Annexure 5

South African Reserve Bank

Prudential Authority

Responses to operational risk comments received on Draft 1 of the proposed amendments to the 5th set of Regulations.

June 2023

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Introduction

1. In December 2017, the Basel Committee on Banking Supervision (BCBS) published the "Basel III: Finalising post-crisis reforms[1]" to reduce the excessive variability in the calculation of risk-weighted assets (RWAs) by banks. As a result, the current approaches used for the calculation of the operational risk (OR) regulatory capital will be replaced by one standardised approach from 1 January 2024 as per Guidance Note 4 of 2022[2].
2. The standardised approach methodology is based on the following components: (i) the Business Indicator (BI) which is a financial statement-based proxy for operational risk; (ii) the Business Indicator Component (BIC), which is calculated by multiplying the BI by a set of regulatory determined marginal coefficients; and (iii) the Internal Loss Multiplier (ILM), which is a scaling factor that is based on a bank's average historical losses and the BIC. The minimum OR capital is calculated by multiplying the BIC and the ILM.
3. The standardised approach was incorporated into draft 1 of the proposed amendments to the 5th set of the regulations and the banking industry was invited to submit comments to the Prudential Authority (PA) on 21 October 2022. The banking industry requested a 2-week extension to submit the comments on 4 November 2022. The comments were reviewed and addressed through draft 2 of the proposed amendments to the 5th set of the regulations, tier 3 legislation and clarification provided where required. The comments were presented to and interrogated by the various PA governance committees.

List of Commenters

Name of organisation	
1. FirstRand Bank Limited (FRL)	2. Banking Association South Africa (BASA)

[1] Available online at: https://www.bis.org/bcbs/publ/d424.pdf
[2] Available online at: https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-deposit-takers/banks-guidance-notes/2022/G4-2022-Revised-Basel-Implementation-Dates

OR Comments Matrix

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
1	FRL	Annexure 1, page 111, Draft regulation 33(7a), General comment	Due to the way BI and the ILM is calculated, the sum of lower-level entities' calculated capital will not be equal to capital requirements on a higher level. This is, among others, a result of lower-level entities potentially falling into a lower BI bucket, and having a different ILM, than a higher-level, parent entity. It is important that these differences be noted, as it may make comparisons and reconciliation of New Standardised Approach (NSA) capital requirements between higher and lower-level entities within an organisation difficult and challenging to interpret. It may also complicate comparisons between different banks' NSA calculations and capital requirements. Measures that can be applied to potentially mitigate these reconciliation challenges may include the application of parameters calculated on the highest level in the organisation, for example, the ILM and BI marginal coefficient, in capital calculations of all lower-level entities.	The comment and its mitigant are noted; the capital requirements for lower and higher-level entities are not intended to be equal, please see Annexure 1, draft regulation 33(7)(c)(4)(a)(i)(A) which specifies the calculation at the consolidated or sub-consolidated level, the bank or controlling company levels (solo, bank consolidated and controlling company). The institution of parameters at different levels (solo, bank consolidated and controlling company) of the entities will not be instituted. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
2	FRL	Annexure 1, page 111, Draft regulation 33(7),	The Authority can consider providing guidance on the application of NSA on lower levels of the Bank's organizational structure (levels lower than what is required for the BA400). Operational risk capital currently has to be reported on various levels for	The application of the NSA is the same across all entities and at all levels (solo, bank consolidated and controlling company) except for the ILM usage in the capital calculation which is only allowed for domestic systematically important banks (DSIBs); the rest of the banking entities ILM will be set to 1. The capital

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		General comment	certain other regulatory returns (BA600, BA610). The calculation of NSA on such granular levels will pose various challenges and it might be more appropriate to use an allocation mechanism (developed internally by banks or provided by the Authority) to allocate capital to these lower-level entities, as opposed to calculating NSA on these levels.	requirement for non-DSIB entities will be based on the BIC. The calculation should be aggregated at different levels (solo, bank consolidated and controlling company) to decide which bucket or buckets to use at a granular level. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
3	FRL	Annexure 1, page 111, Draft regulation 33(7)(a)(2)(a)	Consider updating this paragraph to be reflective of the purpose of the new BA400 return, as opposed to the current BA400 return. As an example: "Provide a reconciliation between BI components and the bank's financial items from the income statement and balance sheet used as input to calculate the bank's required amount of capital and reserve funds in respect of operational risk".	Agree with the comment, the paragraph will be reworded. Action: paragraph reworded in draft 2 to read as follows: "Provide a reconciliation between business indicator (BI) components and the bank's financial items from the income statement and balance sheet used as input to calculate the bank's required amount of capital and reserve funds in respect of operational risk".
4	FRL	Annexure 1, page 112, Draft regulation 33(7)(c)(4)(a)(i)(A)	The Authority can consider replacing the phrase "…relevant intragroup income and expense items…" with "…relevant intragroup financial items and entries…"	The words will not be replaced as the regulations need to be explicit and not open to interpretation. Referring to these transactions as "financial items and entries" opens the regulation up to interpretation as the phrase is not only limited to income and expense items and this specific regulation is specifically referring to income and expense items. (Reg 33(7)(c). The PA will retain the words in draft 1 of the regulations.

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				Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the ‘proposed wording/ comments can be discussed bilaterally and through other existing structures.
5	FRL	Annexure 1, page 113, Draft regulation 33(7)(c)(4)(c)(i)(B)	Further clarity and guidance are required regarding this requirement. Points that can be considered are whether a reference to business lines should be included and whether the reference to risk management policies, processes and procedures are appropriate. It may be worthwhile to refer to all relevant policies, processes, and procedures, and not limit the scope to risk management policies, processes, and procedures.	1. The wording will be amended to include ‘business lines’ in the paragraph. Action: wording amended in draft 2 to read as follows: ‘business lines and business activities’ 2. The PA incorporates as far as possible, the internationally agreed terminology when it amends legislation to incorporate the internationally agreed frameworks, standards, and requirements. Reference to risk management policies, processes and procedures is aligned to Basel OPE 25.16 and therefore, will not be changed. Action: none, the wording will be retained.
6	BASA	Page 113; Section (4) (c) (C (ii)	'regular independent review by the bank's internal and/or external auditors" Clarify the expectation of "minimum frequency of regular independent review by auditors i.e., annual or once-off before NSA go Live	The loss data will be subject to an independent review at inception and thereafter every second year or when required by the PA. Action: timeframe included in paragraph 3.2 of the Form BA 400 proposed directive.
7	BASA	Page 113, point B	Further clarity on the linkage of internal loss data to business processes and technological processes.	This is in reference to the governance process which is inclusive of technological and business processes. There should be a data-level linkage between an internal

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		Linkage of internal loss data to business processes and technological processes	Clarify whether the regulatory expectation yields a data-level linkage between an internal loss event, to an internal business process and technological process taxonomy, where relevant.	loss event, to an internal business process and technological process taxonomy, where relevant. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
8	FRL	Annexure 1, page 114, Draft regulation 33(7)(c)(4)(c)(i)(F)	The Authority can consider making a distinction between the data collection threshold for the purposes of calculating minimum capital requirements for operational risk, and the data collection threshold applied by banks for risk measurement and management purposes. These thresholds will in all likelihood be different, as banks will apply a data collection threshold of R10 000 or less for internal risk management purposes to ensure compliance to BA410 and BA420 reporting. It can also be considered to specify the data collection threshold in a Directive, and not in Regulations. The Authority can consider replacing the phrase "…the Authority may increase the aforementioned threshold of R350 000 for banks…" with "…the Authority may amend the aforementioned threshold of R350 000 for banks…". This will also allow for a reduction of the threshold in the future, if required.	The BA 410 and BA 420 thresholds are specified in Tier 3 instruments. The R350 000 threshold is applicable to the BA 400 capital calculation. The R350 000 threshold will be included in a Tier 3 instrument and the word 'increase' will be replaced with 'amend'. Action: the R350 000 loss threshold is included in paragraph 3.3 of the Form BA 400 proposed directive (there is work that is being done which might lead to the revision of the loss threshold) and the BI bucket ranges are included in paragraph 4.1 of the Form BA 400 proposed directive based on the PA methodology.

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9	FRL	Annexure 1, page 115, Draft regulation 33(7)(c)(4)(c)(i)(I)(i)	The Authority can consider making a distinction between the inclusion/exclusion of credit boundary event for capital calculations (via the ILM), and the inclusion/exclusion of credit boundary events in the bank's loss database for risk management purposes. This paragraph can be interpreted that credit boundary events should not be considered in both cases, while the intention might be to only exclude credit boundary events from capital calculations (and include these events in the bank's loss database for risk management purposes).	The section indicates that operational loss events related to credit risk (i) that are accounted for as part of the bank's risk-weighted exposure for credit risk are not included in the bank's loss data set for operational risk; (ii) that are not accounted for as part of the bank's risk-weighted exposure for credit risk are included in the bank's loss data set for operational risk. The loss data set referred to in this section is for the BA 400 calculation. For the recording of losses in the Form BA 410 refer to the following paragraphs in guidance note 11/2022: 2.1 The PA wishes to bring to the attention of banks that only losses defined as operational risk losses in the Regulations read with the relevant Basel framework, excluding credit boundary events, must be recorded in line items 1 to 63 of the form BA 410. Paragraph 3.1: Banks are reminded that for the purposes of internal operational risk management and reporting in line items 64 to 75 of the Form BA 410, a bank 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 internal operational risk database. Paragraph 3.2: A written description must also be provided in column 21 of line items 64 to 75 of the form BA 410, for all material operational risk losses, including material boundary losses. Furthermore, banks should

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				highlight in column 21 of the Form BA 410 whether these material operational risk losses are related to credit risk or market risk. Action: the distinction between the inclusion/exclusion of credit boundary event for capital calculations will be retained in the regulations as it is specific to the BA 400 section and the inclusion/exclusion of credit boundary events in the bank's loss database for risk management purposes is included in paragraph 3.6 of the BA 400 guidance note.
10	BASA	Page 119: Section (4) (e) (ii) (B)(i)	"direct charges, including impairments and settlements to the bank's profit and loss account, as well as write-downs due to the operational risk event." Clarify does the words "impairments" refer to "provisions". The terms are used interchangeably.	As a general rule, and within this context, the PA prefers to use the word "impairment", and not "provisions". The word "provisions" may in some cases, for example, refer to provision for loss and in other cases to provision for future expenses. The Basel Committee agreed in this case to use the word "impairments" in the final Basel Framework, paragraph OPE25.26(1), which is also the PA's preference. In addition, as a general rule, in order to facilitate future RCAP assessments, the PA incorporates as far as possible, the internationally agreed terminology when it amends legislation to incorporate the internationally agreed frameworks, standards and requirements. Based on the aforementioned principle and since the words "impairments" and "provisions" are also sometimes used interchangeably in various internationally agreed frameworks, standards and requirements issued by the Basel Committee, including terms such as, for example, "credit impairments", "specific credit impairment" or "loan loss provisions", the

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				words “impairments” and “provisions” are sometimes also used interchangeably, within context, in the Regulations relating to Banks. Action: the wording is aligned to Basel requirements and the PA may decide to issue a Tier 3 instrument in future to clarify the correct interpretation and application of the words ‘impairments’ and ‘provisions’ should it ever become necessary.
11	BASA	Page 119: Section (4) (e) (i) (C)	recovery means an independent occurrence, related to the original loss event, separate in time, in which funds or inflows of economic benefits are received from a third party, such for example a payment received from an insurer, a repayment received from a perpetrator of fraud, or recovery of a misdirected transfer. Clarify how would we incorporate the treatment of 2 concepts (1) Losses as Near Misses (potential exposures averted) and (2) Rapid Recoveries treated as Near Misses.	As previously agreed with the banking industry at BASA, banks will use the requirements specified in the rapid recoveries position paper for the treatment of rapid recoveries and near misses. Action: the PA will in the future consider including the treatment of rapid recoveries and near misses treatment from the industry position paper in a Tier 3 instrument.
12	FRL	Annexure 1, page 120, Draft regulation 33(7)(e)(ii)(B)(v) (bb)	Consider changing the wording of this paragraph to align with the European Banking Authority (EBA). The EBA states the following: “…the institution shall include in the loss data set material timing losses where those losses are due to operational risk events that span more than one financial year and give rise to legal risk. Institutions shall include in the recorded loss amount of the operational	Annexure 1, page 120, draft regulation 33(7)(e)(ii)(B)(v) states: negative economic impacts accounted for in a particular financial accounting period, due to operational risk events, for example, impacting the cash flows or financial statements of previous financial accounting periods, which is often being referred to as timing losses, which timing impacts-

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			risk item of a financial year losses that are due to the correction of booking errors that occurred in a previous financial year, even where those losses do not directly affect third parties. Where there are material timing losses and the operational risk event affects directly third parties, including customers, providers and employees of the institution, the institution shall also include the official restatement of previously issued financial reports.” Please refer to Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor, page 144, Article 318 (2) (EBA, 2021) for more information.	(aa) typically relate to the occurrence of operational risk events that may result in the temporary distortion of the bank’s financial accounts, such as, for example, revenue overstatement, accounting errors or mark-to-market errors; (bb) may not necessarily represent a true financial impact on the bank, since the net impact over time may be equal to zero, they may represent a material misrepresentation of the bank’s financial statements if the error continues across more than one financial accounting period, Provided that the bank shall appropriately include all relevant material timing losses in the bank’s loss data set when they are due to operational risk events that span more than one financial accounting period and give rise to legal risk. Action: the wording is aligned to the Basel requirements and will be retained.
13	FRL	Annexure 1, page 121, Draft regulation 33(7)(f)(iii)	Clarity and guidance are requested from the Authority on whether marketing expenses should be classified as “Administrative expenses” (as listed in Draft regulation 33(7)(f)(iii)) and therefore excluded from BI items and calculations.	Marketing expenses should be classified as operational expenditure as they are incurred to generate revenue from both the provision of financial and non-financial services in the ordinary course of any bank's business. Marketing expenses should not be classified as "administrative expenses". Action: none.
14	BASA	Page 121 D (ii)	Definition of “probable estimated loss” in the context of establishing a legal reserve.	Regulation 3 of the Regulations relating to Banks states: “… unless expressly otherwise provided in the Act or the Regulations, all the relevant prescribed returns shall be

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			Clarify the definition of “probable estimated loss”, in lieu of the accompanying establishment of a legal reserve.	prepared in accordance with Financial Reporting Standards issued from time to time…” and “… Unless specifically otherwise provided in the Regulations; or on prior application, the Authority authorised a deviation from such policy, the same accounting policy applied by a bank or controlling company in the compilation of its annual financial statements shall be applied by such bank or controlling company in the compilation of the prescribed returns required to be furnished to the Authority …”. In this case, neither the Basel Committee nor the Prudential Authority wishes to deviate from the internationally agreed principles and requirements specified in the relevant and respective Financial Reporting Standards issued from time to time. As such both the Basel Framework and the proposed amendments to the Regulations impose the requirement that for legal loss events, the date of accounting is the date when a legal reserve is established for the probable estimated loss in the profit and loss. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the ‘proposed wording/ comments can be discussed bilaterally and through other existing structures.
15	BASA	Page 121 D (ii)	Internal practice dictates the maintenance of an inventory of “probable” legal matters. Only when the “probable” legal matter acquires a higher level of certainty, do banks then raise an accompanying provision on the profit and loss account.	Regulation 3 of the Regulations relating to Banks states: “… unless expressly otherwise provided in the Act or the Regulations, all the relevant prescribed returns shall be prepared in accordance with Financial Reporting Standards issued from time to time…” and “… Unless specifically otherwise provided in the Regulations; or on prior application, the Authority authorised a deviation

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			Clarify, is the above (b) in line with the expected regulatory treatment?	from such policy, the same accounting policy applied by a bank or controlling company in the compilation of its annual financial statements shall be applied by such bank or controlling company in the compilation of the prescribed returns required to be furnished to the Authority …”. In this case, neither the Basel Committee nor the Prudential Authority wishes to deviate from the internationally agreed principles and requirements specified in the relevant and respective Financial Reporting Standards issued from time to time. As such both the Basel Framework and the proposed amendments to the Regulations impose the requirement that for legal loss events, the date of accounting is the date when a legal reserve is established for the probable estimated loss in the P&L. The external auditors of banks and the PA will assess whether banks correctly apply the internationally agreed principles and requirements specified in the relevant and respective Financial Reporting Standards and in the Regulations when they raise an accompanying provision in the profit and loss account and for building the loss data set. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the ‘proposed wording/ comments can be discussed bilaterally and through other existing structures.
16	FRL	Annexure 1, page 123,	Guidance is requested on whether interest earning assets (balance sheet item) should	Reference should be made to the contractual terms of the agreement. If the agreement stipulates that interest

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		Draft regulation 33(7)(f), Table 1	be identified and defined as assets that are currently earning interest, or assets that can potentially earn interest. In principle, either the nature of the asset (whether it can potentially earn interest) can be considered, or whether the asset is earning interest at a specific point in time.	is charged, the asset should be classified as interest earning, even when the accruing of interest is currently suspended due to the loan being in default. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
17	FRL	Annexure 1, page 123, Draft regulation 33(7)(f), Table 1	Guidance is requested on whether income and expenses related to Insurance Brokerage should be included or excluded in "Fee and commission income" and "Fee and commission expenses" respectively.	Income and expenses related to Insurance Brokerage should be included in the "Fee and commission income" and "Fee and commission expenses" respectively. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
18	BASA	Table 1 page 123	advances, interest-bearing securities, including government bonds, and lease assets measured at the end of each relevant financial year. Interest income: Interest income from all relevant financial assets and other interest income, including interest income from financial and operating leases and profits from leased assets. Interest Expense: Interest expenses from all financial liabilities and other interest expenses, including interest expense from financial and operating leases, losses, depreciation, and impairment of operating leased assets.	The typical sub-items for interest income include interest income from loans and advances, finance leases and operating leases therefore the "Interest earning assets" line item includes both loan products and right of use assets as per IFRS 16. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
			Clarify Financial and Operational Leases together with the Financial Assets line items, and whether they relate to loan products or right of used assets (IFRS 16) or both. For ease of reference, please see the items underscored.	
19	FRL	Annexure 1, page 126, Draft regulation 33(7)(g)(ii)	Consider specifying the ZAR bucket values (i.e., R4bn and R100bn) in a Directive and not in the Regulations. The BI buckets specified in this paragraph differ from the buckets specified and used in “Annex C Form BA400”. In “Annex C Form BA400” BI buckets, as specified by BCBS in “Basel III: Finalising post-crisis reforms” (2017), are used. These BI buckets are €1bn and €30bn, which are then converted with a fixed exchange rate (17.5) to ZAR in “Annex C Form BA400”. Care must be taken when deviating from the BI buckets (€1bn and €30bn) specified by BCBS in “Basel III: Finalising post-crisis reforms” (2017). These buckets were calibrated to various datasets (including capital input and output data), using a specific set of models and assumptions. The application of different buckets may affect the accuracy and validity of the original calibration and may lead to outcomes that are no longer correctly linked to, or associated with, relevant input data. The Authority can consider using the Euros buckets specified by BCBS (€1bn and	The PA will review the proposed bucket scenarios and update the Form BA 400 with the outcome of the assessment The BI bucket thresholds will be included in tier 3 instruments. Action: BI Bucket ranges included in paragraph 4.1 of the Form BA 400 proposed directive based on the PA methodology.

<table>
<tr><th>No</th><th>Commenter</th><th>Reference in Draft Regulations</th><th>Comment/Issue (as provided by the commenter)</th><th>PA Response</th></tr>
<tr><td></td><td></td><td></td><td>€30bn), converted to ZAR for application in the South African industry.</td><td></td></tr>
<tr><td>20</td><td>BASA</td><td>Proposal on revised BI Buckets – Page 126 (Table1)</td><td>
Table 1
<table>
<tr><th colspan="3">BI ranges and marginal coefficients[1]</th></tr>
<tr><th>Bucket</th><th>BI range (R billion)[2]</th><th>BI margin coefficients</th></tr>
<tr><td>1</td><td>≤ 4</td><td>12%</td></tr>
<tr><td>2</td><td>4 < BI ≤ 100</td><td>15%</td></tr>
<tr><td>3</td><td>> 100</td><td>18%</td></tr>
</table>
1. A bank with a BI = R150 bn shall calculate the relevant required BIC as f (4 x 12%) + (100-4) x 15% + (150-100) x 18% = R23.88bn.
2. Or such ranges and subject to such conditions as may be directed in wr Authority.
Clarify the underlying rationale supporting the introduction of the revised business indicator buckets for use in the standardised approach calculation.
Recommend the below BI buckets for consideration.
<table>
<tr><th>R'm</th><th>Bucket 1 end (ZAR)</th><th>Bucket 2 (ZAR)</th></tr>
<tr><td>QIS (2021)</td><td>17,979</td><td>539,382</td></tr>
<tr><td>17.5 Conversion (Proposal)**</td><td>17,500</td><td>525,000</td></tr>
<tr><td>Scenario 1</td><td>15,000</td><td>450,000</td></tr>
</table>
</td><td>The PA will review the proposed bucket scenarios and update the form BA 400 with the outcome of the assessment The BI bucket ranges will be included in tier 3 instruments.

Action: BI Bucket ranges included in paragraph 4.1 of the Form BA 400 proposed directive based on the PA methodology.</td></tr>
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<table>
<tr><th>No</th><th>Commenter</th><th>Reference in Draft Regulations</th><th>Comment/Issue (as provided by the commenter)</th><th>PA Response</th></tr>
<tr><td></td><td></td><td></td><td>
<table>
<tr><td>Scenario 2</td><td>12,500</td><td>375,000</td><td></td></tr>
<tr><td>Scenario 3</td><td>10,000</td><td>300,000</td><td></td></tr>
<tr><td>Draft Regs</td><td>4,000</td><td>100,000</td><td></td></tr>
</table>
** proposal on BI bucket
The inclusion of the proposed BI bucket will ensure close alignment to:
a. The original approach was used to derive the R350k loss data collection threshold using a proxy exchange rate of R17.5 to the Euro.
b. An alignment to the original BIS calculation construct, ensuring synchronization from both a loss data threshold and BI bucket threshold. Recommend that the BI bucket construct, be tabled at the BASA NSA working group, and an industry-wide proposal be considered for tabling at the respective BASA sub-committee for Operational Risk.</td><td></td></tr>
<tr><td>21</td><td>BASA</td><td>Page 127. Point iv.</td><td>Loss exclusions
Clarify whether the application for potential exclusion of losses is expected to form part of the initial NSA application, or, form part of a separate application process, to be agreed upon with the Prudential Authority.</td><td>Loss exclusion is a separate process from the initial application of the usage of losses in the ILM. Further information on loss exclusions is outlined in the form BA 400 proposed directive.

Action: wording updated in paragraphs 3.4 and 3.5 of the Form BA 400 proposed directive.</td></tr>
<tr><td>22</td><td>FRL</td><td>Annexure 1, page 128, Draft</td><td>Clarity and guidance is required on the phrase “…5% of the bank’s average losses”. The average loss can either refer to the value</td><td>The loss event must be larger than 5% of the average of total annual losses over the ten years (i.e., the average annual operational risk losses mentioned in OPE 25.8).</td></tr>
</table>

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
		regulation 33(7)(h)(iv)(A)	of the bank's average individual loss event over a certain time period, or to the banks average, total annual loss over a specific time period. Instead of referencing average losses, the Authority can consider using a materiality threshold of R5m for individual losses, i.e., only individual losses with a value of larger than R5m can be considered for exclusion from the ILM (if such a loss meets all the exclusion criteria set out in Draft regulation 33(7)(h)(iv)). An individual loss threshold of R5m will be consistent with the definition of large losses applied in Section 2 of the Form BA410 (Annex D Form BA410). Further guidance is also requested from the Authority for when multiple loss events are considered for exclusion due to the same underlying reason or motivation, and what threshold should be applied in such cases. For example, it may be smaller loss events, that do not meet the threshold on an individual level, but on an aggregate basis they will be above the eligibility threshold for exclusion from ILM calculations.	This requirement applies to individual and not multiple losses. Should a bank have multiple losses it wishes to exclude, it must submit an application for each loss as per the requirements specified in the Tier 3 instrument. The PA will not use a materiality threshold as this is only applicable to large losses in the Form BA 410. Action: removed the '5%' from draft 1 and include it in paragraph 3.4 of the Form BA 400 proposed directive The clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
23	BASA	BA400 Page 128 (Annex 1 Draft Government Notice re Proposed	the relevant loss event to be considered for exclusion shall be greater than 5% of the bank's average losses. apply. 2) Is the average of the 10-year period or the average of the year in which that event impacted the bank?	The loss event must be larger than 5% of the average of total annual losses over the ten years (i.e., the average annual operational risk losses mentioned in OPE 25.8). Action: removed the '5%' from draft 1 and include it in paragraph 3.4 of the Form BA 400 proposed directive

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		Amendments to the Regulations Sep 2022): Page 128 (first paragraph)	3) Do we first calculate net losses within a 10-year period, apply the R350 000 threshold, calculate the average and then remove events (net or gross) that are 5% equal to or above the average net losses within 10 years?	The clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
24	BASA	Page 130: Insertion form BA420 #9	[Drafter's note: the OR team has been requested to consider combining the forms BA 410 and BA 420 into a single return.] Clarify, will the final return be consolidated into one return or not?	Form BA 410 and Form BA 420 will not be consolidated as they serve different purposes. The Form BA 410 is a quarterly return and Form BA 420 is a rolling 12-month quarterly return. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
25	FRL	Annex C Form BA400	Guidance is requested on whether Excel lines 4 to 12 of the "BA 400" sheet are part of the official return that should be submitted to the Authority, or whether these lines are only for banks' internal use. In Excel line 49 (BA400 row 27) and Excel line 54 (BA400 row 32), a loss value validation test is performed in Euros. A ZAR validation threshold of R350 000 is converted to Euros using a specific exchange rate. It is proposed that a ZAR threshold of R350 000 is used in the validation test, and that no conversion to Euros is performed. In Excel line 69 (BA400 row 44) and Excel line 70 (BA400 row 45), calculations are	Lines 4 to 12 are for information and will be deleted by the PA. The validation was updated to Rands. The PA will review the proposed bucket scenarios and update the Form BA 400 with the outcome of the assessment The BI bucket ranges will be included in tier 3 instruments. Action: the validation in the Form BA 400 is updated to Rands.

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
			performed using the BI buckets specified by BCBS in "Basel III: Finalising post-crisis reforms" (2017), namely €1bn and €30bn, converted to ZAR using a specific exchange rate. These BI buckets (BCBS Euro buckets converted to ZAR) are very different than the BI bucket thresholds of R4bn and R100bn specified by the Authority in Annexure 1, page 126, Draft regulation 33(7)(g)(ii), and will lead to different outcomes in calculations. It is proposed that the BI bucket threshold values in "Annex C Form BA400" and "Annexure 1, page 126, Draft regulation 33(7)(g)(ii)" be aligned, preferably in ZAR. The Authority can consider using the Euros buckets specified by BCBS (€1bn and €30bn), converted to ZAR for application in the South African industry.	BI Bucket ranges included in paragraph 4.1 of the Form BA 400 proposed directive based on the PA methodology
26	FRL	Annex C1 Form BA400 Accompanying Text, page 1, 6th bullet under General	Consider removing the reference to "reporting currency". Reporting currency is no longer a variable in the process, as the Authority specified BI buckets and loss thresholds in ZAR in Draft regulation 33(7).	Reporting currency will be removed. Action: Updated and included in paragraph 6 of the Form BA 400 proposed directive.
27	FRL	Annex C1 Form BA400 Accompanying Text, page 6, Panel C: Operational risk losses,	It is stated (in the "Description" column) that "…losses only be excluded from the loss component after being included in a bank's operational risk loss database for a minimum period of 3 years". The reference to 3 years is not consistent with Annexure 1, page 128, Draft regulation 33(7)(h)(iv)(B), where the	The minimum period of 3 years is included in the Form BA 400 proposed directive paragraph 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

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
		row number 28 of the table	application of discretion by the Authority regarding the minimum period is provided for. Draft regulation 33(7)(h)(iv)(B) states that "…has been included in the bank's operational risk loss database for such a minimum period as may be specified in writing by the Authority". Clarity and guidance is required on the phrase "…5% of the bank's average net losses". The average loss can either refer to the value of the bank's average individual loss event over a certain time period, or to the banks average, total annual loss over a specific time period.	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. The loss event be larger than 5% of the average of total annual losses over the ten years (i.e., the average annual operational risk losses mentioned in OPE 25.8). Action: removed the '5%' from draft 1 and include it in paragraph 3.4 of the Form BA 400 proposed directive The clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
28	FRL	Annex C1 Form BA400 Accompanying Text, page 7, Panel C: Operational risk losses, row number 30 of the table	It is stated (in the "Description" column) that "…losses only be excluded from the loss component after being included in a bank's operational risk loss database for a minimum period of 3 years". The reference to 3 years is not consistent with Annexure 1, page 128, Draft regulation 33(7)(h)(iv)(B), where the application of discretion by the Authority regarding the minimum period is provided for. Draft regulation 33(7)(h)(iv)(B) states that "…has been included in the bank's operational risk loss database for such a minimum period as may be specified in writing by the Authority".	The minimum period of 3 years is included in Form BA 400 proposed directive paragraph 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.

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
			Clarity and guidance is required on the phrase "…5% of the bank's average net losses". The average loss can either refer to the value of the bank's average individual loss event over a certain time period, or to the banks average, total annual loss over a specific time period.	The loss event be larger than 5% of the average of total annual losses over the ten years (i.e., the average annual operational risk losses mentioned in OPE 25.8). Action: removed the '5%' from draft 1 and include it in paragraph 3.4 of the Form BA 400 proposed directive The clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
29	FRL	Annex D Form BA410, "BA 410 Section 1" sheet	The "Total net loss amount" (Excel line 90, BA410 return line number 66) does not include all business lines in its calculation formula. The formula currently only sums the net losses of Retail Banking, Payment and Settlement, Agency Services and Asset Management. The net losses of Corporate Finance (Excel line 17, BA410 return line number 6), Trading and Sales (Excel line 25, BA410 return line number 13), Retail Brokerage (Excel line 33, BA410 return line number 20) and Commercial Banking (Excel line 41, BA410 return line number 27) should be added to the calculation of "Total net loss amount" (Excel line 90, BA410 return line number 66).	Updated. Action: Updated the line items in the Form BA410.
30	FRL	Annex D1 E1 Forms BA410 BA420 Accompanyin g Text, page	To provide additional clarity and guidance, the Authority can consider the following amendments: It is recommended that the main bullet be amended from "Operational risk loss events	Amendments made where possible and included in tier 3 instruments.

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
		5, Instructions for completion of the BA410 – Section 2, third bullet	must be included if they meet the definition of operational loss" to "Operational risk loss events (including credit boundary events) must be included if they meet the definition of operational loss". It is further recommended that the first sub-bullet be updated from "…the event is included in the current reporting period (Section1)" to "the event has accounting impacts in the current reporting period exceeding the threshold specified in Section 1 of the Form BA410". It is proposed that the third sub-bullet be deleted if the above proposed changes are made. This sub-bullet will no longer be required, or provide additional information, if the proposed changes are made to the main bullet and the first sub-bullet.	Action: Updated the Form BA 410 and Form BA 420 in paragraph 2.5 of the Form BA 410 and Form BA 420 guidance note.
31	FRL	Annex D1 E1 Forms BA410 BA420 Accompanying Text, page 16, Business lines, first bullet	The Authority can consider the inclusion of general and specific guidance on the mapping of losses to business lines for the purposes of the Form BA410 and Form BA420.	The PA will consider including general and specific guidance on the mapping of losses to business lines for the purposes of the Form BA410 and Form BA420.in a Tier 3 instrument. Action: business line mapping included in paragraph 3.1 of the Form BA 410 and Form BA 420 proposed directive.
32	BASA	BA 410: Corporate items business line	Part B of the Ba 410 includes the Corporate Items business line. Recommend that Corporate Business Line be included in Part a of the form for completeness	Corporate Items business lines will be included in the return. Action: business line mapping included in paragraph 3.1 of the BA 410 and BA 420 proposed directive.

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
33	BASA	BA410 - Excel Template	Line 14 Total recoveries- These items are formula driven in the BA410 return. Rectify as there are no formulae in Line 14 cells E14 and G14	Updated. Action: The Form BA 410 has been updated.
34	BASA	BA410 Return - Word Document	BA410-General "3 This information pertains to the number of events, gross losses and recoveries categorised against risk event types and business lines". Regulations page 114- Section (4) (c) (A) (ii) - only mentions that events must be mapped to relevant Level 1 loss event types or categories specified in paragraph (d). Regulations are silent on the Basel Business Lines (in relation to NSA). Unsure how BIA banks will make the link. Recommend that SARB provide direction on suggested Cooperated Items, which business lines for support functions to map to	The PA will consider including the Basel business lines in the regulations. Action: business line mapping included in paragraph 3.1 of the Form BA 410 and Form BA 420 proposed directive.
35	BASA	BA410 Return - Word Document - Page 5 - Instructions for completion of the BA410 – Section 2	"If the gross loss over the lifetime of the loss event is greater than or equal to the threshold and has not been previously reported." Clarify, do we assume we ONLY report items THAT " has not been previously reported"? If so, why do we NEED instruction 16 column 4 "Previously reported in Section 2"	This is in addition to what is being reported. If a loss was previously not reported and meets the current requirements, it should be included in section 2. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
36	BASA	BA410 Return -	Text-"The information contained in both the BA410 and BA420 provides the regulator	The Form BA 420 is to be completed quarterly with 12 months of rolling data; for example, a form submitted for

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
		Word Document - BA410 -General (page 8) vs Annexure 1 (page 12)	with data relating to risk events based on gross losses in a particular period (BA410 quarterly and BA420 annually) and above a particular threshold (Section 1) includes gross losses greater than and equal to R10,000.00 and Section 2 includes gross losses greater than and equal to R5 million. Within BA420 section page 8 - the return is referenced as #6. The return is to be completed on a quarterly basis at the end of March, June, September, and December and must include 12 months rolling data. #8. Submission of the BA420 returns to the Prudential Authority should take place 20 working days after each quarter on a bank-solo basis and 30 working days after each quarter on a bank-consolidated and controlling company-consolidated basis. # 9. Reference to the 'current reporting period' means the current quarter. Clarify the frequency of BA420 and Scope of Content	the March quarter will contain 12 months of data for the period 1 April x1 to 31 March x2 Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
37	BASA	BA410 and BA420	On both the BA410 and BA420 returns, the recoveries are only split for Lines 61-65 "Total i.r.o event types" and not for each business line above. This will require additional manual capturing which could lead to unforeseen human error. Recommend that the recoveries are split for each business line to get the maximum benefit of the additional information and the Total is a sum formula of the above.	It was previously populated as such, however, the banking industry through BASA suggested that it only be included in the total section. The format of the return will not be changed. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
38	BASA	BA410 to BA420	The proposed substitution of the BA410 to BA420 as a single return is strongly supported. The proposed BA420 (12- month rolling) would allow a more effective match of the losses and recoveries over 12 months rather than looking at 3 months in isolation. To have both forms, we feel the BA420 will effectively be a duplication of work as it will be the sum of the last four BA410's. Strongly support the proposed substitution of the BA410 to BA420 as a single return.	Form BA 410 and Form BA 420 will not be consolidated as they serve different purposes. The Form BA 410 is a quarterly return and Form BA 420 is a rolling 12-month quarterly return. Action: none in terms of changes in the regulations and tier 3 legislation; however, the clarification provided in the 'proposed wording/ comments can be discussed bilaterally and through other existing structures.
39	BASA	BA 410 - Annex D1 E1 Forms BA 410 BA 420 Accompanying Text	Instructions for completion of the BA410 – Section 1 (bullet 5) For the purposes of this report, market-related boundary events must be included but must exclude credit-related boundary events, as defined. Update as Market should be read as Market Risk, Credit should be read as Credit Risk.	Updated. Action: Updated and included in paragraph 2.5 of the Form BA 410 and Form BA 420 guidance note.
40	BASA	BA420	The BA420 form erroneously reads that quarter ended (April, June, September, December), whereas April should be March. Clarify.	Updated to March. Action: the Form BA 420 has been updated.
41	BASA	BA420	BA420 form title row 4 should read, "12 months ended….", as opposed to "Quarter ended….". Rectify.	Updated to rolling 12 months ended. Action: the Form BA 420 has been updated.
42	BASA	NA – Treatment of rapid recoveries	Definition of rapid recovery rule, and consideration in gross loss definition. The revision proposed to ensure consistency in	1. The PA will in the future consider including the treatment of rapid recoveries from the industry position paper in a Tier 3 instrument.

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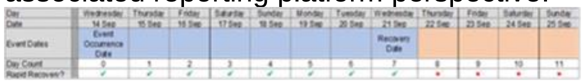
<tr><th>No</th><th>Commenter</th><th>Reference in Draft Regulations</th><th>Comment/Issue (as provided by the commenter)</th><th>PA Response</th></tr>
<tr><td></td><td></td><td></td><td>treatment across the industry as well as facilitation of easy system adoption.
Recommend that the regulations, or an accompanying directive, encompass the definition of the rapid recovery rule, for consistent application thereof across the industry.
Recommend that the rapid recovery definition considers a change from 5 business days to 7 calendar days, with the day count commencing from occurrence date + 1, as depicted in the below timeline illustration.
Recommend to revert to calendar days, rather than business days, is expected to negate potential complexities from using business days across multiple jurisdictions, each having different public holidays etc. In addition, using a straight-forward calendar day calculation also facilitates easier automation of the calculation from an operational risk management system, and associated reporting platform perspective.

<table>
<tr><td>Day</td><td>Wednesday</td><td>Thursday</td><td>Friday</td><td>Saturday</td><td>Sunday</td><td>Monday</td><td>Tuesday</td><td>Wednesday</td><td>Thursday</td><td>Friday</td><td>Saturday</td><td>Sunday</td></tr>
<tr><td>Date</td><td>14 Sep</td><td>15 Sep</td><td>16 Sep</td><td>17 Sep</td><td>18 Sep</td><td>19 Sep</td><td>20 Sep</td><td>21 Sep</td><td>22 Sep</td><td>23 Sep</td><td>24 Sep</td><td>25 Sep</td></tr>
<tr><td>Event Dates</td><td>Event Occurrence Date</td><td></td><td></td><td></td><td></td><td></td><td></td><td>Recovery Date</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Day Count</td><td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td><td>9</td><td>10</td><td>11</td></tr>
<tr><td>Rapid Recovery?</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✗</td><td>✗</td><td>✗</td><td>✗</td></tr>
</table>
Recommend that the rapid recovery rule, also encompass the treatment of rapid recovery amounts in the overall gross loss definition. Thus, creating consistency in the calculation of gross loss amounts for the standardized approach, and all required regulatory returns and disclosures (BA410,</td><td>Action: the PA will in the future consider including the treatment of rapid recoveries from the industry position paper in a Tier 3 instrument.

2. The model descriptive statistic will not be a requirement for Pillar 1 but can be considered for Economic capital purposes.

Action: to be considered for economic capital purposes.</td></tr>
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<tr><td></td><td></td><td></td><td>BA420, Model Descriptive Statistics, Pillar3 disclosures etc.).
1. Reportable gross loss = Total gross loss – rapidly recovered amount
2. Reportable recovery = Total recovery – rapidly recovered amount.</td><td></td></tr>
<tr><td>43</td><td>BASA</td><td>NA - treatment on post-period recoveries</td><td>Post-period recoveries aren’t covered uniformly across the industry, yet it does present the potential for capital fluctuations directive, including the treatment of post-period recoveries, as follows:
i. Recoveries received post the reporting period,
should be netted off against reportable gross loss.
amounts, where, such recoveries fall within the prescribed rapid recovery period, i.e., Gross loss
= Gross loss – post period rapid recovery amount
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<tr><td>Date</td><td>29 Dec</td><td>30 Dec</td><td>31 Dec</td><td>1 Jan</td><td>2 Jan</td><td>3 Jan</td><td>4 Jan</td><td>5 Jan</td><td>6 Jan</td><td>7 Jan</td><td>8 Jan</td><td>9 Jan</td></tr>
<tr><td>Event Dates</td><td>Event Occurrence Date</td><td></td><td></td><td></td><td></td><td></td><td></td><td>Recovery Date</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Day Count</td><td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td><td>9</td><td>10</td><td>11</td></tr>
<tr><td>Rapid Recovery?</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✗</td><td>✗</td><td>✗</td><td>✗</td></tr>
</table>
Recoveries received post the reporting period, outside of the prescribed rapid recovery period, at the time of reporting, should be allowed for consideration in the overall net loss calculation.
This approach is intended to minimise the potential capital fluctuations and timing</td><td>The PA will in the future consider including the treatment of post-period recoveries from the industry position paper in a Tier 3 instrument.

Action: the PA will in the future consider including the treatment of post-period recoveries from the industry position paper in a Tier 3 instrument.</td></tr>
</table>

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
			differences on reportable loss amounts. iii. For consistency in the definition of reporting date across the industry, the bank would like to propose the use of the regulatory submission date (workday 20 post period end). iv. The scenarios for points (i) and (ii) above are depicted in the below illustration.	

Day	Wednesday	Thursday	Friday	Saturday	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Monday	Tuesday
Date	29 Dec	30 Dec	31 Dec	1 Jan	2 Jan	3 Jan	4 Jan	5 Jan	6 Jan	7 Jan	8 Jan	9 Jan	10 Jan	11 Jan
Event Dates	Event Occurrence Date											Reporting Date		
Day Count	0	1	2	3	4	5	6	7	8	9	10	11		
Rapid Recovery?	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗	✗	✗	✗
Include Recovery for Reporting at period end?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗

44	BASA	NA – not covered in the regulations	1. Standardized independent assurance coverage a. For consistency in independent assurance coverage across the industry, a standardised audit scoping exercise will be beneficial. b. This would ensure consistency in assurance expectations, level of rigour, and accompanying assurance outcomes. 2. Directive 10 of 2015 Recommend the coordination of a standardised audit scoping exercise, similar to that employed as part of the BCBS239 rollout. Clarify whether the requirements stipulated in Directive 10 of 2015 will remain in force and applicable post the transition to the standardised approach. We accept that Directive 10 of 2015 will continue to be relevant for Economic Capital purposes.	1. This item should be raised and discussed at the operational risk sub-committee. Action: Assurance scoping exercise to be discussed at BASA. 2. The model will not be a requirement for Pillar 1 but can be considered for Economic capital purposes. Action: to be considered for economic capital purposes

No	Commenter	Reference in Draft Regulations	Comment/Issue (as provided by the commenter)	PA Response
			Clarify if our understanding is correct If yes, clarify whether any of the conditions of Directive 10 of 2015 will remain applicable from a regulatory capital perspective.	