the relevant required aggregate amounts indicating the bank's sensitivity to specified interest rate movements
45 to 46	Parallel rate shock up/down	These items shall reflect the relevant required aggregate amounts, calculated as scenario less base, excluding the impact of any relevant interest rate swaps, FRAs, etc.
47 to 48	Parallel rate shock up/down	These items shall reflect the relevant required aggregate amounts, calculated as scenario less base, including the impact of any relevant interest rate swaps, FRAs, etc.
49 to 50	Impact of a parallel rate shock on Tier 1 Capital and reserve funds	Based on the relevant amounts reported in items 47 and 48, the reporting bank shall express the relevant impact of the specified rate change on its net interest income as a percentage of the bank's Tier 1 capital and reserve funds, as reported in line item 77 under column 1 of the form BA700.
51 to 52	Impact of parallel rate shock in yield curve on forecast net interest income	Based on the relevant amounts reported in items 47 and 48, the reporting bank shall express the relevant impact of a rate change on its net interest income as a percentage of the bank's forecast net interest income for the twelve months following the reporting month.
53	Impact of adverse correlated risk shock	These items shall reflect the expected impact on net interest income over 12 months of an unchanged prime interest rate but an adverse movement of 100bps or such further currency-specific absolute shocks as may be directed in writing by the Authority in the call rate or any applicable specified benchmark rate.
54 to 55	Impact of adverse correlated risk shock	In accordance with the requirements specified in the form BA330, these items shall reflect the relevant required aggregate amounts related to an adverse correlated rate shock.
54	NII Impact of bank-specific rate shock	These items shall reflect the relevant required NII Impact of a bank-specific rate shock derived from the bank's own internally formulated scenario for adverse correlated moves in rates, provided that, when requested in writing by the Authority, the bank shall submit in writing to the Authority all relevant required information regarding the assumptions and yield curve shifts used in the calculation of the relevant reported amount.

Line number	Line-item description	Instruction
55	NII Impact of bank-specific rate shock for ZAR adverse correlated moves as a percentage of 12-month forecast NII	In accordance with the respective requirements specified in the form BA330, this item shall reflect the expected impact of the bank-specific shock on the bank's 12-month forecast NII.
56 to 66	Behavioural interest rate sensitivity: banking book impact on NII	The bank shall apply the same corresponding line-item instructions specified herein before concerning the bank's contractual interest rate sensitivity: banking book impact on NII when the bank completes the relevant items specified in items 56 to 66, provided that the bank must apply its behavioural assumptions in respect of the relevant specified items.
67	Contractual and Behavioural Change in the economic value of equity: Total assets	These items shall reflect the required aggregate cash flow amounts of all applicable rate sensitive assets, including the respective aggregate amounts related to all applicable variable rates, fixed rates, benchmark rates and discretionary rate items.
68	Contractual and Behavioural Change in the economic value of equity: Total liabilities	<p>These items shall reflect the required aggregate cash flow amounts of all relevant rate-sensitive liabilities, including the respective aggregate amounts related to-</p> <p>(a) all relevant variable rate, fixed rate, benchmark rate and discretionary rate items; and</p> <p>(b) the relevant net funding to/from the bank's trading and banking books.</p>
69	Contractual and Behavioural Change in the economic value of equity: Net gap	This item shall reflect the difference between the repricing cash flows of assets and liabilities.
70	Contractual and Behavioural Change in the economic value of	(a) The starting point for an EVE sensitivity calculation is the static interest-rate gap report. In this scenario, the gaps in each time bucket are transformed into a net present value (NPV) by discounting using discount factors based on the level of interest rates.

Line number	Line-item description	Instruction
	equity: Base economic value of equity	<p>(b) The NPVs for each time bucket are then added to create a high-level estimate of the bank's economic value.</p> <p>(c) It is important to remember that the tenor bucket to use for each asset and liability product for EVE calculation purposes is the interest-rate repricing tenor, not its expected life tenor.</p> <p>This item shall reflect the Base EVE (which is the net present value) as per discount factor rates applied in the discount curves table in the BA330 form.</p> <p>In accordance with the respective requirements specified in the form BA330, this item shall reflect the bank's relevant base EVE amount for each time bucket, duly distinguishing between-</p> <p>(a) summed EVE amount that includes derivatives used or affecting the bank's EVE amount, whether tactical or structural; and</p> <p>(b) summed EVE amount that excludes derivatives used or affecting the bank's EVE amount, whether tactical or structural.</p>
71 to 76	Contractual EVE sensitivity	In accordance with the respective requirements specified in the form BA330, these items shall reflect the impact of each relevant specified shock scenario relative to the bank's base EVE per time bucket.
81 to 86	Behavioural EVE sensitivity	In accordance with the respective requirements specified in the form BA330, these items shall reflect the impact of each relevant specified shock scenario relative to the bank's base EVE per time bucket.
87 to 93	Discount curves	<p>In accordance with the respective requirements specified in Regulation 39(4) of the Regulations, these items shall reflect the relevant mid-point curve rates in relation to the specified curves, provided that in relation to the >25Y term structure, the bank shall report the 30Y mid-point curve rate.</p> <p>Base curve- This item shall reference the Jibar swap curve (ZAR reporting).</p> <p>For Material Foreign currency reporting, the PA</p>

Line number	Line-item description	Instruction
		is not prescribing the base curve at this stage, and banks shall report curves used for internal risk management purposes.
94	Maximum	<p>In accordance with the respective requirements specified in the form BA330, this item shall reflect the bank's relevant maximum loss amount derived from the 6 prescribed scenarios as per Regulation 30(5)(H)(i) of the Regulations, duly distinguishing between-</p> <p>(a) the relevant amount that includes derivatives used or affecting the bank's EVE amount, whether tactical or structural; and</p> <p>(b) the relevant amount that excludes derivatives used or affecting the bank's EVE amount.</p>
95	Tier 1 capital	This item shall reflect the bank's appropriate aggregate amount of Tier 1 capital and reserve funds, reported in line item 77 column 1 of the form BA700.
100	Base case	This item shall reflect the bank's relevant required forecast level of the applicable rate and not the rate of change for the bank's base case scenario.
101	Bearish case	This item shall reflect the bank's relevant required forecast level of the applicable rate and not the rate of change for the bank's increasing rate case scenario.
102	Bullish case	This item shall reflect the bank's relevant required forecast level of the relevant rate and not the rate of change for the bank's decreasing rate case scenario.
103	Material foreign currency reporting	<p>When completing the material foreign currency reporting of the form BA330, the bank shall apply the respective corresponding line-item instructions specified hereinbefore-</p> <p>(a) in relation to any relevant foreign currency exposure that individually is equal to or exceeds 5% of the bank's total assets /liabilities, in which case the bank shall not convert the relevant amounts required to be reported to ZAR; or</p> <p>(b) when the aggregate or combined amount of all the bank's respective exposures to foreign currencies regarded as immaterial is equal to or exceeds 5% of the bank's total assets/liabilities,</p>

Line number	Line-item description	Instruction
		the bank shall convert the aggregate amounts required to be reported to ZAR.

2.2 Banks are further directed as follows:

2.2.1 Credit spread risk in the banking book (CSRBB) reporting requirements:

2.2.1.1 The 2020 Quantitative Impact Study (QIS) found limited CSRBB exposure. Therefore, the PA will monitor CSRBB exposure through manual submissions. Accordingly, the frequency of required submissions may vary dependent on materiality.

2.2.1.2 As an interim solution, the first submissions will be alongside the Business Day 20 submissions based on January 2023 data and must be submitted monthly to rsd-alm@resbank.co.za.

2.2.1.3 Automated CSRBB reporting will be phased into the PA's final system solution as soon as and when the PA migrates to the future system solution.

2.2.2 Consolidated reporting requirements:

2.2.2.1 Regulation 30 of the Regulations, as amended to incorporate the updated IRRBB standards, shall be applied by banks only on a solo basis until IRRBB Public Disclosure requirements come into effect, from 1 January 2024, when Regulation 30 of the Regulations shall be applicable on both a solo and group consolidated basis.

2.2.2.2 For Group consolidated reporting requirements, all IRRBB requirements shall be applicable. Any challenges concerning the IRRBB reporting on a group consolidated basis should be brought to the attention of the PA.

2.2.3 Internal capital framework for IRRBB:

2.2.3.1 The Pillar 2 IRRBB framework requires banks to assess, and stress test their overall interest rate risk exposure according to specified methods and take corrective measures should this exposure be deemed excessive.

2.2.3.2 Capital requirements for IRRBB will be assessed through the Pillar 2 process during the annual Internal Capital Adequacy Assessment Process (ICAAP).

2.2.4 IRRBB model validation:

2.2.4.1 Models used to model IRRBB will be subject to annual model validation. The scope of the models subject to validation must include the following:

- Non-maturity deposits (NMD) models.
- Behaviouralisation models/bank-specific assumptions.
- Models used to allocate economic capital for IRRBB.
- Methodology for constructing interest rate curves.
- Methodology for creating interest rate scenarios.
- Methodology for banks using Internal Measurement System (IMS) approach; and

- Methodology for banks using a standardised approach.

2.2.5 Negative interest rates:

2.2.5.1 The 0% floor on interest rates no longer applies, and negative interest rates can now be included in NII and EVE calculations.

2.2.5.2 In this regard, the PA shall apply a -100bps floor, as there is an economic floor to interest rates.

3. Invitation for comment

3.1 Banks are hereby invited to submit their comments concerning the proposed directive to SARB-PA@resbank.co.za and katleho.makoko@resbank.co.za for the attention of Ms Katleho Makoko by no later than 6 January 2023.

3.2 All comments received from banks may be published on the website of the PA unless a respondent bank specifically requests confidential treatment.

Fundi Tshazibana
Chief Executive Officer

Date: