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SOUTH AFRICAN RESERVE BANK
Prudential Authority

Ref.: 15/8/2

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

Proposed Guidance Note issued in terms of section 6(5) of the Banks Act 94 of 1990

Operational risk practices – completion and submission of the forms BA 410 and BA 420

Executive summary

The purpose of this Proposed Guidance Note is to (i) provide further guidance to banks, branches of foreign institutions and controlling companies (hereinafter collectively referred to as 'banks') regarding the completion and submission of the quarterly operational risk forms BA 410 and BA 420 and (ii) ensure consistency in terms of operational risk reporting across banks.

In terms of the Regulations relating to Banks (Regulations), the form BA 410 must be submitted quarterly, reporting the losses for the specific period (quarter). The form BA 420 must be submitted quarterly at the end of the specific quarter and must include 12 months rolling data.

This Proposed Guidance Note does not relate to banks' internally agreed processes and thresholds.

This Proposed Guidance Note will replace Guidance Note 11 of 2022 when finalised.

1. Introduction

1.1 Regulation 34(2) of the proposed amendments to the Regulations relating to Banks (the proposed amended Regulations) sets out the purpose of the forms BA 410 and BA 420 applicable to banks.

1.2 The purpose of the forms BA 410 and BA 420 is to obtain, from all banks information relating to loss events in the format of the attached forms BA 410 and BA 420.

1.3 Banks must ensure that their data collection practices and thresholds meet the requirements specified in the Regulations read with the relevant Directives issued in terms of section 6(6) of the Banks Act, 1990 for the completion of the returns.

2. BA 410 and BA 420

2.1 In accordance with the requirements specified in the proposed amended Regulations, submission of the forms BA 410 and BA 420 to the Prudential Authority (PA) must take place 20 working days after each relevant quarter-end on a bank solo basis and 30 working days after each relevant quarter-end on a bank consolidated and controlling company consolidated basis.

2.2 The form BA 410 return is to be completed on a quarterly basis, reporting the losses for the specific period (quarter).

2.3 The form BA 420 return is to be completed on a quarterly basis at the end of the specific quarter and must include 12 months rolling data.

2.4 Line items 1 to 67 of the forms BA 410 and BA 420

2.4.1 The PA wishes to bring to the attention of banks that only losses defined as operational risk losses in the proposed amended Regulations read with the relevant Basel framework, excluding credit boundary events, must be recorded in line items 1 to 67 of the forms BA 410 and BA 420.

2.4.2 In accordance with the provisions of regulation 34(3) of the proposed amended Regulations, banks must, in relation to line items 1 to 67 of the forms BA 410 and BA 420, and as specified in Proposed Directive BA 410 and BA 420, apply a minimum gross loss threshold amount of R10 000 for reporting purposes.

2.5 Line items 68 to 79 of form BA 410

2.5.1 Banks are reminded that for the purposes of internal operational risk management and reporting in line items 68 to 79 of the form BA 410, banks should identify all material operational risk losses consistent with the scope of the definition of operational risk, including those losses related to credit risk and market risk. Material operational risk losses related to credit risk and market risk should, therefore, be flagged separately within a bank's internal operational risk database.

2.5.2 A written description must also be provided in column 23 of line items 68 to 79 of the form BA 410, for all material operational risk losses, including material boundary losses. Furthermore, banks must highlight in column 23 of the form BA 410 whether these material operational risk losses are related to credit risk or market risk.

2.5.3 In accordance with the provisions of regulation 34(3) of the proposed amended Regulations, banks must, in relation to items 68 to 79 of the form BA 410, and as specified in Proposed Directive BA 410 and BA 420, apply a gross loss threshold amount of R5 million for reporting material operational risk losses, that is, banks must report any specific loss as defined in paragraph 2.1 of Proposed Directive BA 410 and BA 420, that is equal to or exceeds R5 million. Banks may, after consultation with the PA, use a lower threshold amount should they so wish.

2.5.4 In accordance with the requirements specified in ..., operational risk loss events (including credit boundary events) must be included if they meet the definition of operational loss:

2.5.4.1 and if the gross loss over the lifetime of the loss event is greater than or equal to the reporting threshold and the event has accounting impacts in the current reporting period exceeding the R10 000 threshold of the form BA 410; or

2.5.4.2 if the gross loss over the lifetime of the loss event is greater than or equal to the threshold and has not been reported previously.

3. Implementation date

3.1 The guidance set out in this proposed guidance note becomes effective from the implementation date of the proposed amended Regulations, that is, from 1 July 2025.

4. Published for information

4.1 The purpose of this proposed guidance note is to provide information until the guidance note is finalised.

Fundi Tshazibana
Chief Executive Officer

Date: