

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

Conditions related to the completion of the operational risk form BA 400

Executive summary

The purpose of this proposed Directive is to direct banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') with respect to specified matters regarding the completion of the quarterly operational risk form BA 400.

1. Introduction

- 1.1 Regulation 33(2) of the proposed amendments to the Regulations relating to Banks (the proposed amended Regulations) sets out the purpose of form BA 400 with respect to the required amount of capital and reserve funds for operational risk for banks, calculated in terms of the standardised approach.
- 1.2 For the measurement of a bank's exposure to operational risk, the Prudential Authority (PA) decided to specify further conditions as set out in paragraphs 2 and 3 of this proposed Directive for banks to comply with in relation to the standardised approach.
- 1.3 These conditions become effective from the implementation date of the proposed amended Regulations, that is, from 1 January 2024 onwards.

2. Further conditions relating to loss component

- 2.1 A bank that has not been designated as a domestic systemically important bank and that does not have 10 years of high-quality loss data will not be allowed to use the loss component in the calculation of the bank's required amount of capital and reserve funds for operational risk. In such cases, that bank must apply an internal loss multiplier equal to 1.
- 2.2 In accordance with the requirements specified in regulation 33(4)(c)(i)(C)(ii) of the proposed amended Regulations, the quality of the internal loss data must be reviewed by the internal and/or external auditors of the bank. The results of that review must be submitted to the PA in writing on the Application Form: Matters related to the Standardised Approach, attached hereto as Annexure A, prior to the inclusion of the relevant loss data in the calculation of the bank's required amount of capital and reserve funds for operational risk, for approval.

2.3 As stated in regulation 33(4)(h)(iv) of the proposed amended Regulations, losses can only be excluded from the loss component after being included in the bank's operational risk loss database for a minimum period of three years. If a bank wishes to exclude certain operational loss events that are no longer relevant to the risk profile, a formal written request as set out in the Application Form: Matters related to the Standardised Approach, attached hereto as Annexure A, must be submitted to the PA. Losses may only be excluded from the bank's loss component after written approval has been obtained from the PA.

3. Further conditions relating to divested activities

3.1 As stated in regulation 33(4)(g)(i)(B) of the proposed amended Regulations, a bank that wishes to exclude divested activities from its business indicator, shall submit a formal request to the PA in writing with detailed information on the divested activities as outlined in the Application Form: Matters related to the Standardised Approach, attached hereto as Annexure A. These items must be approved by the PA in writing before they are excluded from the bank's business indicator.

4. Invitation for comments

4.1 Banks, controlling companies, branches of foreign institutions and other interested persons are hereby invited to submit their comments in respect of the proposed Directive to: SARB-PA@resbank.co.za and to Itumeleng.Ledwaba@resbank.co.za, for the attention of Itumeleng Ledwaba, by no later than 21 October 2022.

Fundi Tshazibana
Chief Executive Officer

Date:

Encl. 1